



TRUCKEE MEADOWS WATER
A U T H O R I T Y
STANDING ADVISORY COMMITTEE
MINUTES
MARCH 3, 2009

The Standing Advisory Committee met at Truckee Meadows Water Authority in the Independence Room, 1355 Capital Blvd., Reno, Nevada. Chairman Greg Vorreyer called the meeting to order at 2:05 p.m.

1. ROLL CALL

Members present: Michael Drinkwater, John Krmptotic, Neil McGuire, Ernest Neilson*, Susan Ralphe, Fred Schmidt, Greg Vorreyer, Phil Williamson and Barry Winzeler.

Alternates present: Robert Chambers, Harry Culbert, Bruce Gescheider and Jim Maass.

Staff present: Mark Foree, Jeff Tissier, Terri Thomas, Kim Mazeres and Debbie Leonard.

2. APPROVAL OF THE AGENDA

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

3. PUBLIC COMMENT

There was no public comment.

4. APPROVAL OF THE MINUTES OF THE FEBRUARY 3, 2009 MEETING

Upon motion duly made and seconded, and carried by unanimous consent of the members present, the Committee asked for the minutes be amended to reflect Chairman Vorreyer's request for an update on TMWA's compliance with the Bureau of Consumer Protection (BCP) recommended items in the 2005 BCP audit and approved the amended minutes of the February 3, 2009 meeting.

5. UPDATE ON LEGISLATIVE ITEMS OF SPECIAL INTEREST TO TMWA

Steve Walker referred to the staff report which shows the current position the TMWA Board has adopted on several legislative items.

- AB119 Requires the Truckee Meadows Regional Plan to include policies that are based on identified and sustainable water resources within Washoe County. TMWA Position: Oppose and Watch. This is an effort to implement WC3 about growth and planning into the regional plan. Discussions are ongoing and there is no conclusion as yet between the parties. Mr. Walker has been present at many of the discussions.*
- AB147 Requires local government to grant preference to local bidders bidding on certain contracts for goods or services. TMWA Position: Neutral. Encourages local governments to buy locally by giving a 5% break to local bidders. Proposed amendments are being made.*
- AB32 Provides no governmental agency may be required to identify or mark the approximate location of certain sewer laterals. TMWA Position: Support*
- AB80 Revises provisions relating to excavation: TMWA Position: Neutral. Both AB32 and AB80 related to sewer laterals which go from a house to a street then to the sewer main. The bills say it is not the local governments' responsibility but it is the homeowners' responsibility to mark them and exempt local governments from locating laterals. This affects TMWA because TMWA crews dig in the streets.*
- SB32 Makes various changes to the open meeting law. TMWA Position: Neutral. Gives managers who work for elected boards the option of having their performance review done either publically or privately.*
- SB 66 Allows for longer periods to complete work and apply water to a beneficial use for certain municipal and quasi-municipal uses. TMWA Position: Support. Extends the period from 1 year to 5 years. There have been proposed amendments by the State Engineer.*
- SB111 Revises provisions governing membership on the Western Regional Water Commission and the Northern Nevada Water Planning Commission. TMWA Position: Support. Cleans up language from last legislative session.*
- SB126 Local governments to allow the reuse of graywater in single family residences. TMWA Position: Neutral. The sponsor of the bill has been asked to pull the bill. There is another Bill Draft Request on the Assembly side regarding this same issue.*

Fred Schmidt asked if any bills had come out that might have fiscal impacts on TMWA such as fluoridation. There is no bill on fluoridation as yet; it could also be added to other legislation. Any costs related to putting fluoride in the water could be shown as a separate line item on water bills so everyone would know what they are paying for fluoridation.

