



STANDING ADVISORY COMMITTEE WORKSHOP  
MINUTES  
February 7, 2012

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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 3:00 p.m.

1. ROLL CALL

Chairman Vorreyer invited all members to introduce themselves.

Members Present: Kevin Bloomgren, Robert Chambers, Colin Hayes, Ben Hutchins, Denise Jacobsen, Pat Martinez, Neil McGuire, Susan Ralphe, Ron Turner, and Greg Vorreyer

Alternates Present: Harry Culbert, Mike Heffner, Rosemary Menard, Paul Rose, Fred Schmidt, Jim Smith

Staff Present: John Erwin, Scott Estes, Mark Foree, Kim Mazeris, Lora Rose Richards, Jeff Tissier and Debbie Leonard, Legal Counsel

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 JANUARY 3, 2012 MEETINGS

**Upon motion duly made and seconded, and carried by unanimous consent of the members present, the Committee approved the minutes of January 3, 2012.**

5. PRESENTATION ON ACTIVITIES OF THE NORTHERN NEVADA WATER PLANNING COMMISSION

Chairman Vorreyer introduced Jim Smitherman, Staff of the Western Regional Water Commission (WRWC) and the Northern Nevada Water Planning Commission (NNWPC).

The 2011-2030 Regional Water Management Plan was completed and turned over in January 2011 to the Nevada State Legislature as required by the Western Regional Water Commission Act (ACT). Since that time, the NNWPC has been involved in activities either required by the Act or action items that are included in the Water Management Plan. The involvement ranges from simply recommending funding be made available for certain activities and then receiving progress reports to NNWPC Commissioners serving on subcommittees or work groups, with or without committing staff time, and recommending the hiring of engineering and consulting firms to complete certain tasks. Mr. Smitherman gave a summary of activities and the level of involvement, including:

#### *Water Supply*

- On-going analysis for the consolidation of TMWA and Washoe County Department of Water Resources (DWR) water utilities. The NNWPC has recommended to the WRWC that some funds be set aside to help defray the costs of the agencies on doing that analysis
- Funding for the Truckee River Operating Agreement (TROA) requirements for the local entities to provide 6700 acre feet of water rights

#### *Water Conservation and Water Enhancement projects:*

- Funding of the Desert Research Institute's cloud-seeding project in concert with funding by the Truckee River Fund
- The water usage review program
- The Landscape Association's Certified Landscape Technician Exam Program

#### *Water Quality*

- Working with the Nevada Division of Environmental Protection on a long-range plan to develop guidelines for indirect potable reuse of treated wastewater effluent
- Reviewing water quality standards to provide more flexibility for discharge of nutrients from the major wastewater treatment plant in the region, thereby postponing an expensive expansion to the plant for more treatment processes
- Working on a 5-year update to the 208 Water Quality Management Plan
- Researching creative alternatives for technology and financing to deal with groundwater affected by discharge of septic systems in areas with a very high density of septic systems, such as Spanish Springs Valley
- Working with the Truckee Meadows Regional Planning Agency who is developing a computer model using development suitability factors, such as those related to provision of wastewater services and water services, that will then be used to develop scenario planning to the point where it might be possible to attribute costs to various development areas.

#### *Population Forecast*

- Providing the Regional Planning Governing Board an analysis of sustainable water resources using the input TMWA provides into the consensus population forecast, and then making a comparison to determine if there is enough water identified to serve the

demands that might come from a 20-year population growth estimate. This is done every two years before the Regional Planning Commission adopts the consensus forecast.

In answering questions from the Committee, Mr. Smitherman explained that funding comes from statutory authority which authorized a 1.5% surcharge on retail water bills, which he manages along with the other two members of staff and is regulated by the WRWC. He and his staff receive direction from both the NNWPC (technical advisory level) and the WRWC (elected officials).

He also clarified that the WRWC was created by the Nevada State Legislature by statute which gave the local entities the authority to create it by a joint powers agreement as well; so both are in place. There are nine commissioners on the WRWC: three representing Truckee Meadows Water Authority and one each representing the City of Reno, the City of Sparks, Washoe County, Sun Valley General Improvement District, South Truckee Meadows General Improvement District, and the Truckee Meadows Water Reclamation Facility. Private water companies do not have a seat on the WRWC; however they do pay into the fund, although they've never requested any services from the fund.

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

Mr. Foree reported that meetings have been scheduled to begin work on the details of the merger such as the schedules to the addendums to the interlocal agreement. Mr. Tissier added that it will take a number of months to negotiate the conditions of the agreement.

