



STANDING ADVISORY COMMITTEE WORKSHOP
January 3, 2012

The Standing Advisory Committee met at Truckee Meadows Water Authority in the Independence Room, 1355 Capital Blvd., Reno, Nevada. Chairman Vorreyer called the meeting to order at 3:05 p.m.

1. ROLL CALL

Members Present: Kevin Bloomgren, Colin Hayes, Denise Jacobsen, Neil McGuire*, Rosemary Menard, Susan Ralphe, Ron Turner, Greg Vorreyer, and Barry Winzeler

Alternates Present: Harry Culbert, Bruce Gescheider, Paul Rose and Fred Schmidt

Staff Present: Scott Estes, Mark Foree, Bill Hauck, Lora Rose Richards, Shawn Stoddard and Debbie Leonard, Legal Counsel

Chairman Vorreyer presented the new members, Denise Jacobsen, Bureau of Consumer Protection, and Rosemary Menard, Wholesale Representative, and asked them to give a brief self-introduction. Ms. Menard has been the Director of Washoe County Department of Water Resources (DWR) for the past 5 years. Prior to moving to Reno she managed water resources for 10 years with the City of Portland and 15 years with the City of Seattle. Ms. Jacobsen is the Regulatory Manager for the Bureau of Consumer Protection Office representing rate payers and small businesses for the State of Nevada. Prior to that, she worked at NV Energy (formerly Sierra Pacific Power Company) for 10 years and has been on the Financial Advisory Board for the City of Reno for 10 years.

2. PUBLIC COMMENT

There was no public comment.

3. APPROVAL OF THE AGENDA

Upon motion duly made and seconded, and carried by unanimous consent of the members present, the Committee approved the agenda.

4. APPROVAL OF THE MINUTES OF THE DECEMBER 6, 2011 MEETINGS

Mr. Turner asked to change the language in agenda item 9 to reflect that his information on the Truckee River Operating Agreement (TROA) and water conservation came from what he read on page v in the FY2011 Comprehensive Annual Financial Report (CAFR).

Upon motion duly made and seconded, and carried by unanimous consent of the members present, the Committee approved the minutes of December 6, 2011 as amended.

5. UPDATE ON STANDING ADVISORY COMMITTEE MEMBERSHIP

Lora Richards stated that on December 21, 2011, the TMWA Board affirmed the existing membership for the term January 1, 2012 through December 31, 2013 with the following changes: Robert Chambers was confirmed as the primary Senior representative, as Ernest Buchner had resigned effective December 7, 2011; and, Rosemary Menard and Ben Hutchins were confirmed as the primary Wholesale representative, representing Washoe County with Fred Schmidt as the Wholesale alternate. The other change is the appointment of Denise Jacobsen by the Bureau of Consumer Protection. Darrin Price, SVGID General Manager, asked the Board to consider having the Wholesale seat revert to SVGID by default should TMWA actually merge with DWR before the term ends on December 31, 2013. The item was not agendized; it was a membership item only, so the Board took no action. The Board could entertain a change to the SAC bylaws at some later date.

6. ELECTION OF CHAIR AND VICE CHAIR

The committee nominated Greg Vorreyer as Chair. Chairman Vorreyer said that he would accept the nomination as Chair for 2012; however, this would be his last year. The committee nominated Rosemary Menard and Neil McGuire as Vice Chair. Mr. McGuire was not present so Chairman Vorreyer postponed this item until Mr. McGuire arrived and could accept the nomination.

7. PRESENTATION AND DISCUSSION ON WATER SUPPLY AND DEMAND

Bill Hauck and Shawn Stoddard presented this item. Mr. Hauck gave a brief water supply update. December was abnormally dry. There has been no measurable precipitation at the airport since November 18, 2011 which ties a record with 1870 as the driest December on record. Reservoir storage at Lake Tahoe is close to 4 feet. If there was no snow for the rest of the snow year, there would still be enough water in storage for 2012 with normal river flows. Ms. Richards added that some landscapers and homeowner associations said they would be turning irrigation systems on to combat the dry weather conditions and preserve landscaping and trees.

There was a question about the status on cloud seeding. Desert Research Institute has received funding for this year. Equipment is installed but there must be certain atmospheric conditions

to be able to seed clouds successfully and those conditions have not been present so far this season.