6 PRESENTATION OF FIRST SIX MONTHS FY2009 FINANCIAL AND INVESTMENT PERFORMANCE

Jeff Tissier presented this item. Total operating revenues are \$1.8 million under or 4.4% less than budget. TMWA is experiencing persistent demand reductions because monthly water sale revenues were less than budget with the exception of September. Developer fees were much lower than planned in the budget and lower than experienced in the history of TMWA. Spending is being controlled by staff as promised to the community and the Board. TMWA is still receiving federal grant support for TROA implementation and wellhead mitigation but expects this support to be exhausted by fiscal year end.

Investment income is 6.2% greater than budget, primarily due to greater cash levels caused by delays of certain construction projects. Interest expense is 3.9% under budget and is directly related to lower interest rates than expected with respect to TMWA's tax-exempt commercial paper program.

TMWA's letter of credit is with Lloyd's TSB Bank, one of the more favorable banks in the commercial paper arena. A key issue for TMWA is to position itself to be able to renew that letter of credit when it expires in 18 months.

Ms. Mazeres talked about the meter retrofit project and the number and sizes of meters that still need to be retrofit. All meter retrofitting is paid through the Meter Retrofit Fund, which can only be used for meter retrofitting. No money is used from general operating funds for this purpose.

No action was taken

7. PRESENTATION OF COST REDUCTION/CONTAINMENT INITIATIVES FOR THE FY2010 BUDGET, DISCUSSION AND POSSIBLE RECOMMENDATIONS

Mark Foree presented this item. Cost containment and efficient avenues to operate the many functions of TMWA are inherent and ingrained in TMWA's culture; TMWA does not tolerate or encourage an atmosphere of entitlement with respect to its expenses. TMWA's primary charge is to provide safe and reliable drinking water to the community at a reasonable cost, and any cost reductions or containments proposed must be carefully examined and reviewed to avoid any reductions that could impact public health and safety.

For the past two years TMWA has seen appreciable erosion in retail water sales, hydroelectric revenues and other miscellaneous operating income due to water use reductions, cooler spring and summer temperatures, the number of vacancies in the community, reduced commercial water sales as a result of a significant decrease in visitors to the Reno-Sparks area, and no growth in the number of billed water services. Investment income also experienced a decrease compared to previous years, as a result of a reduction in unrestricted cash reserves and sharp decline in rates of return on investments due to current adverse investment market conditions. TMWA is not immune to escalating costs in operating and maintaining the water system. There have been historic price increases in many materials and supplies TMWA relies upon to operate

and maintain the water system in a professional and prudent manner, including electrical pumping costs that have increased by 30% over the past four years. While unit labor costs have risen in a much more modest fashion, any significant labor cost increases in the past few years have been due to additional increases in personnel. However, TMWA management maintained personnel rosters at minimum levels in anticipation of future economic slowdowns and has relied heavily on contractors and consultants to perform a number of tasks (primarily engineering services) during peak work periods. Those tasks are now being done in-house by TMWA employees.

In addition, TMWA management proposes to reduce full-time equivalents employees (FTE's) from the approved FY2009 level of 178 FTE's to 170.5 FTE's in FY2010, for a total reduction of 7.5 FTE's. The position eliminations are due to attrition or avoiding filling open positions. With this reduction, TMWA has no unfilled positions remaining except the General Manager position. **Additionally, staff is not proposing to freeze these positions but to eliminate them.** Of the total positions, 79.5 are not union-represented employees with the vast majority of these positions being exempt positions that do not receive overtime pay or compensatory time. TMWA management is committed to no salary and wages increases in FY2010 for these employees.

91 FTE's are union-represented employees and contract negotiations are in progress to discuss wages and other terms of the bargaining contract. Overtime needs to be approved by TMWA management and is driven by scheduling of shift employees and by frequent unscheduled repairs to water facilities outside of normal working hours.

Reductions in benefit spending due to reductions in personnel will be significantly offset by increased contribution requirements to PERS. Any changes in health care premiums are unknown at this time.

