

TRUCKEE MEADOWS WATER AUTHORITY
MINUTES OF THE APRIL 15, 2009
MEETING OF THE BOARD OF DIRECTORS

The Board of Directors met on Wednesday, April 15, 2009 at Sparks Legislative Council Chambers, 745 Fourth St., Sparks, Nevada. Chairman Carrigan called the meeting to order at 6:14 p.m.

1. ROLL CALL

Members Present: Dave Aiazzi, Mike Carrigan, Mike Cate*, Bob Larkin*, Geno Martini and Tom Young.

Members Absent: Bob Cashell

2. PLEDGE OF ALLEGIANCE

Led by Vice Chairman Aiazzi

3. PUBLIC COMMENT

Tom Noblett, Sun Valley resident, was concerned about the amount of the rate increase, thought the rate increase was untimely due to current economic conditions, and requested the Board consider a postponement.

Brian Walters, Walters Engineering, suggested that a way to minimize rate shock would be a consolidation of TMWA and Washoe County Department of Water Resources. He also requested that local engineering firms be given the opportunity to compete with TMWA's engineering staff for design of infrastructure and construction services.

4. APPROVAL OF THE AGENDA

Upon motion by Member Martini, second by Member Young, which motion duly carried by unanimous consent of the members present, the Board moved the public hearing (items 10 and 11) after item 6 and approved the agenda as amended.

5. APPROVAL OF THE MARCH 18, 2009 MINUTES

Upon motion by Vice Chairman Aiazzi, second by Member Martini, which motion duly carried by unanimous consent of the members present, the Board approved the March 18, 2009 minutes.

6. DISCUSSION AND POSSIBLE DIRECTION TO STAFF REGARDING LEGISLATIVE ACTIVITIES AND THE CURRENT BILLS

John Erwin updated the Board on the legislative bills on which the Legislative Subcommittee had taken action at its April 3rd and the bills which have died. Steve Walker, Contract Lobbyist, spoke about the following bills and provided staff's recommendations:

AB147 Requires local governments to grant preference to local bidders bidding on certain contracts or services. There have been many amendments to this bill as the legislature tries to find a good definition for "local". Recommendation: Neutral.

AB119 Requires the Truckee Meadows Regional Plan to include policies that are based on identified and sustainable water resources within Washoe County. The amended version of this bill passed and it will now go to Senate Government Affairs Committee. Recommendation: Support the amended version.

AB377 Imposing an additional condition on the approval by the State Engineer of an application for the beneficial use of water. The final wording on this bill states: It is the position of the State of Nevada that the State Engineer use the best scientific study analysis of groundwater in relationship to surface water. The bill was much more onerous than that in the beginning and basically challenged Nevada Groundwater Law. Recommendation: Neutral.

SB311 Requiring the State Board of Health to adopt regulations requiring the fluoridation of water provided by certain public water systems and water authorities in certain counties. Member Martini said he had received a request from State Senator Bernice Mathews that TMWA support this bill. Mr. Walker related that TMWA had opposed the bill because, by a vote of the people of Washoe County in 2002, fluoridation was rejected 58 percent to 42 percent: the Board has no issue with fluoridation and is simply following the will of the people. The bill is in the Senate Finance Committee as it has a fiscal note. TMWA's main issues with the bill as written are that it would have to serve fluoridated water to wholesale customers even though those public water systems would be exempt under the bill and that county residents have voted against fluoridation and the legislation overrides the wishes of the residents. TMWA has proposed an amendment that addresses these issues. Recommendation: Opposed

Upon motion by Member Larkin, second by Member Young, which motion duly carried four to one with Member Martini dissenting, the Board confirmed the Legislative Subcommittee's recommendations on all bills.

Member Cate and Member Larkin arrived at 8:15 a.m.

7. TRUCKEE RIVER FUND UPDATE AND RECOMMENDATION FROM THE TRUCKEE RIVER FUND ADVISORS REGARDING FISCAL YEAR 2010 FUNDING

Janet Phillips, Truckee River Fund Advisors Chair, read the following statement, "The Truckee River Fund Advisory Committee voted that a temporary reduction in FY2009/2010 funding would be appropriate in these financial times and we can remain effective with a temporary 25 to

50 percent reduction in funding.” The Fund Advisors are very passionate about the long-term health of the Truckee River and the need for the long term effort to continue but to be part of the budget solution a short term, temporary reduction in funding was something they could withstand. She said among the requests for funding in the fall cycle would be projects for the continued effort to combat the Quagga Mussels in Lake Tahoe which would be a huge problem if not contained; erosion control and sediment reduction upstream; and, continued and expanded fighting against the invasive species which are choking the river. She reiterated that the Advisors were here to step up to the plate and be part of the solution on the budget.

