

**BOARD OF COUNTY COMMISSIONERS, WASHOE COUNTY, NEVADA
TRUCKEE MEADOWS WATER AUTHORITY BOARD OF DIRECTORS**

JOINT MEETING

TUESDAY

8:00 A.M.

SEPTEMBER 8, 2009

PRESENT:

David Humke, Washoe County Commissioner, Chairman*
Bonnie Weber, Washoe County Commissioner, Vice Chairperson
John Breternitz, Washoe County Commissioner
Bob Larkin, Washoe County Commissioner, TMWA Director*
Kitty Jung, Washoe County Commissioner

Mike Carrigan, Truckee Meadows Water Authority (TMWA), Chairman*
David Aiazzi, TMWA Vice Chairman
Bob Cashell, TMWA Director
Tom Young, TMWA Director
Geno Martini, TMWA Director
Michael Cate, TMWA Director

The Boards convened at 8:08 a.m. in special session in the Caucus Room of the Washoe County Administration Complex, 1001 East Ninth Street, Building A, 2nd Floor, Room 2201, Reno, Nevada with TMWA Vice Chairman Aiazzi presiding. Also present were Washoe County Clerk Amy Harvey, Washoe County Manager Katy Simon, Washoe County Deputy District Attorneys Paul Lipparelli and Peter Simeoni, Water Resources Director Rosemary Menard, TMWA Legal Counsel Sylvia Harrison, TMWA General Manager Mark Foree, and Corinne Cassell, TMWA Executive Assistant. Following the Pledge of Allegiance to the flag of our Country, the roll was called and the Boards conducted the following business:

09-934 AGENDA ITEM 3

Agenda Subject: "Approval of the Agenda."

There was no public comment on this item.

On motion by Director Cashell, seconded by Commissioner Breternitz, which motion duly carried with Chairman Humke, Chairman Carrigan, and Commissioner Larkin absent, it was ordered that Agenda Item 3 be approved.

***8:10 a.m.** Chairman Humke arrived at the meeting.

09-935 AGENDA ITEM 4

Agenda Subject: “Public Comment. Limited to no more than three minutes per speaker.”

There was no response to the call for public comment.

09-936 AGENDA ITEM 5

Agenda Subject: “Consideration of recommendation from the Western Regional Water Commission regarding consolidation of Truckee Meadows Water Authority and Washoe County Department of Water Resources functions, and possible direction to staff.”

Mark Foree, Truckee Meadows Water Authority (TMWA) General Manager, said the Western Regional Water Commission Act passed in 2007 required the Western Regional Water Commission (WRWC) to evaluate consolidating the water purveyors in the Truckee Meadows by January 2011. He advised that the WRWC made recommendations to the Board of County Commissioners and the TMWA Board of Directors regarding the consolidation of the functions of the Department of Water Resources (DWR) into TMWA at its August 14, 2009 meeting.

Mr. Foree advised the Phase One Financial Report was submitted in December 2008 by both agencies’ bond counsel, Swendseid & Stern (S&S), and both agencies’ financial advisor, Public Financial Management (PFM). He said that analysis determined it was not economically feasible to defease TMWA’s debt because most of the debt had been refinanced once already and the Internal Revenue Service had a restriction regarding one-time refinancing. He commented defeasing TMWA’s debt could be done in the future when economic conditions changed.

Mr. Foree discussed the interagency teams formed to indentify the possible benefits of integration. He said the teams worked extremely well together and they identified the following benefits of consolidating:

- Maximizing the current infrastructure to delay building new infrastructure or, in some cases, eliminating the need for new infrastructure.
- Improving water resource management.
- Improving conjunctive use of water resources by optimizing surface water when available.
- Providing better service and less confusion for customers.
- Having the ability to deploy region-wide conservation programs.
- Improving system reliability.

***8:13 a.m.** Chairman Carrigan and Commissioner Larkin arrived at the meeting.

Mr. Foree stated staff believed integration could be achieved in a manner that would protect customer rates in the short term, would retain highly skilled staff, and would provide significant long-term benefits for the community.

Rosemary Menard, DWR Director, said the attachments to the staff report dated August 24, 2009 included all of the reports developed for the WRWC. She stated if the Boards directed staff to proceed, staffing issues would be examined further.

Ms. Menard felt the key element to come out of the last few months was the Phase Two Financial Report. Jeff Tissier, TMWA Chief Financial Officer, said the Phase Two Financial Report had four key conditions that had to be resolved before moving forward with the consolidation. He stated the first key condition was protecting TMWA's ability to retain its Letter of Credit, which backed up its commercial paper program. If the Letter of Credit was lost, other areas of the capital markets would need to be accessed to refinance the outstanding debt. He said the loss of the Letter of Credit would create significant business risks for TMWA. He noted there had been encouraging discussions with the TMWA's current Letter of Credit bank and other banks had been approached.

Mr. Tissier said the second key condition was that only 20 percent of DWR's water debt was in its rates. To mitigate that would require some type of partial economic defeasance with some existing bond proceeds that were currently held by the DWR. In addition there would have to be a combined operating savings of at least \$2 million.

Mr. Tissier stated the water planning by DWR supported by the General Fund was the third condition. He said currently if water planning was to lose General Fund support, it would have to be funded entirely through the water revenues of the consolidated entity. He explained that would require coming up with an additional \$1 million in savings, which would be 4-6 percent of the combined operating budget.