TMWA has limited ability to reduce spending on services and supplies because of inflationary increases in costs of materials and supplies. Spending is required for the proper operation of the water system and mandated by numerous federal/state laws governing TMWA's operations; there is little in the way of discretionary spending. TMWA personnel carefully reviewed spending in this area and have proposed reductions expected to save approximately \$0.3 million in the services and supplies category. Discussion ensued on the increased cost of power and the measures taken by staff to control these costs, hydro generation, meter replacements, legal fees, and road construction projects. Mr. Schmidt brought up the possibility of staff having a discussion with the Board regarding the potential to negotiate an amendment to the original Joint Powers Agreement on whose responsibility it is to pay for improvements related to the highway projects.

TMWA proposed to reduce planned capital spending by \$30.0 million per year on average over the next five years from the approximately \$50.0 million per year spent over the past seven years to \$20.0 million per year. Capital spending will focus on the rehabilitation of facilities, but that could change significantly depending upon the impact on required water infrastructure relocation or replacement from road reconstruction and sewer and storm drain projects that are beyond TMWA's control.

The Committee thanked staff for their efforts to date both in reporting cost cutting and containment measures and encouraged TMWA staff and Board to pursue additional cost cutting measures.

Upon motion duly made and seconded, and carried by unanimous consent of the members present, the Committee accepted the staff report as presented and reviewed showing current cost containment measures and recommended TMWA staff continue to work proactively to reduce costs in every aspect of the business without jeopardizing water quality or the operation of TMWA.

8. PRESENTATION OF FY2010 TENTATIVE BUDGET AND DRAFT FIVE YEAR 2010-2014 CAPITAL IMPROVEMENT PLAN, DISCUSSION AND POSSIBLE RECOMMENDATIONS

Jeff Tissier presented this item. The operating budget reflects the best expectation of revenues including hydro revenues and operating expenses reflect the reduction/containment measures presented in Item 7. Capital spending on water system improvements will see a pronounced drop on average from \$50 million dollars per year to \$20 million dollars per year over the next five years.

Growth in customer services is expected to be low over the next few years and to rely on growth and capital contributions from developers in the future would not be a prudent move to sustain the organization. TMWA reliance on investment income to support rehabilitation of the water supply cannot be sustained going forward. Virtually all new water system capacity construction has been cut from the capital budget and investment will only be in necessary rehabilitation projects.

Mr. Tissier discussed the commercial paper program and senior lien debt and the need to rebuild TMWA's financial flexibility. He encouraged the SAC to support TMWA in using the subordinated debt market to its fullest extent. The senior lien debt market has implications on water rates because it is the senior lien debt coverage ratio that credit rating agencies hold TMWA accountable to with respect to senior lien coverage ratios.

Mr. Tissier has recently received calls from TMWA's rating agencies and they are keying in on what TMWA is doing. He stressed it is absolutely essential to have the back stop of unrestricted cash as TMWA has \$68 million in short term notes that may not remarket at any time if TMWA loses its letter of credit. The letter of credit with Lloyds TSB Bank must be renewed in 18 months and TMWA needs be prepared for the renewal process. The agencies also indicated that the one-time drop in fiscal year revenues due to the timing of the conversion of flat-rate customers to the metered rate is not of immediate concern to them; their concern is the long term revenue trends.

Mr. Foree said that TMWA is pursuing funding related to the Federal Stimulus package, in particular for the Glendale Diversion which is "shovel-ready" and the Sparks Groundwater Treatment Plant.

Upon motion duly made and seconded, and carried by unanimous consent of the members present, the Committee accepted the staff report as presented and recommended TMWA take advantage of every available stimulus opportunity.

