



TRUCKEE MEADOWS WATER  
A U T H O R I T Y  
STANDING ADVISORY COMMITTEE  
MINUTES  
APRIL 7, 2009

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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 3:05 p.m.

1. ROLL CALL

**Members present:** Kevin Bloomgren, Ernest Buchner, Michael Drinkwater, John Krmptoc, Neil McGuire, Fred Schmidt, Greg Vorreyer, Phil Williamson and Barry Winzeler.

**Voting Alternates present:** Jim Maass, Alternates present: Robert Chambers, Harry Culbert and Ben Hutchins.

**Staff present:** John Erwin, Scott Estes, Mark Foree, Jeff Tissier, Terri Thomas 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

Duane Warth, Reno resident, commented that in the current economic climate, it is a bad time for a rate increase and that TMWA should revisit assigned day watering: water could be saved and both lawns and the community would look better with any-day watering.

Thelma Johnson, Reno resident, was concerned about over-watering and water waste.

Chairman Vorreyer said that future agendas could include an item about assigned day watering and water conservation.

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

**Upon motion duly made and seconded, and carried by unanimous consent of the members present, the Committee asked the minutes be amended to reflect that the meeting was called to order at 2:05 p.m. and approved the amended minutes of the March 3, 2009 meeting.**

## 5. UPDATE ON LEGISLATIVE ITEMS OF SPECIAL INTEREST TO TMWA

John Erwin referred to the staff report which shows the current position the TMWA Board has adopted on several legislative items. The TMWA Legislative Subcommittee took action on Assembly Bills 308 through AB494 and Senate Bills 224 through 395 at their meeting on April 3, 2009. Mr. Erwin elaborated on the following bills:

*AB363 concerning systems for the collection and application of graywater for a single-family residence.* There is an amendment to the legislation to exclude areas where there is potential for return flow problems, which would be the Truckee River, and an amendment to address permitting, inspection and installation limitations. TMWA Position: Support as amended.

*AB480 making various changes relating to fees collected by the State Engineer; including adjusting all filing fees from \$2 to \$5 per acre foot above the actual filing fees.* If passed, this potentially could cost TMWA about \$180,000 just for TROA implementation permits. Although the rates have not been changed since 1989, the changes should be made incrementally and not all at once. There have been modifications to the bill but no action has been taken at this time. TMWA Position: Watch.

*AB119 requires the Truckee Meadows Regional Plan to include policies that are based on identified and sustainable water resources within Washoe County.* This is an effort to implement WC3 about growth and planning into the regional plan. There have been no new developments. TMWA Position: Support as amended.

*SB373 directing the Legislative Commission to appoint a subcommittee to conduct an interim study concerning water.* This was just done three years ago and will probably die in committee. TMWA Position: Watch

*SB374 creating the Legislative Committee to Oversee the Southern Nevada Water Authority.* This will probably die in committee. TMWA Position: Watch

## 6 PRESENTATION OF COMPILATION OF RECENT REPORTS TO THE BOARD OF DIRECTORS REGARDING TMWA'S FINANCIAL POSITION AND BASIS FOR A RATE ADJUSTMENT

Jeff Tissier presented all the reports that had been shared with the TMWA Board in February and March, 2009, regarding TMWA's financial position and the basis for a rate adjustment, including a report on cost containment initiatives. Deferred projects are those that add new water system capacity but are not needed at this time. The key report and underpinning for the rates discussion is the Comparative Analysis Report which compares the 2006 Funding Plan (FP) projections to the actual financial performance in the last three years and the revised projections for the 2009 FP. Of particular importance is the 2006 FP projected water rate increases for FY2007 to FY2010 of approximately 2.0 percent to 2.5 percent annually which aggregates to 9 percent over the course of the last four years. Those rate increases were not implemented due to the unexpectedly positive historical financial performance in late 2006 and 2007 which met the Board's adopted near-term financial goals. Although overall actual financial performance was very close to previous projections, the intensity of the current economic downturn brought to

light the necessity of the proposed water rate actions and the need to regularly take proactive rate action to avoid the need for episodic and major rate action.

Total financial resources to fund TMWA operations and certain construction activities, as well as principal and interest payments, for FY2006 through FY2008 were very close to 2006 FP projects. In FY2009 actual financial performance significantly decoupled from the 2006 FP projections, and projections for the next five years show significant revenue reductions. For FY2009 and thereafter, operating expenses are expected to be less than projected in the 2006 FP. The primary reason is reductions in staff levels and managing operational spending to levels as low as possible consistent with the current economic constriction.

Mr. Tissier discussed the unrestricted cash position. These financial resources will be essential to position TMWA to fund the significantly-reduced capital spending over the next several years. TMWA had considerably higher cash balances than projected in FY2006 through FY2009, while projected cash balances are expected to be higher in the 2009 FP than projected in the 2006FP until FY2014 when unrestricted cash reserves will be completely exhausted assuming no rate adjustments. He also discussed the coverage ratios on TMWA's senior lien debt. With no rate adjustment, the coverage ratio will drop below legal minimum requirements.

