

WESTERN REGIONAL WATER COMMISSION BOARD OF TRUSTEES MINUTES

Friday, August 14, 2009

The regular meeting of the Western Regional Water Commission (WRWC) Board of Trustees was held on Friday, August 14, 2009, at Washoe County Department of Water Resources, Community Meeting Room, 4930 Energy Way, Reno Nevada.

1. **Roll Call and Determination of presence of a Quorum** – In Chairman Carrigan's absence, Vice-Chairman Aiazzi called the meeting to order at 1:35 p.m. There was a quorum present.

Commissioners Present:

Dave Aiazzi, Vice-Chair
John Breternitz
Steve Cohen
Patricia Lancaster
Bob Larkin
Geno Martini (left at 2:30 p.m.)
Ron Smith

Representing:

City of Reno
Washoe County
South Truckee Meadows General Improvement District (STMGID)
Sun Valley General Improvement District (SVGID)
Truckee Meadows Water Authority (TMWA)
Truckee Meadows Water Reclamation Facility (TMWRF)
City of Sparks

Commissioners Absent:

Mike Carrigan, Chair
Bob Cashell

Representing:

Truckee Meadows Water Authority (TMWA)
Truckee Meadows Water Authority (TMWA)

2. **Pledge of Allegiance**

Vice-Chairman Aiazzi asked Greg Dennis to lead the Western Regional Water Commission in the Pledge of Allegiance.

3. **Approval of Agenda**

Commissioner Martini made a motion to approve the August 14, 2009 WRWC agenda as posted. Commissioner Lancaster seconded the motion, which carried unanimously.

4. **Public Comment**

Vice-Chairman Aiazzi called for public comments and hearing none, closed the public comment period.

5. **Approval of the Minutes of the July 10, 2009 meeting.**

The minutes of the July 10, 2009 Western Regional Water Commission meeting were submitted for approval. Commissioner Martini made a motion to approve the minutes as submitted. Commissioner Larkin seconded the motion, which carried unanimously.

6. Presentation of a Certificate honoring Greg Dennis for his years of service on the Northern Nevada and Regional Water Planning Commissions.

Vice-Chairman Aiazzi read a certificate of appreciation into the record in recognition of Greg Dennis and his commitment to water issues in the area. He commended Mr. Dennis for his excellent suggestions to the City Council over the years and his ability to explain the issues.

Mr. Dennis thanked everyone and stated that it was great working with the community. He stated that so much has been accomplished in working on the Truckee River and emphasized how important it is that the river remains whole into the future. He commended Rosemary Menard and the Northern Nevada Water Planning Commission and WRWC for continuing efforts to improve the river. He commended the community and encouraged further work on the total maximum daily loads (TMDLs) for the river.

Vice-Chairman Aiazzi again thanked Mr. Dennis for his service. Members applauded Mr. Dennis.

Workshop on possible integration/consolidation of Truckee Meadows Water Authority ("TMWA") and the Washoe County Department of Water Resources ("DWR")

7. Presentation of summary of staff reports and WRWC Subcommittee on Integration activities and recommendations regarding integration/consolidation of TMWA and DWR, including discussion of conceptual outline of an interlocal agreement, Phase II financial analysis, summary of implications of major bond covenants for the consolidation process, labor issues, scope of services, and future service area; development of possible recommendation from WRWC to TMWA and Washoe County regarding consolidation; possible direction to staff.

Vice-Chairman Aiazzi invited Mark Foree, TMWA General Manager, to speak on this item. Mr. Foree referred to the staff report and stated that today the WRWC is being asked for a formal recommendation to the Washoe Board of County Commissioners (BCC) and the TMWA Board to proceed with an Interlocal Agreement to implement the integration of functions of TMWA and DWR leading to full consolidation. Mr. Foree reported that staff and the WRWC are in agreement that significant benefits could be achieved by such integration. He added that staff and the inter-agency teams developed preliminary reports, which have verified that integration would be beneficial to both entities. He thanked everyone who worked on the studies and reports and commended the teams for working so well together.

Mr. Foree reported that identified benefits include the ability to maximize current infrastructure, delay new infrastructure and in some cases eliminate the need for new infrastructure. He stated that other benefits include improved conjunctive use by optimizing the use of surface water when available, and improved water resource management. He stated the integration would also provide better customer service and less confusion for new customers, the ability to deploy regional conservation plans, and improve system reliability.