9. PRESENTATION OF PROPOSED ADJUSTMENTS TO CUSTOMER RATES, DISCUSSION AND POSSIBLE RECOMMENDATIONS

John Erwin introduced Dave Swank, Navigant Consultants, who has been working with TMWA on various customer rate issues since late 2004. He is assisting in reviewing the current cost models and rate setting practices, providing a “second set” of eyes and outside counsel on these matters. Mr. Erwin reviewed the February 18, 2009 report presented to the Board and its graph with historic and prospective data on the utility’s revenues compared to the total revenue requirement. The graph illustrates the difference between actual revenues collected during fiscal years 2003 through 2008 and the estimated revenues for fiscal years 2009 and 2010, showing the changes over time in the amount and the various sources of revenues -- rates, other revenues such as hydroelectric, inspection fees and investment income. For FY2010, the tentative budget compared to current revenues is as follows (\$ in thousands):

Total cash required for operations in FY2010	\$89,489
Less projected investment income and other revenues	<u>\$ 7,248</u>
Equals revenues required from customer rates	\$82,237
Less current revenues from customer rates in FY2008	<u>\$72,686</u>
Equals: a deficiency of	(\$ 9,551)

This gap between the revenue to be collected from customer rates and the actual decline in those revenues collected needs to be addressed. He said “staff is very aware that hope is not a strategy but we do have it in our strategy, that is, we hope that things will turn around and that’s why we are not proposing to close the whole gap of \$9.5 million in one fell swoop”; however, it is necessary to increase current revenues from rates by approximately \$4.3 million, from \$72,686,000 to \$77,000,000, to keep TMWA on course financially. The actual proposal to achieve \$77 million will be presented at the first reading at the Board’s April meeting. Staff is still analyzing what other steps, SAC suggestions, or other public comments may be needed to close that gap. Mr. Erwin requested any comments from the Committee be emailed to him by March 25 so they could be incorporated into the April SAC discussion.

Mr. Erwin encouraged the SAC to keep in mind the following general rules or constraints previously decided by the Board while going through the rate review process: the customer charge should remain the same between the metered classes; try to reduce cross subsidization between classes; reduce any major shifts in rates within a rate class; adjust rates to reflect the cost to serve; the same methodologies are being used at this time as were used in the last rate adjustment; and, the data presented are not absolutes, just projections.

During the discussion and presentation of the cost study and proposed rate adjustments, Mr.

Erwin took the time to address and answer those unanswered items remaining from the Bureau of Consumer Protection 2005 Audit (BCP Report) which were left over from the 2005 rate adjustment and to be addressed at the next rate adjustment, presently in 2009.

The first two BCP items discussed were *“BCP Report Item C.8: TMWA should conduct a detailed fire protection cost study. Guastella's arguments regarding the specific components of a fire protection study should be examined by TMWA as part of that study, although BCP does not specifically endorse that report's findings.”* and *“BCP Report Item C.9: Costs of providing fire protection should be developed on an incremental cost basis, which would produce a lower fire protection allocation than an average cost basis reflecting the economies of scale of oversizing a utility system for fire protection.”*

Navigant Consultants reviewed TMWA's cost allocation methodology and their engineering planning processes. The findings of that effort were along the lines that AWWA suggests that utilities can follow different approaches for recognizing and assigning fire related cost, and the TMWA's methodology fits within AWWA guidelines. Mr. Erwin indicated there are no distribution pipes specifically designated for fire flow because the system is designed for peak hour flows, so based on the engineer's design of maximum hour demand for the system, the size of the piping in the ground are more than accommodates fire flows in the system.

The next BCP item discussed was *“BCP Report Item 7: TMWA should separate transmission and distribution plant and expenses in its next cost of service study and should consider the extent (if any) to which distribution plant and expenses should be allocated to wholesale customers.”*

Mr. Erwin said the definition of a transmission line is generally associated with the size and/or length of pipe or its location to source of supply, or other criteria. TMWA defines a transmission line as a connection between (1) a source of supply and the distribution system or (2) a pipe that connects two distribution systems together or connects pieces within the distribution system. Based on that, there are very few lengths of pipe in that can be identified as a transmission only, so TMWA looked at the size of mains coming from its primary sources: Chalk Bluff, Glendale and all its wells. Based on that review, staff found that 10 inch and 12 inch mains from the wells may represent a reasonable cut-off diameter for transmission and distribution main sizes. The instant rate adjustment proposal assigns pipes of diameter greater than 12 inches as transmission mains and allocates costs accordingly.