7. REPORT ON TMWA BOARD ACTION ON RATE ADJUSTMENT AND RULES REVISIONS

John Erwin distributed the February 2012 Water Rate Schedule stating these are the same rates as were presented in November 2011. Five customers were present at the public hearing on January 18, 2012. One asked if the rate increase would affect the water rate charge for each tier which was answered by Chairman Carrigan. There were no questions on the rules revisions.

The Committee asked for clarification of Right of Way Tolls. Mr. Foree explained that by the agreement that formed TMWA, the entities can assess a fee up to 5% of the water bill for Right of Way Tolls. This is a fee to use the right of way for pipes and mains and other services. The City of Sparks assesses a 5% fee and the City of Reno assesses a 3% fee. TMWA pays this fee directly to them. Currently, Washoe County has not assessed a fee.

8. STATUS REPORT ON IMPLEMENTATION OF TRUCKEE RIVER OPERATING AGREEMENT

Mr. Erwin referred the Committee to the staff report included in the agenda packet for TMWA's 2011 conservation activities, then presented the history of the Truckee River Operating Agreement (TROA) and how it relates to water conservation.

In 1902 the Reclamation Act by the federal government created the Bureau of Reclamation which became the agency responsible for constructing the Newlands Project. The United States is the owner of the Newlands Project system and Truckee Carson Irrigation District (TCID) is the system operator. There are two divisions of the Newlands Project: the Carson division and the Truckee division. The Carson Division includes the Carson River which empties into Lahontan Reservoir. There are times based on operating criteria when water is needed from the Truckee division to augment supplies from the Carson division.

In 1915, Lahontan Reservoir was completed. There was not enough water off the Carson River alone to fill Lahontan Reservoir; therefore water was needed from the Truckee River to fill the reservoir.

In 1937 Boca Dam was opened; creating Boca Reservoir and Independence Lake dam was rebuilt in 1939. The Reno-Sparks Community at that time has a population of about 60,000.

The Orr Ditch decree established a priority system on ownership of water rights on the Truckee River. It established the fact that approximately 225,000 acre feet of water were assigned for diversion purposes from the California-Nevada State Line at Farad to Pyramid Lake. Included in the decree is recognition of the Newlands Project 1902 priority to divert water from the Truckee at Derby Dam. Mr. Erwin noted that with the exception of a small portion all the water rights held by TMWA are pre-1902 water rights. Some of TMWA's earliest water right priorities go back as far as 1859; therefore, TMWA has priority to other downstream rights.

The level of Pyramid Lake declined rapidly because, once Derby Dam opened, flows from the Truckee River were basically shut off below Derby Dam

By 1970, Stampede Reservoir was constructed, originally being designed for municipal water supply. In 1973 the Endangered Species Act was signed into law and later the United States took over Stampede Reservoir to use for Endangered Species Fish recovery. Losing Stampede as the primary water supply for the municipality alarmed Sierra Pacific Power Company (Sierra) because they had been counting on using it for water supply. In 1974, the Safe Drinking Water Act was enacted as well as how to meet a growing water demand for a population with a flat-rate billed system without the use of Stampede Reservoir. Prior to the 1970's, water and water rights were basically so abundant that nobody really paid attention to it and the population in the area was less than 100,00 to 150,000 people. A 1913 State statute did not allow water meters to be installed on customers in the Truckee Meadows because the water system was owned by a private utility. It became clear an agreement had to be made. Sierra had water rights, but no storage. The United States had storage, but no water rights. Pyramid Lake needed water for the fish recovery. So discussions began.

During the 1970's and 1980s, the Pyramid Lake Paiute Tribe (PLPT) began legal actions asserting injuries because of impacts to the Pyramid Lake and its fisheries. Population in the Truckee Meadows increased to almost 300,000 by 1990. Pressures were mounting for a water supply for the growing Truckee Meadows community and resolution for endangered species issues.

In 1990, the Preliminary Settlement Agreement (PSA) was signed. It was the stimulus that made it possible for Sierra to put water meters on its customers. To comply with the Agreement, Sierra applied for financing and began installing water meters and proposed and implemented an inverted block rate structure. All government approvals were obtained for a mandatory conservation plan designed to produce annual water savings of 10% or more during the ensuing year whenever it appears there be a drought.

Negotiations continued with the PLPT on the water conservation plan to comply with the PSA.