Dr. Stoddard led the discussion on water demands and how weather and economic conditions play a role in conservation and on the question of price determining the difference in water use between flat rate and metered customers. He explained the term “water demand” from an economist’s viewpoint and the effect of weather, economics and price in driving people’s decision on purchasing water. In layman’s terms, water demand is the quantity of water produced because of how much water people are using. In Economics, demand is more detailed because it is not only about the quantity of water but what factors in an individual’s choice to purchase any amount of water. Price is a factor in the decision to purchase water. Water as a commodity is not any different from something you buy at Wal-Mart but it is a lot more emotionally charged. Generally speaking, when people make that decision to buy water, they are making that decision on the margin, such as whether to let the water run a little bit longer or whether to give the grass a little more water. The big decision that affects how much water a person/household will purchase is due to lot size, which explains a huge proportion of how much water to use in a given year. Characteristics of the house and the nature of the landscape have already been considered and the decision already made before buying the house. People already know that to maintain that landscape is going to require a certain amount of water and so at that point when they are making that decision to turn the sprinkler on, the price of the water is not as important as the temperature outside. If it is a 100-degree day, the price of water relative to the weather is insignificant. The question then becomes, do I keep the lawn alive or do I let it die? Then we bring in factors like the weather.

In the last few years with relatively cool springs, demand is low because people choose not to purchase water. The price didn’t matter as much as the weather. The other factor is that economic conditions influence income. When looking at water demands across the United States, a big determinant is household income because with higher income comes higher-end homes, bigger lot sizes and larger landscapes. So with the economy being the way it is, the fact of lower income and high unemployment suppress water demand in general. Looking at those big items, pricing is not ranked very high in terms of significant decision factors. Price, however, could be significant over time. Individuals might make a decision to modify their landscape or install more efficient irrigation systems if the price of water increases.

Dr. Stoddard said he had the opportunity to run some cursory studies relative to the economy; and relative to everything else, conservation doesn’t appear to have a large impact on demand. TMWA’s Water Watchers are focusing their efforts on flat rate customers. The average water use of households visited tends to be about 23% higher than the rest of the water customers. However, after that visit, there has been a slight decrease in water use. People decide how much water they want to use based on all these factors. If they have a leak, a mechanical problem or a high bill in general, people will want to get back to “normal” and will call for help. They call because something is different.

Dr. Stoddard said that although we say price isn't that significant, the ¾ inch flat-rate single family service uses almost twice as much water as the ¾ inch metered-rate single family service. Price is very significant because at the margin, the price is zero. The flat-rate customer pays a flat charge regardless of how much water they use, so whether they turn the water off when brushing their teeth is immaterial because the price is zero. Compare that to the metered-rate customer when, depending on where they are in the tier, using more water could cost them anywhere from \$1.78 to \$3.25 per 1,000 gallons.

Dr. Stoddard also said that all the homes on flat rate were built prior to 1987 and prior to the new plumbing code which went into effect in 1992. They are older homes with older landscape and older plumbing. These are all factors that cause, all things being equal, flat rate homes to use more water than a metered rate home. The flat rate customer has no incentive to conserve or to turn off their water.

Ms. Richards then explained about the seasonal Water Watcher Program and the Water Usage Review Program. Water Watchers patrol the community and respond to reports of water waste. In the Water Usage Review Program, TMWA staff visit customers with high bill concerns. They check TMWA equipment, most frequently finding toilet leaks, irrigation system issues or irrigation systems not properly winterized. It is a customer service educational program to teach people about how to water efficiently.

Neil McGuire arrived during #7.

6. (Taken out of sequence) ELECTION OF CHAIR AND VICE CHAIR

Ms. Leonard recapped what had happened earlier in the meeting. Mr. McGuire was nominated for Vice Chair; Ms. Menard was separately nominated for Vice Chair; and Chairman Vorreyer was nominated for Chair. Ms. Leonard recommended a formal separate motion and second and action for the each position.

Upon motion duly made and seconded, and carried by unanimous consent of the members present, the Committee elected Greg Vorreyer as Chair.

Mr. Schmidt said he did not step out of his position as Vice Chair willingly but that as an alternate, he is no longer eligible to hold the position. He is here to continue his participation on the SAC. He commented that although he felt Ms. Menard would make an excellent leader, because Washoe County is in the midst of merger negotiations with TMWA, which is the only real significant rate issue that the SAC has coming up for the next year, it would be more appropriate to have someone as Vice Chair who is not involved in and responsible for negotiations.