No action taken.

Chairman Carrigan opened the public hearing.

10. FIRST READING OF PROPOSED REVISIONS TO TMWA RULES 1 THROUGH 6

John Erwin presented this item. The proposed revisions of Rules 1 through 6 will streamline language, make content relevant to today’s operating environment, and implement applicable cost recovery mechanisms.

Vice Chairman Aiazzi brought up the difficulty that the City of Reno and other large companies have in getting a check quickly in order to comply with current TMWA rules. Mr. Erwin and Mr. Foree said that arrangements could be made to circumvent this problem.

Mr. Erwin clarified language in the following rules:

Rule 3.6.a. will aid TMWA in collecting payment of bills when dealing with property owners and landlords.

Rule 6.1 adds that customers applying for delivery of water for new or modified service must do so in person.

Mr. Erwin explained that Rule 3 deals with billing a customer for the actual delivery of water to a user at an existing service which does not have to be done in person; however Rule 6 deals with delivery of water to a new service or physical modification to an existing service which must be done in person as it involves the entire new business process.

Don Mello, a Reno resident, requested a letter be sent to the landlord or owner of a property informing them that the water service has been transferred to that landlord or owner at the time a tenant service has been disconnected. He didn’t feel that being sent a bill for the service was sufficient notice.

The final reading of the revisions to Rules 1 through 6 will be on May 21, 2009.

No action was taken.

11. FIRST READING, DISCUSSION AND ACTION ON ADJUSTMENT TO TMWA’S CUSTOMER RATE SCHEDULES, AND REQUEST FOR BOARD DIRECTION REGARDING PROPOSED RATE ADJUSTMENTS, EFFECTIVE DATE OF RATE

ADJUSTMENTS (PROPOSED EFFECTIVE THE FIRST BILLING CYCLE IN JUNE 2009) AND POSSIBLE RECONSIDERATION OF DATE FOR FINAL CONVERSION TO METERED BILLING

John Erwin presented the staff report on proposed adjustments to customer rates to be effective the first billing cycle in June 2009. Mr. Erwin presented three scenarios, which incorporate the latest refinement of financial projections for FY210-2014.

Scenario A-1 includes effects of the conversion of flat rate customers to metered billing beginning January 1, 2010. The conversion of flat rate customers to metered rates temporarily depresses or shifts water sales in FY2010 which causes TMWA's senior lien debt coverage ratio to drop well below contractual requirements according to TMWA's senior lien bond indentures. This is a serious development which must be avoided. This situation requires an approximate 6% average overall revenue increase in FY2010 and slightly above a 4.4% increase in FY2011. In the following fiscal years, very small water rate adjustments appear to be required annually based on current projections.

Chairman Carrigan asked if staff was looking for approval of a two-year rate increase or approval of a one-year increase and then look at another rate increase the following year. Mr. Tissier responded that there is an expectation by the rating agencies and Lloyds TSB, TMWA's letter of credit provider, that TMWA have two years of rates approved. Lloyds TSB specifically asked in a recent credit survey what rate actions are going to be taken for FY2010. This does not mean that the Board doesn't look at the rate adjustment again next year. Mr. Erwin said that part of this discussion is looking to phase in the rate adjustment as opposed to having a 9 or 10 percent increase this year and to review changes in economic conditions and revenue requirements again next year.

Scenario A-2 presents potential rate implications if the conversion of flat rate customers to metered billing is deferred a few months. A decision to defer the conversion whether to June 2010 or June of a future year, produces less of a water rate impact in the first year. This is due to the shift in collection of formerly flat rate revenues between January through April to the higher use summer months. This scenario requires an approximate 4.5% average overall revenue increase in FY2010 and slightly above 4.4% increase in FY2011.

Chairman Carrigan asked what would happen if the conversion happened in January 2011. Mr. Tissier said it would probably result in a decrease in revenues from 2010 to 2011 but with the proposed rate increases we would be in a stronger position to explain that the temporary depression in revenue is a reporting problem. That should not present any issues with Lloyds TSB Bank nor with our rating agency. Mr. Erwin said the second year increase would probably be slightly greater than the 4.4% currently estimated in the second scenario, as written.

Scenario A-3 presents the option of eliminating the present balance of commercial paper notes (\$68.0 million) with long term debt (fixed rate take-out with 30 year bonds) and the potential implication on water rates. This scenario results in a rate increase of approximately 15% in FY2010 to expand the senior lien debt coverage ratio to accommodate the issuance of additional long term fixed rate debt. This alternative points to the cost effectiveness of the Tax Exempt Commercial Paper program and the need to preserve the status of this financing vehicle. Again as in Scenarios A-1 and A-2 it is a phase-in approach.