Ron Turner asked for clarification on the 1996 agreement which was designed to achieve 10% annual water savings.

Mr. Erwin said that during negotiations, it became clear that the plan to conserve 10% in a drought period did not make sense and couldn't be adequately managed. In 1996, a conservation plan was agreed upon. In part, the plan said that 1) two-day a week watering restrictions would be in effect until such time as at least 90% of Sierra customers were metered, 2) there would be community education and 3) water conservation specialists would be deployed to help reduce water waste. The commitment was made was to spend at least \$250,000 a year with an automatic increase of 3 – 3 ½ % a year. Mr. Erwin referred again to the recap of 2011 Conservation Activities included in the agenda packet. The switch to three-day-a-week watering in 2010 was possible because meters have been installed on well over 90% of the residential customers, and at least 90% of customers are being billed on the metered rate.

Mr. Erwin discussed the challenges in court by Churchill County, City of Fallon and TCID regarding the diversion of water from the Truckee River. Some of these challenges are still awaiting resolution and final rulings by the 9<sup>th</sup> Circuit Court of Appeals. There have also been numerous challenges from the PLPT on the operation of Derby Dam and the Newlands project.

He explained about water flows and the amount of water TMWA diverts each year. Total average flows across the CA/NV state line are about 525,000 acre feet. TMWA diverts approximately 70,000 acre feet of which 30,000 acre feet are returned to the river after treatment at the sewer treatment plant; so consumptively TMWA uses about 40,000 acre feet, or less than 6 % of the total river flows. The balance should go to Pyramid Lake unless TCID is in priority to divert.

Mr. Foree said that the big benefit of TROA for the community is the additional drought storage it confers to TMWA. Currently TMWA has about 35,000 acre feet in drought storage including the federal contract; and it will go up as high 70,000 acre feet with TROA implementation. Mr. Erwin added that the other benefit is the state diversion allocation – setting in time that California gets 10% of total flows in the Truckee River, while 90% benefits Nevada.

## 9. PRESENTATION AND DISCUSSION ON BONDS

Jeff Tissier presented this item. He began with an overview of the Bond and Note Markets. Issuers include the Federal Government, Corporations, and Municipal Governments, such as State, Counties, Cities and Special Districts (TMWA). Investors include retail or individual

investors; institutions, such as bond funds and insurance companies; as well as other governments.

Mr. Tissier gave a breakdown and explanation of the various types of issuance vehicles which TMWA can use, such as: fixed rate bonds either tax-exempt or taxable; short term notes with a term of one to three years; variable rate instruments such as the tax-exempt commercial paper (which TMWA has); and synthetics-interest rate derivatives (swaps) which carry a number of risks. Although TMWA does not have any synthetic interest rate swaps for debt management purposes, TMWA does have two Forward Delivery Agreements (a forward contract) for investment purposes.

Mr. Tissier discussed a typical bond transaction using TMWA as an example. TMWA as the issuer sells bonds and receives money. The Underwriters or Investment Banks broker the deal to the investors who buy bonds and send the money to TMWA. Financial Advisors advise the seller, structure and size the deal and schedule the sale. The Trustee Bank receives the net bond sale proceeds for TMWA, the issuer. Other parties in the transaction include the Bond/Disclosure Counsel who controls the preparation of the Official Statement (offering documents that informs investors; Rating Agencies that rate the credit of the issuer; a Depository Trust Corp (DTC) manages ownership of bonds; and Bond Insurers that protect investors from non-payment which since the financial crisis are used less.

Mr. Tissier gave a bond sizing presentation using the issuance of the bonds when TMWA was formed as the example. A detailed account of the sources and uses of Funds was prepared. The Sources: Principal amount of 2001A Bonds and 2001B Bonds, less the net original issue discount, totaled \$447,600,103. Uses included the acquisition of water assets from Sierra Pacific Power Company, various elements related to start-up funding which were needed to commence operations, including the purchase of insurance policies and vehicles, the transfer of water rights, procurement of office space, furniture, utilities and other operating costs required prior to the first collection of rates and charges. Also, these bond proceeds prefunded at least two years of estimated construction. The bond proceeds also were required for an operations and maintenance reserve that was set aside with a trustee and equal to approximately three months of projected operation and maintenance expenses for the first year of operations and capitalized interest which represented an amount expected to be sufficient to pay three months' interest on the bonds. TMWA had no money when it began operations.

