

TRUCKEE MEADOWS WATER AUTHORITY
MINUTES OF THE NOVEMBER 16, 2011
MEETING OF THE BOARD OF DIRECTORS

The Board of Directors met on Wednesday, November 16, 2011, at Sparks Council Chambers, Legislative Building, 745 Fourth Street, Sparks, Nevada. Chairman Carrigan called the meeting to order at 10:03 a.m.

1. ROLL CALL

Members Present: Dave Aiazzi, Mike Carrigan, Bob Cashell, Mike Cate, Bob Larkin and Geno Martini. Member Absent: John Breternitz. A quorum was present.

2. PLEDGE OF ALLEGIANCE

Led by Member Larkin.

3. PUBLIC COMMENT

There was no public comment.

4. APPROVAL OF THE AGENDA

Upon motion by Vice Chairman Aiazzi, second by Member Cate, which motion duly carried by unanimous consent of the members present, the Board approved the agenda.

5. APPROVAL OF THE OCTOBER 19, 2011 MINUTES

Upon motion by Member Martini, second by Member Larkin, which motion duly carried by unanimous consent of the members present, the Board approved the October 19, 2011 minutes.

6. FIRST READING OF REVISIONS TO TMWA RULES 1, 2, 3, 4, 5 AND 7 WITH PROPOSED EFFECTIVE DATE OF JANUARY 19, 2012 AFTER SECOND READING ON JANUARY 18, 2012

John Erwin presented staff's recommendation for proposed revisions to Rules 1, 2, 3, 4, 5 and 7 in a red-lined version.

The proposed changes endeavor to streamline and improve clarity of the language of the rules, to make content relevant to today's operating environment and to implement applicable cost recovery mechanisms. Vice Chairman Aiazzi questioned the changes in Rule 5 regarding the refund policy of issuing a credit to the applicant if the total Schedule WSF charges were more than \$50,000 and issuing a cash refund if the charges were less than \$50,000. He asked if any complaints had been received and said it might be more appropriate to refund the first \$50,000 to all cancelled projects. Mr. Estes replied that this condition is in the rule currently and since

the \$50,000 amount applies to facility charges, small projects end up getting refunds and large projects that drive investment in major facilities end up with a credit. The \$50,000 amount results in a clean break between project classes and no one has complained about this condition. Chairman Carrigan asked for clarification on the changes to Rule 7 Section 2, which in the red-lined version appear to be new. Mr. Erwin responded that this section refers to will-serve commitment adjustments and the issuance of water resource credits; the rules exist today but due to the desire to improve the clarity of the existing language the number of individual redline edits would have been too confusing so whole sections were deleted and moved to make the proposed revisions easier to read for this presentation.

Upon motion by Member Martini, second by Member Cashell, which motion duly carried by unanimous consent of the members present, the Board referred this item to January 18, 2012 for second reading.

7. FIRST READING OF POTENTIAL WATER RATE ADJUSTMENT WITH PROPOSED IMPLEMENTATION FOR THE FIRST BILLING CYCLE IN FEBRUARY, 2012 AFTER SECOND READING ON JANUARY 18, 2012

Jeff Tissier introduced Brian Thomas, Public Financial Management (PFM). John Bonow, TMWA's former financial advisor, has recently been promoted to CEO of PFM; therefore, his duties have been transitioned to Mr. Thomas. Mr. Thomas served in the public sector for almost 30 years before joining PFM as a Managing Director in the Los Angeles office in February, 2011. For the prior 10 ½ years, Mr. Thomas was Chief Financial Officer and Assistant General Manager for the Metropolitan Water District of Southern California, the nation's largest supplier of treated drinking water. He was responsible for all financial functions including treasury and debt management, water rates and charges, water rights and negotiating water transfers. At PFM, Mr. Thomas will focus primarily on western water and wastewater utilities helping with everything from rates and charges to financing restructuring. Mr. Thomas has a Bachelor of Science in Biology and a Bachelor of Science in Economics from California State Polytechnic University, Pomona. He also has a Master's degree and a Ph.D. in Economics from the University of California, Riverside.

Mr. Erwin presented for the first reading the proposed rate adjustments with the Year 1 adjustments to be effective the first billing cycle in February 2012. Prior to the first reading, the proposal was presented to the Standing Advisory Committee (SAC) on November 1 where staff went through the information page by page and answered many questions the SAC had at that time. At the end of that discussion the SAC endorsed staff's recommendations on its rate proposals and three-year phase-in, subject to an annual review of TMWA's financial performance after implementation of Year 1 rate adjustments and prior to subsequent adjustments.

Staff also held a public workshop on the evening of November 9. Five customers (one being a SAC member) attended the meeting. After presenting information identical to that presented at the SAC and to the Board at its October meeting, questions and discussion ensued on a range of topics including debt management, effective date of rates, implementation of 3-day-a-week

watering and its effects on system operation/revenues, load characteristics of the different customer classes, revenue degradation, reinvestment in the water system, and tiering/rates for the metered classes. Two customers suggested the Board consider eliminating the third tier usage rate to simplify the metered rate schedules and reduce the implication to customers that the third tier is viewed as a “penalty”.