Mr. Foree stated that staff believes the integration can be engineered to be protective of customer rates in the short-term, retain highly skilled staff (which is very important in training younger employees), and provide significant long-term benefits for the community.

Mr. Foree stated that the WRWC Act requires this Board to evaluate consolidation of water purveyors within the Truckee Meadows by January 2011 as part of the Comprehensive Plan. He stated with the work completed by staff and this recommendation, that requirement is substantially complete. He added that the report will be forwarded to the Legislative Oversight Committee. He turned the discussion over to Rosemary Menard, Director of DWR.

Ms. Menard reviewed the staff report, which is the compilation of reports since December 2008 when the *Phase 1 Financial Analysis* was presented to the WRWC, the preliminary assessment reports, and the more recent reports that were presented at the July 23, 2009 and August 6, 2009 Integration Subcommittee meetings. She agreed with Mr. Foree that staff of the two agencies developed a fine piece of work. She added that she was asked by an employee how much money has been spent on the evaluation and report. She stated that the cost was not tracked; however, by having staff do the work (as opposed to a consultant) it probably saved half a million dollars. She added that staff also produced a better product.

Ms. Menard reported that today a brief overview of the information would be provided for those who were not involved in the subcommittee meetings. She stated that the draft outline of an Interlocal Agreement (ILA) would also be presented for discussion as would an overview of services provided and service areas that might be involved in a possible consolidation. She turned the presentation over to Jeff Tissier, TMWA Chief Financial Officer (CFO) and Project Manager.

Mr. Tissier introduced John Bonow, Public Financial Management, who was in attendance to answer any questions and to discuss issues for consideration with respect to the bond holders for each entity. Mr. Tissier referred to the *Phase 2 Analysis and Business Risk Assessment*. He explained that the report identified certain financial conditions that must be addressed during the integration process to achieve legal and financial consolidation in the future.

Mr. Tissier stated that one of the components for TMWA is that its letter of credit has to be maintained. He explained that the letter of credit was integral in obtaining water rights. He stated that the process will begin in the December to January timeframe because the letter of credit commitment will expire in August 2010. He stated that currently the weighted average interest rate on that debt is 0.4%.

Mr. Tissier reported that another condition identified in the assessment was that DWR pays approximately \$5.7 million annually for debt service relating to the Water Division, of which only about 20% is in customer rates. He added that the other 80% was anticipated to be funded by developer fees, which is currently minimal at best. He explained that there are significant bond proceeds that have not been spent in relation to the Series 2005 \$65 million bond issue from DWR. He stated that those proceeds are being identified as an option to be placed in escrow and to defease a large portion of the debt.

Mr. Tissier stated that DWR borrowed over \$5 million from other financial resources within the department, primarily to fund water supply problems, one in the North Valleys and one in Lightning W. He added that DWR staff is developing a plan on how to repay the monies in the future.

Mr. Tissier reported that another matter is General Fund support of water planning at DWR, which is currently budgeted at approximately \$1 million per year (previously \$2 million per year in 2008). He stated that during the integration process, identification is needed as to what type of water planning the consolidated entity should provide as opposed to what should remain with the County.

Mr. Tissier stated that in addition to the financial challenges mentioned, staff is aware that with the integration of the two agencies, \$2 to \$3 million (or approximately 4 to 6% of the combined operating budget of the two entities) in operational savings will be needed to maintain TMWA's senior lien debt coverage ratio. He stated that staff believes Integration/Consolidation is possible because it is very likely that the cost savings can be achieved. He explained that the next step will be moving through an implementation plan, which will include identification of opportunities to reduce power costs, conjunctively use water (and the net savings from those items), etc. He reported that also in looking forward, some employees will be retiring so staffing levels in the future can be adjusted to take advantage

of opportunities for salary savings. He welcomed questions or comments. Hearing none, he introduced Mr. Bonow.

Mr. Bonow stated that as consolidation is being considered, there are two areas where the entities touch the capital marketplace: 1) the public bond sale that DWR has outstanding, and 2) TMWA has a number of bond issues (the original bond issue and refinancing of portions of the original bond issue) in addition to the commercial paper program. He reported that if consolidation is implemented without particular attention paid to how the marketplace will view the consolidated entity, there is a risk of lack of availability of a letter of credit or higher costs for those facilities. He stated that there is also not much flexibility to refinance or defease the debt of either entity at this time. He added that some of the bonds lack a pre-payment feature.