The next BCP item discussed was *“BCP Report Item C.3: If TMWA's current demand-commodity classification method continues to be used, TMWA should allocate the cost of electric power used by the District largely if not entirely on a commodity basis in the next cost of service study”.*

Mr. Erwin said TMWA's power bill consists of two main components: an energy charge and a demand charge. The energy charge, or usage component, is driven by how much water is treated or delivered to the customer. The demand charge, or instantaneous load,

is based on how much power is being used during peak demand time. The energy charge gets classified as commodity because it tracks the volume of water that's produced or sold. The demand charge gets classified as demand because it follows the momentary demand for water. In the past power has been allocated 100% to demand. Mr. Erwin reviewed all power bills for the past three years and found that historically 75% of the power bill is commodity related and 25% is demand related. TMWA is following its consultant's recommendation to split the power costs based on these commodity and demand related expenses. This deviates somewhat from the BCP recommendation; however it appears to be a more precise way to allocate power costs.

The next BCP item discussed was *"BCP Report Item C.5. TMWA should collect data on which customer classes cause uncollectible write offs and should allocate those write-offs as customer costs to the classes that create the write-offs in its next cost of service study rather than as commodity costs."*

Mr. Erwin said that (1) it is difficult to track that in the billing system and (2) the materiality of trying to track and distribute approximately \$270,000 of uncollectable costs to the classes takes more time and effort than what the current allocation accomplishes. He is working with the billing data to extract that data and determine whether the result will be materially different than what is currently allocated, but he does not think it will be.

The next BCP item discussed was *"BCP Report Item C.10. TMWA should make efforts to determine the amount of revenue paid by each rate class for late payment charges and other tariffed charges (service establishment, returned check, etc.) and directly assign those revenues in the next cost of service study if possible."*

Mr. Erwin stated late charges are allocated based on the net cost of service. He is working with the billing data to compare the percentage allocations currently used to a percentage allocation by class. Preliminary results indicate that the current allocation matches fairly close to actual billing history. Examples were given for the General Metered Water Service class is allocated about 14 percent while historically they generate about 13 percent of late charges, the Multi-Residential with Irrigation Service is allocated about 6.9 percent while historically they generate about 6.8 percent of late charges, and the Residential Flat Rate Service classes are allocated about 57 percent while historically they generate about 52 percent of late charges. Based on that review and the amount of costs involved, the current approach of allocating these revenues on net cost of service seems a reasonable approach.

The next BCP item discussed was *"BCP Report Item C.13. TMWA should consider an increase to-the interruptible and non-potable water rates to reflect the marginal cost of new water supplies and recover some additional contribution to fixed costs from these users."*

Mr. Erwin said a marginal cost study has not been undertaken to determine what the marginal costs would be, particularly for these two groups of customers since their contribution or the amount of dollars received from the classes is about \$120,000 -

\$150,000 annually. For purposes of this rate adjustment, these rates will increase from \$0.87 to about \$1.00 per thousand gallons so as a class they keep up with what we see as the overall rate increase of about 9-12%.

After covering the major elements of the current revenue requirement components and the BCP items, Mr. Erwin reviewed the presentation of proposed adjustments to customer rates with the Committee. The committee discussed:

1. how the usage by class and the customer counts in the various classes and noted that growth has been flat and consumption has declined;
2. Classification of Net Plant, Repair and Replacement, O&M and A&G, and the total classification of revenue requirements;
3. allocation of Fire Protection Service (FPS) between private and public fire service which are included in the RMWS, the MMWS, the flat rates, the SUFR, and the commercial (GMWS) classes, but no assignment of fire related costs (e.g., storage tanks) is allocated to wholesale since they have their own fire suppression and storage, their own distribution system for that;
4. the factors and the calculation of commodity and demand allocators under a totally metered system or with some flat-rate services remaining;
5. the net cost of service summary by class by service size compared to current revenues by class and the resulting deficiencies; and
6. the strategy of closing the deficiency at least half way to cost of service to give the economy a chance to turn around and see TMWA revenues improve. If the local economy does not turn around in the next 6 to 12 months, a rate adjustment possibly less than this year's will be needed to preserve TMWA's financial integrity although final alternative recommendations still must be developed.