Chairman Vorreyer said that since TMWA was purchased, unrestricted cash has increased and the assets of the utility have almost doubled however long-term debt has only increased minimally. He questioned how much more needs to be spent for assets and what is the point of diminishing returns? Mr. Tissier explained that TMWA uses the investment credit rating of the organization to leverage the variable rate debt which is a good asset liability management tool. When variable rate debt is used and cash is kept in the bank, investment income and variable rate debt move in tandem so the interest cost on commercial paper is subordinated because it is not factored into the senior lien debt ratio. The investment income adds to your coverage so there is a dual benefit from running a subordinated variable rate program. There is the benefit from senior lien debt coverage, but the interest cost or the repayment of the notes from the senior lien debt is not included because it is subordinated debt. TMWA has used its investment credit rating to the maximum benefit of the customer.

Mr. Tissier also explained that over the past 7 years, TMWA added approximately \$350 million in capital assets without taking into account depreciation. Of that, \$92 million was water rights and slightly under \$100 was developer dedications. Of the \$150 million that TMWA invested in rehabilitation of the system, approximately \$50 million had been covered by investment income and was not paid by rate payers.

## 7. DISCUSSION OF PROPOSED ADJUSTMENTS TO CUSTOMER RATES AND POSSIBLE RECOMMENDATIONS

John Erwin handed out the presentation that will be shown at the public workshop on Wednesday, April 8, 2009. Mark Foree opened the presentation by giving the reasons for the rate adjustment since rates were adjusted more than 4 years ago. Dave Schwank from Navigant Consultants joined the meeting by telephone.

John Erwin then continued with the rate adjustment plan. Current revenues are approximately \$72.8 million with target total revenue requirements of \$81 million. The proposed plan is to

close this gap in two phases. The first phase, implemented in 2009, will garner \$4.5 with a target of \$77 million. The second phase, implemented in 2010, will then reach the targeted amount of \$81 million. The average monthly bill for a customer on a ¾" metered rate will increase approximately \$1.63 and the average monthly bill for a customer on a ¾" flat rate will increase approximately \$11.60 for Phase 1 only. The second year increase will be approximately 4 to 5 per cent.

Mr. Erwin handed out a revised version of the February cost study and highlighted some of the factors that went into the changes. Capital spending for repair and replacement has been decreased, interest expense attributed to water rights have been moved from total cost of service to the customer and post retirement health care expenses were reduced due to the formation of the Post Retirement Medical Trust.

Mr. Buchner expressed his concern that the flat rate class has had a greater increase than the metered class each year on an average and asked as in six months all would bill on a flat rate, couldn't that be reviewed further? Mr. Erwin explained that as the lower end users in the flat-rate class have converted to the metered rate, the average use as a class has been increasing and therefore those remaining in the class with resulting higher average uses draw more costs into the class. The class is getting smaller but their average usage both on peak and annually is increasing relative to the other classes, and therefore the costs are increasing causing the rates to increase.

Mr. Erwin said that staff had had conversations with Washoe County Department of Water Resources (WCDWR) and Sun Valley General Improvement District (SVGID) and have been trying to help address their issues. Among the adjustments made was the removal of TMWA related customer costs, TMWA related expenses for uncollected accounts, and revenue credits that belong to TMWA customers.

Mr. Erwin then addressed the distribution-transmission pipe size allocation issue. In February, the cost allocation between distribution and transmission costs was 12 inch and below versus 14 inch and above, respectively. The revised study was revised allocating distribution and transmission costs from 10 inch and below versus 12 inch and above, respectively... Staff's position is 10 inch or less is considered distribution which costs are not allocated to wholesale customers. The revision stems from the fact there are 12 inch lines that feed directly to wholesale areas, particularly Sun Valley, giving validity to the 12 inch cut off.

Mr. Estes explained that TMWA is an integrated system and the system is designed and relies on that integration to transmit and distribute water. In prior rate studies, there was no exception made for distribution so this is a departure from what was done in the past, recognizing some of the comments from the wholesale customers over the years including this year as well as a recommendation from the Bureau of Consumer Protection to recognize these differences.

Mr. Schmidt acknowledged and appreciated the fact that TMWA made this step and commented that this concept looks better than the concept from the last rate increase. He questioned SVGID's upfront payment for the main extension and felt others were getting a free ride if they were not required to also pay upfront for capital costs. Mr. Estes said SVGID was treated as any other developer in the fact that facilities were needed to provide service and SVGID picked that up the cost of those facilities, prorated based on capacity. The portion that goes into the rate hike

is based strictly for replacement costs and everybody pays for the replacement costs of those facilities. He also pointed out that SVGID is not charged for the carrying charge of that facility charge.

Ben Hutchins, WCDWR, handed out maps and expressed his concern about the pipe allocation. He also thanked TMWA for removing some of the allocation of distribution costs because there is little benefit to some of the smaller lines to the wholesale customers overall and thought this is a step in the right direction. He requested continuing discussions with TMWA staff regarding a fair allocation methodology. He said WCDWR could argue that 18 inches or greater is sufficient for its needs and should be charged for only 18 inches and above. Mr. Foree questioned this statement and asked if he had done a hydraulic model. Mr. Hutchins replied that to his knowledge whenever there is a need for additional capacity for wholesale customers WCDWR works closely with TMWA to determine what facilities are going to serve the wholesale customers; the distribution of water from Point A to Point B, and what it's going to take to increase the capacity. He said that the WCDWR feels it is inconsistent because in the sense that it is easy to identify how to get the water from Point A to Point B when it comes to capital improvements and it's a clear path of distribution to get to their customers but then WCDWR will be charged a cost associated with the entire distribution system.

