



STANDING ADVISORY COMMITTEE
MINUTES
May 7, 2013

The Standing Advisory Committee (SAC) met at Truckee Meadows Water Authority in the Independence Room, 1355 Capital Blvd., Reno, Nevada. Chairman McGuire called the meeting to order at 3:00 p.m.

1. ROLL CALL

Members and Voting Alternates Present: Robert Chambers, Harry Culbert, Bruce Gescheider, Colin Hayes, Ben Hutchins, Jim Maass, Neil McGuire, Jonnie Pullman and Ron Turner

Alternates Present: Rebecca Allured, Mike Heffner, Larry Hunt, Karl Katt, Ken McNeil, Mike Pidlypchak, Paul Rose, Fred Schmidt, Jim Smith and Jerry Wager

Staff Present: Robert Charpentier, John Erwin, Scott Estes, Kim Mazeres, Cara Rives, Jeff Tissier, Legal Counsel Debbie Leonard, and TMWA Lobbyist Steve Walker

2. PUBLIC COMMENT

There was no public comment.

3. WELCOME OF NEW SAC MEMBERS AND SELF-INTRODUCTIONS OF CURRENT SAC MEMBERS

New SAC members Rebecca Allured, Mike Pidlypchak, Ken McNeil, Jerry Wager, Larry Hunt and Karl Katt were introduced welcomed and gave brief biographies to the committee. Then all attending SAC members gave self-introductions to the new members.

4. APPROVAL OF THE AGENDA

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

5. APPROVAL OF THE MINUTES OF THE MARCH 5, 2013 MEETING

Upon motion duly made and seconded, and carried by unanimous consent of the members present, the SAC approved the minutes of the April 2, 2013 meeting.

6. RECOGNITION OF GREG VORREYER, FORMER SAC CHAIRMAN AND SUSAN RALPHE, FORMER SAC MEMBER.

Greg Vorreyer and Susan Ralphe were thanked for their years of dedicated service to the SAC and given plaques commemorating that service.

7. STATUS REPORT ON THE 2013 LEGISLATIVE SESSION

Steve Walker, TMWA Lobbyist, introduced himself to the new members of the committee and explained that he has been the lobbyist for TMWA since its creation in 2001. Every legislative session, Mr. Walker reviews and monitors all of the approximately 1200 new bills that are introduced in the State Legislature. In coordination with TMWA management and the TMWA Board of Directors, Mr. Walker then acts to either watch, support or oppose those bills that are deemed pertinent to TMWA. The list of bills is kept in a spreadsheet that is included in the Staff Report dated May 2, 2013. He then gave an overview of bills that TMWA is currently watching in this session.

The following bills were briefly discussed: AB 4, AB 50, AB 169, AB 186, AB 193, AB 220, AB 257, AB 283, AB 301, AB 318, AB 396, SB 65, SB 74, SB 171, SB 353, SB 232, and SB 499.

8. STATUS REPORT ON THE PROPOSED MERGER OF SOUTH TRUCKEE MEADOWS GENERAL IMPROVEMENT DISTRICT (STMGID) INTO TMWA

Jeff Tissier gave a brief historical overview of the South Truckee Meadows General Improvement District for the new members. He stated that STMGID has 3700 connections and serves a population of approximately 9800 residents. It was formed in the early 1980's to take over the failing Trans-Sierra water system. At that time there were both water quality issues and infrastructure issues. The new entity was given taxing authority and financing authority and issued bonds -- which were then repaid with an incremental property tax.

TMWA's Board was approached by the local managing board of STMGID to enter into discussions about a possible merger. TMWA subsequently has engaged in a due diligence process, and the last couple of months have been focused on several major areas, including water rights, infrastructure and financial reports. Infrastructure assessments and information gathered on water rights are relatively complete, and Mr. Tissier has also received the financial reports. A bit more research is needed in the area of domestic well-owners in the Mt. Rose area. The ground water levels have been decreasing significantly in the last fifteen years in this area, and although the County has a program to mitigate the costs of deepening those wells, not all of the residents fall under that program.

The additional research should be finished by the end of May, and a meeting will be requested with County staff and with STMGID at that time.