In answer to a question regarding coverage ratio and restricted reserves, Mr. Tissier answered that restricted reserves can only be spent to repay bond interest and principal if other funds are not available or to fund emergency expenses. The debt service coverage ratio is required contractually to be at a minimum 1.25x which means TMWA has the ability to meet its financial obligations. The higher the coverage ratio, the better the ability of the enterprise is to fulfill its obligations to its lenders and fund reconstruction efforts. Mr. Tissier then reviewed the actual 2010 Advanced Refunding of \$28,420,000. He explained the difference between a "discount" or the amount by which the market price of a bond is lower than its par value at the time of sale and "premium" which means the market value is greater than the par value at the time of sale. Total proceeds from the bond sale included the par amount of \$28,240,000, an issue premium of \$3,575,676, and transferred interest reserves of \$270,554 for a total of \$32,086,230. This is an

example of a bond premium because more sale proceeds were collected than the par value of the offering. The Uses include: refunding escrow deposits of \$31,726,087 and expenses for cost of issuance, the underwriters discount and internal expenses of \$360,142. This was one of TMWA's most economic refundings because a premium was generated due to the way the deal was structured. He explained State and Local Government Securities (SLGS) purchases which are specific investments that a municipality can access at a specified interest rate which is offered by the federal government. The T-bonds and the SLGS were put into an escrow account to generate enough income to pay the debt on the old bonds until they are called.

Mr. Tissier talked about callable bonds. A callable means the issuer has the right to redeem the bond prior to its maturity date, under certain conditions. The company, in this case TMWA, often can call a bond if it is paying a higher coupon than the current market interest rates. Basically the company can reissue the same bonds at a lower interest rate, saving them some amount on all the coupon payments; this process is called refunding. He also went through the 2011 current refunding of \$11,425,000 in which TMWA used \$11,400,000 in tax-exempt commercial paper which was issued with TMWA contributing \$25,000 cash. The money went into an escrow deposit account to pay for the bonds with one maturing on July 1, 2011 and three others maturing through 2016. The average interest rate on all the 2001-A bond maturities was a little over 5%. TMWA is now paying only .16% on commercial paper so TMWA and its customers are enjoying the savings. This transaction was called a current refunding because it was done three days before the call date. The other transaction was called an advance refunding because it is done greater than 90 days before the call date and an escrow account was used.

Mr. Tissier explained the Credit Rating Structure and how Credit Rating Agencies such as Fitch, Moody's, and Standard and Poor's issue credit ratings. Since inception TMWA has raised their ratings as follows: Fitch from A- to AA-; Moody's from A3 to AA and Standard and Poor's from BBB+ to AA. He reviewed the Credit Rating Agencies' criteria, pointing out that TMWA has many attributes of a strong credit rating, some attributes of a moderate credit rating and a few attributes of a weaker credit rating. He explained the intricate interplay of the rating criteria that is constantly and carefully monitored.

The presentation continued with an explanation of the regulatory and legal environment in which TMWA must comply starting with the Securities and Exchange Commission ACT of 1934 which deals with required annual disclosures of financial and operating information. The Internal Revenue Service (IRS) deals with tax exemption, arbitrage rebate and yield restriction. The Municipal Securities Rulemaking Board regulates markets/financial advisory/underwriters to prevent fraud and market manipulation and conflict of interest while the Nevada Revised Statutes regulates competitive and negotiated sales.

After the bonds and refundings are issued; the most important aspect in the Finance Department is debt management. Mr. Tissier referred to the *Schedule of Changes in Debt from 2001 through 2011*, reviewing all bond issuances, their purposes, interest rates, and final maturity dates.

Mr. Schmidt asked if the merger would affect the total debt amount. Mr. Tissier replied that TMWA would assume the debt from Washoe County Department of Water Resources related to that entity's water utility.

There was some discussion on the acquisition cost of TMWA and the additional amount needed as startup costs. There was also mention that a primary purpose of the tax-exempt commercial paper program was to fund the acquisition of water rights and certain capital improvements to satisfy requirements for growth in the community

#### 10. PRESENTATION ON THE HISTORY OF THE TMWA STANDING ADVISORY COMMITTEE

Ms. Leonard, Legal Counsel, presented this item, with input from Chairman Greg Vorreyer. After TMWA was formed in 2001, the Board formed the Rate Making Review Committee (RMRC) in September 2003. The purpose of the 17-member committee was to provide the TMWA Board additional perspective with regard to the agency's rate structure because of the need for increasing water rates. In May 2004, the RMRC issued a final report with a recommendation that TMWA should form an advisory committee made up of professionals, development community representatives and citizens to advise the board on rate making and rate design issues as those issues arise. In March 2005, the Board established the Standing Advisory Committee. The first meeting of the Committee was September 2005.