Mr. Bonow stated that the ILA needs to address the fact that the capital marketplace will require (even on a combined operating basis) the entities to make good on their obligation to maintain good debt service coverage and adequacy of reserves in order to have good access to the capital marketplace. He stated that issue is easier said than done and mentioned possibilities such as, "What if the cost savings do not materialize?" He summarized that financial staff has been charged to examine the financial covenants with a fine-tooth comb to ensure that nothing is overlooked. He welcomed questions or comments.

Commissioner Breternitz referred to the approximate \$2 or \$3 million in likely savings and asked when that number would be verified in order for the WRWC to make an informed decision on moving forward. Mr. Tissier stated from an integration process, the eventual defeasance point and timing of the bonds, whereby the title of assets will transfer to a consolidated entity, will lead to the acceleration of legal and financial consolidation. He added that during the integration process, staff would identify the cost savings. He stated that from a market standpoint, they will want to see some certainty so a major task to be undertaken is the complete hydraulic modeling of the two water systems to see how far surface water can be stretched during the winter to rest the wells, thereby reducing power costs. He clarified that on the surface water side, there will be an incremental increase in power costs that will require review of the net differential. He reported that the TMWA Glendale Treatment Plant is idle during the winter. He added that an option to be analyzed is the feasibility of idling the Longley Treatment Plant in the winter. He added that the unit cost per million gallons needs to be analyzed. He added that the analysis could be completed in a matter of months as the ILA is completed and the process is moving forward. He stated that other cost savings will be quantified during the implementation phase of integration.

Mr. Tissier stated that a better understanding would also be developed of the personnel skills of both agencies and how to best integrate them. He added that those who retire will have skills that may not mesh well with those from the two entities so there may be new opportunities for employees to transfer to different jobs, which may be fairly significant.

Mr. Tissier reiterated that the level of effort on regional water planning for the consolidated entity needs to be determined, i.e. will it be all water planning functions currently supported by Washoe County General Fund resources or will the County retain a portion and how it would whatever regional water planning that is done in the future be funded. He summarized that those savings will be quantified through the process, which will help with a credit rating agency, which might happen soon when the issue hits the Press. He clarified that the public will want to know what is happening so communication will have to be maintained.

Mr. Tissier summarized that opportunities on some of TMWA's bond issues to be refinanced are good but could be optimized by waiting.

Vice-Chairman Aiazzi stated that as he understands the process, the ILA is necessary rather than full consolidation until the bonds are defeased (which could take 10 or 15 years). He added that the ILA could be amended at any time if there are any problems. Mr. Tissier agreed and added that he refers to the ILA process as due diligence. He stated that the ILA would provide the governance bodies with good information to make a sound decision.

Vice-Chairman Aiazzi asked if in the interim the BCC would still be required to oversee rate adjustments or if the ILA could pass that task to another body. Mr. Tissier deferred the question to Sylvia Harrison, TMWA Legal Counsel or Pete Simeoni, Washoe County Deputy District Attorney.

Mr. Simeoni stated that the BCC could contract those rate making authorities to another entity, which could be TMWA. Ms. Menard stated that the goal is to integrate the agencies with the strong commitment by both to consolidate when the conditions outlined in the ILA are met and that the idea is to use the interim time to align the issues to recognize the savings immediately upon consolidation. She added that she believes there are a number of opportunities. Mr. Tissier reported that an implementation plan is currently being outlined.

Ms. Menard stated that the next update is in regard to the ILA conceptual framework that was provided to the WRWC. Ms. Harrison reported that she and Mr. Simeoni have been working on the conceptual framework, which she noted has not yet gone to the BCC or TMWA Board. She clarified that both boards would need to review the framework and decide whether they wish to go forward. She stated that there are certain financial aspects that require getting from "point a to point z" relatively soon. She reported that the proposal is that the BCC and TMWA Board would enter into a binding ILA that would propose the merger of DWR into TMWA. She clarified that it would be the only economically feasible structure for the merger because TMWA would have to be the surviving entity because it is not possible to defease the TMWA bonds.

Ms. Harrison stated that the reason for the urgency in entering into the ILA is that there are a lot of time critical tasks required, including the defeasement of DWR's bonds. She added that there needs to be a sense in the community of a clear path moving forward, one reason for which is to preserve and protect employee morale.