Upon motion duly made and seconded, and carried by unanimous consent of the members present, the Committee elected Neil McGuire as Vice-Chair.

Chairman Vorreyer thanked Mr. Schmidt for his years of service as Vice Chair of the Committee.

8. STATUS REPORT ON THE MERGER OF THE WASHOE COUNTY DEPARTMENT OF WATER RESOURCES WATER UTILITY FUNCTIONS INTO TMWA

Mr. Foree reported that on December 13, 2011, the Board of County Commissioners approved the Bond Bank ordinance on a three-two vote. There was a discussion about the Bond Bank and its purpose. The primary purpose is to effect the merger in the most cost-effective way possible. It will not be used to refinance TMWA debt but to refinance the existing Washoe County Department of Water Resources debt.

Mr. Schmidt asked about the timing of the merger. Mr. Tissier said that DWR continues to work through a number of matters and asked Ms. Menard to elaborate on these. She said that one issue is to merge South Truckee Meadows GID (STMGID) into DWR. STMGID has separate governance from DWR but is not a separate system. The systems have been built more or less as one system. The time line is to merge STMGID customers into DWR before the end of the fiscal year. Of particular importance is for a negotiated deal having to do with distribution of STMGID's financial assets because the physical assets have to be used to supply service going forward. The other issue is that the County is in the process of merging DWR, Public Works, Community Development, Building and Safety, and Parks and Open Space into a new organization called Community Services Department. That item will be on the County Commission agenda next week.

9. PRESENTATION AND DISCUSSION ON COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR FISCAL YEAR 2011 AND DISCUSSION OF FINANCIAL PERFORMANCE

Mr. Tissier presented this item and referred to the FY2011 Comprehensive Annual Financial Report (CAFR) in the agenda packet. The overall financial performance for FY2011 continued to be challenging because of the impact of lower water demands affecting overall water sales, the result of local economic conditions and continued cool spring weather patterns. Total operating revenues were \$1.6 million or 2.0% less than budget. Water sales were \$1.9 million or 2.6% less than budget. Offsetting the lower than expected water sales was \$0.6 million or 23.8% greater than expected hydroelectric revenues as a result of greater than expected river flows. Total operating expenses were \$3.6 million or 9.8% less than budget and prior year spending which was a significant achievement. It is truly a testament to the hard work that everybody has done in this organization and shows that we are concerned about how we operate our organization. This was due to not filling vacant positions and controlling overtime. TMWA is also reaping the benefit of reduced power expense from the commissioning of the Highland Canal improvements which has reduced reliance on the Orr Ditch Pump Station to feed raw water to the Chalk Bluff Water Plant. Investment earnings are virtually on target. The weighted average interest rate on TMWA's commercial paper was 0.18%.

In comparing 2011 and 2010, water sales have stalled in light of the fact that we have had two rate increases that focus on the commodity part of the rate structure which have been unsuccessful and underpinned our discussions over the last few months about making very low

single digit rate increases to try to cover the cost of service gap to the revenues generated. Operating expenses were again controlled and were \$3.8 million under budget last year.

Mr. Tissier said TMWA will continue the Commercial Paper Program as there is success in using variable rate debt and it has been a huge cost saver for TMWA.

Chairman Vorreyer asked about grant money. Mr. Tissier said that TMWA had received a federal grant for costs associated with implementing TROA but that grant has expired. Staff will continue to request additional funding. Ms. Richards said that a status report on TROA will be given at the February meeting.

10 PRESENTATION AND DISCUSSION ON FIRST QUARTER FISCAL YEAR 2012 FINANCIAL REPORT

Mr. Tissier reported TMWA's financial performance was encouraging for the three months ended September 30, 2011. Operating revenues were 1.2% or \$0.3 million ahead of budget and operating spending was 4.7% under budget. Water sales were \$0.1 million over budget, possibly reflecting a flattening of water demand after four years of significant demand destruction. Hydroelectric revenue was \$0.1 million or 13% ahead of budget due to better than expected river flows. He complimented Mr. Hauck who figured out a way to release Independence Lake water to keep the river flows at optimum for generating hydroelectricity. Operating expenses were \$0.5 million or 4.7% under budget. This reflects that TMWA personnel are doing what is necessary to look for ways to increase revenue and manage expenses. Developer fees are in line with expectations.