Mr. Estes explained that it is consistent because basically when additional wholesale water is requested, TMWA provides the hydraulic analysis and utilizes the capacity of its entire system as a basis. The customer gets the advantage of the entire system and then the additional facilities to get that water delivered.

Fred Schmidt again acknowledged the efforts made by TMWA to accommodate the transmission issue and said he thought it was an improvement over the previous cost service study. SVGID has residential customers and a small amount of commercial customers. It's the same as any other residential class and those people will have to pay rate hikes relating to this too. Although the increase to SVGID has been lowered since February, he is still concerned that the blended rates for the wholesale customers, especially in Spanish Springs, have increased.

Mr. Erwin brought up the issues discussed during the training sessions about the many different methods that could be used in rate setting. Some of the methods include: transmission/distribution separation, peak day/peak month method, a perimeter method, an elevation method, a pump zone (there are 213 pump zones) rate, run a radius from Chalk Bluff every quarter mile and have different rates for each zone or even go to the extreme and have individual rates for each of TMWA's 93,000 customers. TMWA, however, has a traditional rate making process. There are many alternate concepts but reminded everyone that one of the six principles of rate setting is ease of administration.

Chairman Vorreyer commented that TMWA is an integrated system and there are multiple ways to determining a pipe size for distribution but thought the SAC lacked the guidance on the choices that are available without serious analysis.

Mr. Schmidt said again that there is time before the second phase of the rate increase is implemented to review the data as there are thousands of residents affected by how the rate increase is done. He said "I like to think of it not as a separate wholesale customer, I like to think of it as just another group of large retail customers that we as a rate design committee are

trying to recognize. We're not trying to push costs between one group of residents and other group in the area."

Mr. Foree said that when you change costs from the wholesale side, those costs are going to flow to the other classes.

Mr. Williamson remarked that one of the principles of rate design is rate stability and this is a hard time for double digit rate increases. Disagreements over where costs should be allocated will never go away. There have been some changes since the last rate study, but one of the principles of stability is not to change the rate design radically or you could find that a component was missed which could cause trouble at a later date. Gradual and stable – don't jump too far too fast!

Mr. Foree said to financially meet TMWA's debt coverage ratios, the two-year proposal is needed. It would be radical to go all the way to reach that goal in only one year.

Chairman Vorreyer said that as in any system or type of accounting, if people start making changes, the system loses its integrity and consistency and then everything is questionable with regard to the initial decision to change.

Mr. Erwin said that WCDWR is proposing to increase their volumes for Spanish Springs from the historic record because they've committed the water and plan to do some passive recharge by resting the wells in winter thereby preserving aquifer conditions. More volume means more costs flow to them and staff has incorporated that into the model. There is a risk to this because if the rates are calculated on the higher volume, the revenues to reach the target revenues are also dependent on that higher volume usage actually occurring.

Mr. Erwin also said that this rate proposal includes the conversion from flat-rate billing to metered-rate billing as of January 2010 but was uncertain of the Board's current deliberations are regarding this.

Mr. Erwin related the next steps in the process. The study will be presented to the Board on April 15. They will be given the analysis as presented today and staff recommendation. He will tell the Board that staff has had two meetings with the SAC and that the SAC will meet again in May and will likely make their recommendation for the May 21<sup>st</sup> Board meeting.

Mr. Schmidt asked if staff is asking the SAC to support a decision that authorizes a first phase increase and then wait until next year for a decision on the second phase increase or to support a decision to authorize the first and second year phase without any other review. He said he was uncomfortable about making a decision about the second phase before it's absolutely necessary. He would like some flexibility, some sort of cost of living index to which the increase was tied and is cautious about an actual rate allocation with a specific amount of increase.

Mr. Foree stated TMWA coverage ratios will be at risk if we split it and only make a decision on phase 1.

Mr. Maass commented that while at a former utility, they got into trouble by not having consistent small rate increases, by not looking at the debt ratio and then suddenly needing a large rate increase. He said customers can usually handle a little at a time but don't want to be hit by

big increases.

**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. 8.**

**8. FUTURE SAC MEETING DATES & AGENDA ITEMS**

The next meeting will be Tuesday, May 5, 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:**

- **May - Continue the Rate-Making Review**
- **May - Legislative Update**

**9. COMMITTEE ITEMS**

There were no committee items.

**10. STAFF ITEMS**

There were no staff items.

**11. PUBLIC COMMENT**

There was no public comment.

**12. ADJOURNMENT**

With no further business to discuss, the meeting was adjourned at 5:00 p.m.

Approved by the Standing Advisory Committee on May 5, 2009

Respectfully submitted,

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Corinne Cassell, Recording Secretary