Mr. Erwin presented staff’s analysis of projected costs of service (in millions) and the basis for recommending rate adjustments, followed by a discussion on how to close the \$8.9 million gap between anticipated revenue and costs. There are two components needed to close the gap. The first is to manage expenses such as has been done by staff in the past two years, which have resulted in an overall reduction in operating costs of over \$7.3 million, or 18 percent. The second is to grow revenues. Increases in vacant services (which has jumped in the last few years from an historical 2,000 to between 4,000 and 5,000 services), and wetter weather have played a significant factor in declining revenues. Staff indicated nationally there is a downward trend in water consumption which is good for managing and optimizing water resources but the downside is the cost of service for the fixed components of the cost structure of operating the utility must still be covered. To address this, rates need to be adjusted.

Mr. Erwin added that in preparing the rate design, it is important to try to keep the number of rate proposals simple and as few as possible. Staff took comments from the Board and the SAC when developing its proposals while addressing the need to grow revenues from the fixed component (the customer service charge) and not so much from the variable component (water usage).

Chairman Carrigan commented that TMWA had asked people to conserve water which they did and the Board is not now going to penalize them by increasing the cost for the actual water used. There is, however, a fixed cost for the water utility to run its daily operations, to maintain its infrastructure and to pay its debt, and that is reflected in the customer service charge. Mr. Erwin agreed that every utility business is heavily invested in the fixed cost components so whether or not any of the commodity is used, funding the fixed cost components remains.

Mr. Erwin then described the proposed adjustment, which is similar to approaches taken by the Board in prior rate adjustments. Instead of trying to close the \$8.9 million gap in a single year, the proposal is to slowly close that gap over a three-year period with an additional anticipation that some improvement in the business climate and a return to more favorable weather patterns may contribute to needed revenue growth.

The proposal is that the customer service charge would increase by \$1.42 per month for the ¾” metered rate single family residence. The monthly customer service charge is currently \$15.70 per month and under this proposal would increase to \$17.12 per month. The rates paid for the commodity, or water, will remain the same for all metered retail customers.

For those residential customers who remain on the flat rate, the rate for the ¾” single family residence will increase by \$7.80 per month from \$86.30 to \$94.10. Chairman Carrigan asked what the philosophy is in the billing of the flat rate residential group. Mr. Erwin replied that each class has to pay its own cost of service following the Board’s policy for no cross-class

subsidization. Therefore the load characteristics of each customer class is reviewed in terms of how much water is used annually and on the peak, and then that cost of service is built into that particular class. All single-family flat-rate customers have a water meter and get a monthly comparison of what they pay on the flat rate versus what they would pay on the metered rate. The average flat-rate residential customer uses almost twice as much water annually as the average metered residential customer. The Board has given them the option of switching to the metered rate and there are currently 5,174 single-family residential customers who have chosen to stay on the flat rate.

Chairman Carrigan clarified this by stating that basically TMWA knows how much water the flat-rate class uses and that amount is divided by 5,174 so if somebody uses a lot more water than the average, the person using less than the average will subsidize that person who is using more water. Mr. Erwin said that the flat-rate class started with 44,261 customers and most of the customers who have voluntarily left the schedule were below the average in terms of usage, so they reduced their monthly water bill by moving from the flat rate to the metered rate. The usage of the remaining group is almost twice what the typical ¾” residential metered service uses.

Vice Chairman Aiazzi asked why the metered rate was increasing by 3.53 percent and the flat rate was increasing by 9.04 percent, if only the fixed service fee is being raised.

Mr. Erwin explained the difference is the usage pattern between the flat-rate and the metered-rate groups. The fact that the customer charge is going up \$1.42 on the metered-rate customer will increase metered-rate customer’s average monthly bill by 3.53 percent. There is no commodity charge as such on the flat-rate customer because by definition it is a flat rate. Also, because their average usage volume is much higher than what you see on the usage volume on a single-family metered rate, their total monthly charge will increase from \$86.30 to \$94.10 to cover the costs of their usage.

Vice Chairman Aiazzi asked for a summary of how much revenue each class is expected to raise over the three years. Mr. Erwin said he would have this information at the second reading.

Vice Chairman Aiazzi asked about selling water rights for less than the price per acre foot which is currently at \$9,600 to raise the money. Mr. Tissier replied that this could be done; however, commercial paper notes were issued to purchase the water rights so there is a significant debt obligation related to those water rights. If the water rights were to be sold at a discounted price, the amount to retire the debt would still have to be recovered. As long as the low interest rate environment continues, TMWA is not being harmed. Mr. Erwin added that due to the economic conditions, there isn’t much of a market at this point in time that anyone has shown an interest in buying the water rights.