Discussion then turned to the proposed rate adjustments for each class, noting that based on analysis of winter use; the months of December through March show 6,000 gallons per month per single family residence for the first tier usage. A review of the total usage indicates the second tier usage should move down from 28,000 to 25,000 gallons per month.

Allocations to wholesale customers were discussed, particularly not allocating tank costs, fire component costs, and for those who have their own well production such as Washoe County in Spanish Springs and Double Diamond, well costs. The topic of transmission and distribution cost assignments was revisited. The current proposal by staff is 12 inch and under, about 48% of the system, is distribution which is not allocated to wholesalers; 52% of the system is transmission and is allocated to wholesalers.

Final comments from staff and the committee touched on the fact that any utility business is a capital intensive business and the costs are more fixed than they are variable. That is why the revenue requirement is very similar to what it was 5 to 8 years ago and it will stay there or slightly increase because of inflation and power increases. Declining cash balances, declining investment income, and declining sales have contributed to the situation that TMWA is in. At the same time, TMWA must preserve its financial integrity because if we don't act, costs of debt issuance (if market conditions allow entry) and/or consumption of

cash balances will drive the need for even greater rate adjustments. The lack of a growth component in the equation has also contributed to the declining cash balances TMWA is experiencing. We've been relying on growth and investment income for the last four years which has led us to not having increase in rates during the last four years, but that time has passed.

Upon motion duly made and seconded, and carried by unanimous consent of the members present, the Committee recommended carrying this item over to the next meeting.

10. FUTURE SAC MEETING DATES & AGENDA ITEMS

The next meeting will be Tuesday, April 7, 2009 at 3:00 p.m.

Upon motion duly made and seconded, and carried by unanimous consent of the members present, the Committee requested the following items be placed on future agendas:

- **Apr - Continue the Rate-Making Review**
- **Apr - Legislative Update**
- **May - Update on Western Regional Water Commission and the consolidation/integration issue**
- **May – Presentation on Conservation**

11. COMMITTEE ITEMS

There were no committee items

12. STAFF ITEMS

Chairman Vorreyer asked Nanette Quitt, TMWA Human Resources Administrator, for an update on the General Manager search. A Search Committee that included Chairman Vorreyer on behalf of the SAC was developed to provide direction for the General Manager search and to review candidates. Shortly after that, a committee was convened and TMWA began embarking on a potential consolidation with Washoe County Department of Water Resources so the TMWA Board of Directors and the members of the search committee made a recommendation to hold off on any regular committee meetings until the beginning of the year in hopes that information from the Integration and Consolidation study would be available. The Board named Mark Foree as interim general manager through the end of FY2009. Although it is important to find a general manager candidate, it is equally important to accurately portray the job's scope, services, etc. In January, the Board determined there is not enough information from the Integration and Consolidation study to begin a search. They directed the search committee to reconvene prior to the end of the fiscal year to discuss next steps.

Kim Mazeres reported that the Acquisition Agreement between TMWA and Panther Valley Water Users Association (PVWUA) has been signed. The Operating Agreement that would allow TMWA to take over operations of PVWUA prior to the Public Utilities Commission of Nevada terminating PVWUA's certificate of convenience is being reviewed and take over is anticipated as early as March 20, 2009.

13. PUBLIC COMMENT

There was no public comment.

15. ADJOURNMENT

With no other business to discuss, Chairman Vorreyer adjourned the meeting at 5:55 p.m.

Approved by the Standing Advisory Committee in session on April 7, 2009.

Respectfully submitted,

Corinne Cassell, Recording Secretary