9. STATUS REPORT ON THE MERGER OF THE WASHOE COUNTY DEPARTMENT

OF WATER RESOURCES WATER UTILITY FUNCTIONS (DWR) INTO TMWA

Mark Foree stated that the focus has been on working with STMGID to try to have those merger issues resolved prior to moving forward on the DWR merger. The hope is that the due diligence and information needed will be complete in the next few months, which will make a decision on STMGID merger possible. Mr. Tissier also noted that a defeasance analysis has been run on the publicly issued bonds to determine if they can be defeased or refinanced at an economically beneficial rate. A year ago this was a concern, but based on the new analysis, the concern is no longer an issue. The analysis also took into consideration the determination of whether or not to use the Washoe County Bond bank. It was determined that doing so would be politically contentious but is an option. So even though the DWR merger is on hold due to work on the potential STMGID merger, TMWA continues to keep up to date on those financial aspects that will be needed for the DWR merger.

Fred Schmidt asked if the Golden Valley Homeowners Association members, who attended the last SAC meeting, had ever scheduled a meeting with TMWA management. Mr. Foree replied that the meeting was scheduled for May 8, 2013.

10. PRESENTATION OF THE TENTATIVE BUDGET FOR 2014 AND DRAFT CAPITAL IMPROVEMENT PLAN FOR FISCAL YEARS 2014-2018

Jeff Tissier presented the tentative budget for the Fiscal Year 2014 and preliminary five-year Capital Improvement Plan (CIP) for Fiscal Years 2014-2018. He stated that TMWA is required to file a new budget with the Department of Taxation by April 15, 2013. This budget does not require action by the TMWA Board of Directors but is brought before them and before the SAC for input prior to bringing it to the public hearing before the TMWA Board, which is on May 16, 2013.

This budget is created specifically to conform to the standards required by the Department of Taxation, but is kept as “light” as possible so that maximum clarity and readability is achieved. There are over 40 cost centers to capture costs, with all the different activities within the organization rolling up into this basic summary. Mr. Tissier stated that should anyone on the committee want more information or detail than what is on the report, he can answer any questions they have if they contact him.

Mr. Tissier reported that for budget purposes, cool weather patterns are always assumed, since they tend to be more common than warm weather. But he noted that warm weather, should it occur, could add an incremental two to three million dollars in sales. Given the cool weather assumption, expected water sales are in the range of \$74 million, with approximately 66 percent of sales from residential customers, and 24 percent of sales from commercial, and irrigation customers. Hydroelectric revenues are expected to decrease significantly next year due to decreased river flows. Operating expenses are budgeted at \$38 million for next year, with \$12.7 million or 33 percent of that in wages and salaries. A two percent negotiated wage increase and the addition of three employees to be hired to replace upcoming retirees are incorporated into the

budget. There is an additional expense for overlap during training since the personnel who are leaving the organization are highly skilled and knowledgeable, one having nearly 40 years of experience. More retirements are anticipated as the workforce is aging.

\$5.9 million is budgeted for Benefits; one half of that is to meet mandatory contributions to the Public Employee Retirement System, which recently raised its contribution percent by 8 to 9 percent.

In services and supplies, the budget is \$19.3 million, with \$5 million for power costs. The power costs are expected to continue to increase yearly due to the exhaustion of NV Energy's deferred energy adjustment account, which had historically provided credits on TMWA's bills. There is also an expectation that electric generation fuel will increase in price going forward. Of the total \$19.3 million to be spent on services and supplies, 16 percent or \$3.1 million is budgeted for outsourcing of customer care to Vertex, 8 percent or \$1.6 million goes to purchase of water treatment chemicals used at the plants, and \$1 million is budgeted for the Truckee River Fund and partial funding of the Desert Research Institute's (DRI) Cloud Seeding Program, per previous Board direction.

Investment income is low and is expected to be approximately \$2.2 million with interest rates as high as 5.5 percent on a few investments (contracts which were entered into in 2001 and remain in effect today). The rest of the cash reserves are making less than one percent since, as maturities have occurred, reinvestment rates of return have decreased significantly. Annually, approximately \$31.5 million is transferred to the bond trustee to fund annual principal and semi-annual interest payments on outstanding bonds. Due to extremely low rates on short term investments TMWA barely makes any investment income on this substantial amount of deposits.