Ms. Harrison reported that TMWA also anticipates expanding its facilities to accommodate additional DWR staff. She reiterated Mr. Foree and Ms. Menard's comment that the concept will be to achieve as much functional consolidation as possible, while working on the opportunity to complete the legal consolidation. She clarified that the actual legal consolidation can not occur until defeasance of the DWR bonds and that the consolidated entity would be fully protective of the bond covenants of both the entities, which could occur as early as a couple of years.

Ms. Harrison stated that the ILA would contain the requirement that an implementation plan be developed to set forth some of the conditions. She reported that the ILA could be developed and executed as early as this fall depending on the appetite of the TWMA Board and BCC to move forward. She reiterated that full legal consolidation would take more time; however, during the implementation period the agencies could begin achieving some of the financial and other benefits of consolidation.

Ms. Harrison reported that on a parallel track with the implementation plan, it would be necessary to amend the Joint Powers Agreement (JPA) for TMWA, with some adjustment of the governance structure being appropriate. She stated that advice from the TMWA Technical Advisory Committee (TAC) would be sought to review the process with respect to revisions to the JPA. She added that Reno, Sparks and Washoe County would also be part of the decision-making process.

Mr. Tissier stated that John Sherman was not present today but a key element to the success of the entire undertaking is the establishment of a Washoe County bond bank, whereby the consolidated entity can actually access the general obligation (GO)-backed bonds. He reported that he and Mr. Sherman have spoken with Mr. Foree and Ms. Menard about the issue, which they agree would be helpful in the defeasance process. He added that the combined utility must reduce costs by \$2 to \$3 million to avoid negatively affecting utility rates.

Commissioner Breternitz asked if Mr. Tissier envisions milestones on the road to consolidation that would serve as points of re-confirmation where the community would have an opportunity to evaluate the proposed savings or if there is a general "out-clause". Ms. Harrison stated that ultimately that decision will be up to the TMWA Board and BCC; however, her personal preference it to make the process as irrevocable as possible because of the commitment of time and resources for such an endeavor. She reiterated that the community needs to have a clear sense of the plan. She added that obviously any contract can be terminated. She clarified that rather than milestones there will be "conditions" along the way that have to be met.

Ms. Menard added that a target in cost reductions in the accumulated amount of \$2 to \$3 million has been identified; however, the real savings will be long-term savings, such as avoided or delayed capital expenditures, as well as operation and maintenance savings that will accrue over time. She reiterated that based on the decision made by the BCC and TMWA Board, staff will be provided with a clear path to follow. She added that joint capital improvement planning could begin for the next fiscal year, which could be adopted in the spring if desired. She reiterated Mr. Tissier's comments regarding items such as seasonal operation of the Longley facility. She summarized that she agrees with Ms. Harrison's comment that the more irrevocable it can be made, the more likely it can be implemented.

Commissioner Breternitz agreed with Ms. Menard and stated that he agrees once the process is initiated, it should continue; however, there is a reality that nobody wants to get into a situation where there is no option to "stop the train once it's started" if there is a dramatic detriment to the process. He clarified that he supports this effort but stated there is a fiduciary responsibility standpoint. Mr. Foree stated that staff does believe the required savings are achievable based on much work and discussion.

Vice-Chairman Aiazzi stated that the subcommittee discussed the make up of the TMWA Board, which must change. He stated that the change might alleviate some of Commissioner Breternitz' concerns in moving forward.

Commissioner Larkin stated that also discussed in the subcommittee meetings was the legislature's concerns over any impact to the Truckee River Operating Agreement (TROA) and asked Ms. Harrison if any cursory thought has been given to the issue. Ms. Harrison stated that the issue has been discussed and is one reason that essentially TMWA is the surviving entity. She stated that she does not think the integration would be detrimental to TMWA but conversely, it would allow the County customers to have the benefit of TROA related to river operations and storage. Mr. Simeoni added that staff is acutely aware of the magnitude of this endeavor, the details of which are not completely clear. He added that parties can agree, amend an agreement, terminate an agreement; however, consensus from the governing boards is needed to move forward.

Commissioner Aiazzi asked for verification that sewer is not being considered for integration/consolidation at this time but would instead continue under DWR. He added that perhaps at a future time, Reno or Sparks might be contacted regarding sewer service.