A subcommittee of the Board was formed to focus on the Charter, scope of responsibilities, composition, qualifications, and selection of members for the proposed standing advisory committee. Staff provided recommendations and alternatives, and the Board approved an 11 member committee. Subsequently, a representative from the Bureau of Consumer Protection was added. The Board approved the Committee's duties as including, but not limited to, budget and rate increase review and recommendation and other matters that the board may assign.

To that end, Staff has been very accommodating and helpful in terms of providing the Committee with information to perform its duties. In addition to providing financial and budget updates and rate review information, they have made presentations and given information on all aspects of the operations of TMWA. During the last six years, the Board has asked the Committee to provide one or two recommendations outside the scope of budgets and rates. Otherwise, the Committee has been focused on providing recommendations with regards to rate increases.

Ms. Leonard said that with regard to the SAC membership issue that was raised at the last meeting, Darrin Price from Sun Valley GID went to the TMWA Board requesting that the TMWA assign the wholesale seat on the SAC to SVGID upon merger. That issue would be addressed at the time of the merger and at the Board Level, not at the Committee level.

Mr. Turner asked for a clarification of the role of the Committee in the merger. He said he thought the Board should be clear about what the Committee does or does not get involved in.

Ms. Leonard responded by saying that staff has kept the Committee informed on the status of the merger and that there has been a lot of expressed interest among the members to protect existing customers from rate increases. She said that when one looks at the budget or rate recommendation task, the merger could have an effect. She said that going forward the Committee needs to keep in mind just what the original task was from the Board.

11. DISCUSSION AND POSSIBLE DIRECTION TO STAFF REGARDING AGENDA ITEMS FOR FUTURE MEETINGS

Ms. Richards stated that as TMWA is no longer actively in a rate-adjustment process, staff is requesting the Committee reconsider the need to hold monthly meetings. They recommended meetings in April and August to include a review of budget for FY2013, a presentation on low-income rate research, and merger updates; then in November for presentation of the Comprehensive Annual Financial Report for FY2012, financial update for FY2013, merger update, and a review of revenue performance in terms of implementing the second-year rate increase.

Mr. Schmidt suggested the March meeting be cancelled and the Committee decide at the April meeting when the next meeting should be held. He asked for an agenda item on a summary of rate increases since the formation of TMWA.

Mr. McGuire said he liked monthly meetings. He asked the members to think about areas they would like to learn more about in order to have a better understanding of rate increases in the future.

Mr. Chambers said he'd like a discussion on the various "topic papers" TMWA has created.

**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, April 3, 2012 at 3 p.m. and requested the following items be placed on future agendas:**

- 1. Presentation of Budget for FY2013**
- 2. Presentation of low-income and senior rate research**
- 3. Update on water supply**
- 4. Status report on the merger of the Washoe County Department of Water Resources water utility functions into TMWA**
- 5. Presentation of TMWA rate adjustment history**

12. PRESENTATION OF CERTIFICATE HONORING ERNEST BUCHNER FOR HIS SERVICE ON THE STANDING ADVISORY COMMITTEE

Chairman Vorreyer read the Certificate of Appreciation for Ernest Buchner, who has resigned from the SAC and is in Arizona having a wonderful time. "In appreciation, presented this 7<sup>th</sup> day of February 2012 to Ernest Buchner, with deep appreciation and admiration of your dedication, integrity and commitment to excellence in the Truckee Meadows Community as you voluntarily served on the TMWA SAC since its inception in 2005, providing guidance to TMWA's financial

and rate-making processes, Your contribution to the analysis and recommendations of the SAC was invaluable to the Board to the Staff and ultimately to the customers of TMWA.”

13. COMMITTEE ITEMS

There were no committee items.

14. STAFF ITEMS

Corinne Cassell encouraged all Committee members to calendar the Appreciation Barbeque which will be held on Friday, August 3, 2012 @ 4 p.m. at the Verdi Hydroelectric Plant. All members and their guests are invited to attend.

15. PUBLIC COMMENT

There were no public comments.

16. ADJOURNMENT

With no further items for discussion, Chairman Vorreyer adjourned the meeting at 5:35 p.m.

Approved by the Standing Advisory Commission in session on April 3, 2012.

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Corinne Cassell, Recording Secretary