Mr. Erwin related an edit on Page 9, line 5 under Water System Facility Charges: the word “flow” should be “demand”. He introduced Dave Schwank, Navigant Consulting, the consultant who has reviewed the previous cost study and worked with staff on this study. The current cost study incorporates Board direction on cost allocation methodologies and rates set as a response to decisions stemming from the (1) 2003 rate adjustment hearings, (2) the October 2004 Board meeting of cost classification and allocation methods in response to the Rate Making Review committee’s May 2004 report, (3) the 2005 rate adjustment hearings, and (4) public input. Also incorporated are 14 recommendations, with some minimal adjustment or exception, received from the Nevada Bureau of Consumer Protection Audit in January 2006. He pointed out a change in the tiers for both the commercial and residential rate classes.

Mr. Erwin commented on the question of fluoride and when treatment would be implemented. The potential impact on customer rates could range anywhere from 3 cents to 10 cents per 1000 gallons (\$0.60 to \$1.10 per service per month) depending on whether regulations would apply to surface water or both surface and ground water.

Public comment:

Fred Barrie, Sparks Resident, commented that he would like to see no wage increases for TMWA employees.

Ron King, Sparks Resident, commented on the fluoride issue. It was industrial waste, mostly flushed down toilets or put on lawns, and it medicated a whole society. He also objected to a rate increase.

Don Mello, Reno Resident, commented on TMWA’s decreased hydroelectric and investment revenues and suggested the Board look at general obligation bonds with unlimited taxing capability.

Tom Noblett, Sun Valley Resident, asked if it was a lack of water or something else that was the driving force behind raising rates.

Mr. Erwin explained that TMWA has not had a rate increase in over four years and during that period costs of operation have escalated, particularly electrical pumping costs which have increased by about 30% in the last four years. In addition, a declining regional economic situation; flat customer growth for the past 18 months; total volume of sales is basically flat in some classes, especially the commercial group; lower cash balances because capital has been invested in facilities; and, a lower rate of return on investments have all contributed to the need for the rate increase. TMWA’s revenues are very weather sensitive. The difference between a

warm and a cool spring can impact revenues by as much as a million dollars. Overall, the utility is extremely capital intensive with very little variable costs in operations. So even though sales have gone down, the size of the treatment plant does not diminish, the same 1600 miles of pipe are needed, the same 220 pump zones are needed, and the same number of employees are needed whether 77,000 acre feet of water or 80,000 acre feet of water are sold.

Member Larkin asked about salary costs and Mr. Erwin replied that a zero percent increase for FY2010 for both the represented and non-represented employees had been factored into the budget. There will be no cost of living increase, nor any other wage increase. Seven and a half positions have been eliminated from the budget. Member Young commented that during the peak period of development and growth, TMWA contracted engineering consulting and contracting firms and did not hire additional employees. Outside contracting has been substantially eliminated and work is now being done with our in-house employees.

Vice Chairman Aiazzi added that although TMWA has money in water rights, Lloyds TSB Bank wants to see a steady revenue stream. He asked that without that requirement, would rates need to be raised. Mr. Tissier answered that yes, rates would need to be raised because capital spending for rehabilitation is funded with revenues from rates. Vice Chairman Aiazzi asked if water rights could be sold, even though it meant a loss, to cover rehabilitation funding. Mr. Tissier replied that if water rights were sold, that money would be used to buy down the outstanding commercial paper. Commercial paper was to be the financing mechanism to fund water rights so that cash reserves, which are so important right now especially with the current rating, would not be used. Standard & Poors upgraded TMWA's rating from A+ to AA- and stated, "We expect to see strong cash reserves even though coverages are thin." They've been very explicit about that. Vice Chairman Aiazzi said he thought that to decrease cash reserves to \$45 million would still leave TMWA with pretty strong cash reserves. Mr. Tissier said that TMWA will rely heavily on those reserves over the next three to four years and reiterated what he had showed the Board in January 2009. If TMWA does not raise rates, even with the spending cuts, the result would be a negative unrestricted cash position in year five. Cash reserves are very important to manage TMWA through the next three or four years.

Vice Chairman Aiazzi questioned the fact that only some of the Metered Wholesale customer rates were increased. Mr. Erwin explained that the rates for the wholesale customers are equitable relative to other customers. There are only two wholesale customers and their rates are very specific based on their volume, both annual and on peak, and the rates required to collect the targeted revenue from each wholesale customer, similar to the method to collect revenues targeted from other customer classes.