Ms. Ralphe asked since there were positive numbers for the three months, the economy is good, operating revenue is up and the change in net assets is positive, is that a rationale for altering the proposed rate increase.

Mr. Tissier said that the first quarter is when there is the greatest amount of cash flow in the organization because that is the irrigation season. During the next five months, more cash is spent than is received. The results for the first quarter FY12 were very similar to the first quarter FY11 and the revenue insufficiency gap is still in the \$3 to \$3.5 million range. He said he would not recommend changing the proposal now but would revisit the proposal in the second and third year. The proposal is predicated on the management of operating expenses; notwithstanding the fact that bond market expectations must be met in a few years to cost-effectively restructure debt. The senior lien debt coverage ratio must be at least 1.5x to 1.55x which is desired by capital markets and it is currently at 1.46x. This is the reason why a phased-in approach is recommended. Also, there is \$80 million in commercial paper debt which at some point must be repaid so unrestricted cash must be preserved.

11. DISCUSSION AND POSSIBLE DIRECTION TO STAFF REGARDING AGENDA ITEMS FOR THE FEBRUARY 7, 2012 MEETING AND OTHER FUTURE MEETINGS

Mr. Schmidt suggested the SAC discuss the feasibility of making a recommendation to the TMWA Board for a change to the membership of the SAC. He suggested two seats for the Wholesale position, one being Sun Valley General Improvement District (SVGID) and the other DWR. They are distinct entities with very different types of services and interests, especially as talks of a merger between TWMA and DWR continue. Mr. Foree said that Mr. Price had asked the TMWA Board at its December 21, 2011 meeting to have the Wholesale seat revert to SVGID upon merger and the TMWA Board gave staff direction to review this request and bring the issue back to them. Ms. Leonard said the SAC has never played a role in the Board's decision-making as to the membership of the SAC. Ms. Menard stated another issue was representation on the SAC of Washoe County customers. Ms. Leonard said this is an issue to be presented to the Board and not necessarily for the SAC to advise the Board as to adequate representation of certain customer classes. She suggested putting this on next month's agenda so staff can look into the issue of what the TMWA Board envisioned as the SAC's role. She said it is important for the SAC to recognize its role as an Advisory Committee. Ms. Menard said that she heard Mr. Schmidt say that he feels that SVGID's particular interests with respect to rate impacts need to be heard but there is also a need for the water rate payers of DWR to be heard. Mr. Foree said that the concerns of DWR rate payers would be addressed by the process set up by DWR and TMWA prior to the merger. He said that he did not disagree that at merger something will need to be changed but at present, they are not customers of TMWA. Chairman Vorreyer said that he could bring a presentation he made to the Chamber of Commerce Board a few years ago about the SAC to the next meeting.

Upon motion duly made and seconded, and carried by unanimous consent of the members present, the Committee set the date of the next meeting as Tuesday, February 7, 2012 at 3 p.m. and requested the following items be placed on future agendas:

1. Recognition of Ernest Buchner participation in SAC
2. Discussion on the purpose and role of the SAC and the makeup of membership of the SAC, including the presentation Chairman Vorreyer gave to the Chamber of Commerce on the historical purpose of the SAC
3. Informational item on bonds from an accounting perspective, including the timing of redemption and refinancing
4. Status report on the rate increase and Board action including a chart of the final rates
5. Status report on the merger of the Washoe County Department of Water Resources water utility functions into TMWA

6. Update on the activities of the Northern Nevada Water Planning Commission
7. Report on the implementation phase of the Truckee River Operating Agreement (TROA)
8. How TROA dictates Water Conservation

12. COMMITTEE ITEMS

There were no committee items.

13. STAFF ITEMS

Ms. Richards reminded the Committee that the TMWA Board Meeting and Public Hearing on rates will be held on Wednesday, January 18, 2012 at 6 p.m. at the Sparks Council Chambers.

14. PUBLIC COMMENTS

There were no public comments.

15. ADJOURNMENT

With no further items for discussion, Chairman Vorreyer adjourned the meeting at 5:37 p.m.

Approved by the Standing Advisory Commission in session on February 7, 2012.

Corinne Cassell, Recording Secretary

*Mr. McGuire was present for items 6 and 8 through 15