Member Martini added that the Board can change directions in regard to selling water rights if it makes financial sense in the future.

Vice Chairman Aiazzi raised the question about using unrestricted cash to close the gap. Mr. Tissier responded that even with the proposed rate increase there will still be a gap between revenues collected and cost of service, so some unrestricted cash will be needed to close that gap.

Mr. Tissier said that between 2015 and 2017, TMWA will have well over \$350 million in bonds that are callable. If financial health is maintained and cash is preserved, those fixed rate bonds that are well above 5 percent can be called, thereby reducing that wedge of the cost of service (principle and interest rate) that is the biggest part of cost saving to deal with in the future. If the variable rate market goes higher, that paper can be bought down. If the variable rate is low, then the fixed rate side of the debt can be addressed with possible savings. There are very good opportunities coming to reduce the cost of serving our customers and then do some debt restructuring. It can potentially reduce the cost of serving our customers significantly.

Member Larkin stated that he appreciated staff hearing the board comments at the retreat and splitting the cost between the customer service charge and operations and asked how staff arrived at the split. He said he was sure a lot of this had to do with coverage and keeping bond counsel happy with a steady income since he wasn't sure that just cost savings would satisfy bond counsel. Mr. Tissier said the financial projection used for preparing the rate proposal was also used to present to the rating agencies. It demonstrates to the rating agencies and to our customers that TMWA is doing everything possible to control costs. Revenue sufficiency isn't just about raising rates; it's about doing everything possible to control costs and the organization is doing a great job of that. If this is demonstrated to the rating agencies even in a very difficult revenue environment, ratings will remain strong, and when it is time to restructure debt, we will be prepared.

Mr. Foree added that it is a one-third, two-thirds split because this increase is proposed to generate approximately \$6 million. As there is a deficit of \$8.9 million, the organization needs to save on the expense side with, hopefully, some help from the economy and weather. Staff looks at the financial information and what it feels is an acceptable increase for customers. As stated before, this increase wouldn't be necessary if our previous increases that focused on the commodity rate had produced the projected revenue. The previous study, completed three years ago, projected water sales revenue to be about \$78 million which is similar to the current projection. Member Larkin remarked that while he desired to see a fifty/fifty split, he understands Mr. Tissier's reluctance to go to that extent because of the annual interest cost of \$21 million. It has been stated before: this is a first step in the strategy to reduce interest costs significantly in a few years, which will be very important for our customers. Mr. Tissier added that it is preparation and then if there are opportunities and a lower interest rate environment like we see today, we will have success.

Upon motion by Member Cashell, second by Vice Chairman Aiazzi, which motion duly carried by unanimous consent of the members present, the Board referred this item to January 18, 2012 for second reading.

8. UPDATE ON CONTRACT DISCUSSIONS WITH THE PYRAMID LAKE PAIUTE TRIBE REGARDING THE RENO SPARKS INDIAN COLONY WATER SERVICE AGREEMENT

Mike Pagni, Legal Counsel, presented this item. In September, the Board directed staff to implement master meter billing for the Reno Sparks Indian Colony (Colony) on December 1 and

work with Colony representatives on finalizing a contract for water service. The contract isn't necessary to implement the master meter billing; however, it would be beneficial to clarify the billing issues and facility responsibilities between the two parties. Since September, discussions with Colony Counsel have taken place. The Colony has not made any comments on the proposed contract, but Colony Counsel has committed to us that the Colony remains committed to the master meter implementation on December 1. They are optimistic that the contract can be finalized by December 1. It's taken longer than they had anticipated getting information from their consultants and putting together the administrative framework to implement billing their customers so there is a possibility that the contract will not be finalized by December 1. Staff is proceeding with the Board's prior direction to implement master meter billing on December 1 and continue to work with the Colony on finalizing the contract. Mr. Pagni said that Linda Bowman and Vicky Oldenburg, Colony Counsel, were present if the Board had any questions for them. The Board had no questions and no action was taken.

9. GENERAL MANAGER'S REPORT

Mr. Foree introduced Ron Penrose, Project Manager for the Glendale Diversion Project. Mr. Penrose presented the Board with an award from *Engineering News Record (ENR)* for the Best Civil Infrastructure Project for the Southwest Region (Nevada, Arizona and New Mexico). TMWA was one of three finalists out of 120 projects for the overall best project award. Completed in 2010, the project represents seven years of planning and construction by TMWA staff, stakeholders, and local engineering consultants and contractors.

10. PUBLIC COMMENT

There was no public comment.

11. BOARD COMMENTS AND REQUESTS FOR FUTURE AGENDA ITEMS

There were no Board comments.

12. ADJOURNMENT

With no further discussion, Chairman Carrigan adjourned the meeting at 10:48 a.m.

Approved by the TMWA Board of Directors in session on December 21, 2011.

Respectfully submitted,

Corinne Cassell, Recording Secretary