In the Debt Management category, interest expense will continue to reduce each year as TMWA continues to pay more principal and less interest. Currently there are \$68 million in short term notes outstanding. Liquidity facilities that support the Tax Exempt Commercial Paper (TECP) will expire on June 8, 2014, so staff expects to bring to the Board some potential alternatives to the current TECP program or present a request to preserve the current program, as it has been very favorable in the past and is a natural hedge against low returns on investments.

Spending on construction projects and outlays is expected to be approximately \$20 million, focused in four areas: \$7.3 million on distribution improvements to ensure a reliable water supply; improvements to the Glendale Water Treatment Plant, including moving the control room to the second floor to improve security; improvements in plant operating software to modernize telemetry and system control; and rehabilitation of wells.

Fred Schmidt observed that the budget seemed very conservative and did not reflect the rate increase. Mr. Tissier responded that as he mentioned, the budget is based on the assumption of cool weather patterns. The conservative nature of the budget is also a necessity when keeping in mind how the credit agencies review budgets. With significant debt restructuring opportunities coming up in the near future, appropriate financial metrics will be necessary. Additionally, the

second proposed rate increase is reflected in the budget, beginning in February of 2014. He also mentioned that in prior years, actual operating and spending has always been within 3 percent of the budget.

11. PRESENTATION OF ADJUSTMENTS TO TMWA'S RATE SCHEDULE WSF – WATER SYSTEM FACILITY CHARGES

Scott Estes, Director of Engineering, presented a PowerPoint report outlining the proposed revisions to TMWA's Rate Schedule WSF – Water System Facility Charges. He gave some historical information on previous revisions, noting that TMWA has not had a revision since March of 2008. He explained that in November of 2006, an adjustment was made and the Builders Association of Northern Nevada (BANN) hired consultants to examine TMWA's methodology and calculation of Feeder Main Fees and Supply, Treatment and Storage (STS) Charges. With only a few very minor changes, they approved the methodology used and we are still adhering to that same method today. He stated that revisions were now needed to bring the Rate Schedule current to reflect actual costs and finance charges.

The Rate Schedule WSF contains Feeder Main fees and Facility Charges, which TMWA collects from new development to reimburse the utility for facility improvements that are necessary for new growth. Pursuant to prior Board direction, TMWA strives to adhere to the policy of not allowing any customer class to subsidize any other customer class so that "growth pays for growth." Approval of these revisions is expected to be effective on July 1, 2013 (upon Board approval), after a First Reading on May 16, 2013 and a public hearing and Second Reading on June 19, 2013.

Over the past few years, there were major water supply facility improvements that involved significant expenditures. The largest expenditures were for the Highland Canal Improvement Project. Another rebuild on North Virginia actually came in under the estimates used to calculate the fees. In addition there is significant under collection of costs in some of the feeder main areas. TMWA has had to carry that expense for several years and is anticipating that it will continue to do so for several more years. To begin to correct this under collection, the finance or carrying charge has been expanded into a couple of additional feeder main areas. Our update methodology involves taking a look at the latest projections, considering where growth will most likely occur, and evaluating whether the facility plan improvements are still applicable. Construction costs are also checked to see if they are still valid and then those estimated costs are updated to actual costs.

Member Colin Hayes stated that he wanted to express thanks to TMWA as Mr. Estes had already presented this information to BANN at their meeting the previous month, and it was in his opinion very helpful to the membership.

Chairman McGuire then requested that due to time constraints, Agenda Item 12, "Informational Videos on Ice Fighting and Construction on the Highland Canal," be moved to the next meeting.

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

Upon motion duly made and seconded, and carried by unanimous consent of the members present, the SAC set the date of the next meeting as Tuesday, June 4, 2013, at 3 p.m. and requested the following items be placed on the agenda:

- 1. Update on merger of STMGID and TMWA**
- 2. Update on merger of DWR and TMWA**
- 3. Final update on the Status of Legislation in the 2013 Session**
- 4. Informational videos on Ice Fighting and Construction on the Highland Canal**

14. STAFF ITEMS

There were no Staff Items.

15. COMMITTEE ITEMS

The creation of a contact list for SAC members was discussed and members were directed to “opt out” if they did not wish to be listed.

16. PUBLIC COMMENT

There was no public comment.

17. ADJOURNMENT

With no further items for discussion, Chairman McGuire adjourned the meeting at 5:12 p.m.

Approved by the Standing Advisory Commission in session on June 4, 2013

Cara Rives, Recording Secretary