The Board discussed conversion of customers from the flat rate to the metered rate. Chairman Carrigan asked if there was a rule stating using excessive water could result in conversion to the metered rate. Ms. Mazeris responded that Rule 2 currently addresses the issue of water waste and watering on the wrong day. The rule does not specifically address the issue of a customer who pays two or three times less than what they would pay if they were billed on the metered rate. Legal Counsel cautioned that any such rules would require careful legal review. Since the Board made its decision to convert to the metered rate in January 2010, economic conditions have changed and TROA has not been implemented so TMWA cannot store additional water

upstream. It appears that from an economic standpoint, postponing conversion to June 2010 would minimize the impact to revenues. Also, overall, the rate increase for the first year would be approximately 4.5 percent instead of the proposed 6 percent, although the flat-rate customer class will have a higher percentage increase. Mr. Foree recommended that if the Board did not select June 2010 as a conversion date, they select a May or June date as opposed to a January date in a future year, again to minimize the impact to revenues. He also asked the Board to make the decision at the May meeting to either keep the January 2010 conversion date or select another date to allow time to notify customers. Mr. Erwin said that Scenario A-2 only works if the conversion date slides from January to June.

The Board asked that, if the State Legislature passed a bill on fluoride, an item be placed on the next agenda for discussion. No decision about implementation or a surcharge to the customers in order to pay for fluoride could be made until that time.

Vice Chairman Aiazzi asked if the proposed rate increase would change if a reduction to the budget for the Truckee River Fund was made. Mr. Tissier said that with the unknown variables, thin coverage ratios and uncertain revenues, the answer is no.

Member Cate commented that it is very rare to manage people or oversee a situation where the staff cares as much about the company as anybody else does. TMWA has some very fine people that have overseen this cost study, they have cut every cost they can cut, and they do the right thing all the time.

Upon motion by Vice Chairman Aiazzi, second by Member Cate, which passed by unanimous consent of the members present, the Board selected Scenario A-2 for a final reading on May 21, 2009 with a conversion date from flat rate to metered rate billing no sooner than June 2010.

Chairman Carrigan closed the public hearing

Chairman Carrigan recessed the meeting at 7:53 p.m.

8. CLOSED SESSION REGARDING IBEW LOCAL 1245 CONTRACT NEGOTIATIONS

Chairman Carrigan called the meeting back to order at 8:27 p.m.

9. DISCUSSION AND REQUEST FOR RATIFICATION OF THE COLLECTIVE BARGAINING AGREEMENT BETWEEN TMWA AND THE IBEW LOCAL 1245 FOR THE PERIOD JULY 1, 2009 THROUGH JUNE 30, 2012

Nanette Quitt, HR Administrator and Andy Gebhardt requested the Board approve the negotiated changes with IBEW Local 1245. Vice Chairman Aiazzi asked for clarification that everybody had agreed to forego pay increases for the next fiscal year. Ms. Quitt assured the Board that both represented employees and non-represented Management, Professional, Administration and Technical (MPAT) employees would not have any pay increases over the next fiscal year. It was

stated that IBEW is giving up incentive pay in Fiscal Year 2010 amounting to 3% of total wages and Mr. Foree stated that pay or paid benefits for MPAT employees would also cut back for both the current and next fiscal years an equivalent amount (approximately 3% of total wages). In answer to Vice Chairman Aiazzi's question, "People who are making a salary on June 30, 2009 will then make the same amount on July 1, 2009 through the next fiscal year?" Ms. Quitt replied "Yes".

Upon motion by Vice Chairman Aiazzi, second by Member Martini, which motion duly carried by unanimous consent of the members present, the Board ratified the collective bargain agreement between the TMWA and IBEW Local 1245.

12. GENERAL MANAGER'S REPORT

Mark Foree mentioned that Standard & Poors had upgraded TMWA's credit rating from A+ to AA-. Panther Valley and TMWA have executed the Operating Agreement and TMWA will begin operating the system (including customer billing, collections, etc.) on April 21, 2009.

13. PUBLIC COMMENT

There was no public comment.

14. BOARD COMMENTS AND REQUESTS FOR FUTURE AGENDA ITEMS

Vice Chairman Aiazzi requested an item to discuss the General Manager's position be placed on the next agenda.

16. ADJOURNMENT

With no further business to discuss, Chairman Carrigan adjourned the meeting at 8:32 p.m.

Approved by the TMWA Board of Directors in session on May 21, 2009.

Respectfully submitted,

Corinne Cassell, Recording Secretary

*Mike Cate: present for items 6 through 16.