Mr. Tissier said the last key condition was the establishment of a Washoe County Bond Bank, which was felt to be a very cost effective approach for the consolidated entity to retain and to gain additional access to capital markets at very favorable terms.

Vice Chairman Aiazzi asked what action needed to be taken on this item. Ms. Menard replied it was whether the joint Boards wanted to give direction to take action to approve the recommendation by the WRWC to go forward with respect to consolidation. Commissioner Larkin said the WRWC report should be accepted.

On motion by Mayor Cashell, seconded by Commissioner Larkin, which motion duly carried unanimously by both Boards, it was ordered that the report from the WRWC be accepted.

Agenda Subject: “Discussion regarding the outline of a proposed interlocal agreement between Truckee Meadows Water Authority and Washoe County Department of Water Resources governing consolidation, and possible direction to staff.”

Pete Simeoni, Washoe County Deputy District Attorney, said based on the studies and analyses of the Truckee Meadows Water Authority’s (TMWA) and the Department of Water Resources’ (DWR) bond covenants and financial status, staff created a conceptual framework for the consolidation process that consisted of three stages. He stated the first stage would be to enter into an Interlocal Agreement (ILA), which would govern the consolidation process all the way from its initial stages through its completion. He explained the ILA would contain the material conditions to be satisfied, which would include amending the TMWA Joint Powers Agreement (JPA). He said failure to meet any of the material conditions would allow the parties to terminate the ILA.

Mr. Simeoni said another material condition would be to enter into an Interim Operating Agreement (IOA), which was the second phase of the process and would govern the requirements and the management of the water systems. He said it was contemplated that TMWA would be the contracting entity to provide the water service for Washoe County under certain terms and conditions. He explained before reaching that point, the transfer of Washoe County employees to TMWA would have to be investigated in addition to transferring any assets or real property and assigning contracts to TMWA to continue performing the management and operation of the water systems. He said it was anticipated an IOA would be in place by spring at the latest and during that timeframe all of the labor issues would be dealt with.

Mr. Simeoni said the third stage would have all parties enter into a Closing Memorandum to tie up any loose ends associated with the integration process. He said the Closing Memorandum would also transfer DWR’s assets and liabilities to TMWA. He advised the Closing Memorandum would force the expiration of the ILA and the IOA and full consolidation would take place at that time.

Sylvia Harrison, TMWA Legal Counsel, discussed the diagram in the packet attached to the staff report dated September 1, 2009 that showed the relationship between the ILA and the other agreements Mr. Simeoni described. Ms. Harrison explained the ILA was the document by which TMWA and DWR would agree to the consolidation of the water operations.

Ms. Harrison said it was planned to have a draft ILA to the Boards in October 2009 and to execute the ILA in November 2009. She stated there were still some questions about where the DWR water planning function would appropriately go. She said there were also ongoing discussions on whether any efficiencies could be obtained by bringing billing and customer service over to TMWA given that the County would

still have to send out sewer bills. She said those were the sorts of things that would be looked at in more detail to come up with the most efficient configuration of the two agencies.

Ms. Harrison said the plan was to have the IOA and the employment agreements worked out by the end of March 2010. She stated the March date would put TMWA in the position to take over operations by the beginning of the Fiscal Year.

Ms. Harrison reiterated it would take awhile to affect the legal consolidation because of constraints in the financial obligations of the two agencies, but it could happen as early as 2012 or 2013 depending on economic conditions.

Ms. Harrison stated it was anticipated the governance structure would be changed in the JPA to appropriately reflect the County's role in the consolidated entity. She noted changes to the JPA needed to be approved by the State Attorney General and if the Attorney General did not act within 30 days, the JPA would be deemed approved.

Ms. Harrison said staff had started the process of figuring out how to arrange the financial defeasance of DWR's bonds. She noted that process would lead to the Closing Memorandum, which would have the forms for the conveyance of assets to TMWA of the County's real property associated with the water utility. She stated it was felt the Closing Memorandum would be negotiated around the time the financial conditions were set and the consolidation would be complete by doing all of the documentation called for in the Closing Memorandum.

Ms. Harrison advised a fairly detailed outline of the ILA was attached to the staff report dated September 1, 2009. She said there was enough meat on the bones so the Boards could understand the legal provisions that would go into the document without getting into word smithing until there was clear direction from the Boards. She discussed the 14 Articles of the ILA.

Commissioner Larkin asked if there was anything that would prevent proceeding with the operational aspects of the consolidation if the long-term nature was agreed to by the two agencies. Ms. Harrison said there was not and that was contemplated in the ILA. Commissioner Larkin asked if a "do not back out" clause was included. Within the structure of the ILA, Ms. Harrison explained the Boards were agreeing to go forward with the consolidation, but some exit ramps had to be built in. She noted ideally what the two agencies would be doing when the ILA was executed was to commit to go forward. Commissioner Larkin said there were some discussions were about not including exit ramps. Ms. Harrison stated it was never said there would be no exit ramps, but it would be as irrevocable as possible. It should be difficult to unwind this. Mr. Simeoni stated the idea was to commit and go forward, but there needed to be a means to exit the ILA if it was decided the consolidation was just not possible.

Director Cashell said it needed to be something very strong to cause an exit so as not to waste all the time and money required to do all of this work. Personally

he felt the timeline of dragging it out until 2011 needed to be tightened up and everyone needed to focus and work on this as the number one priority. Ms. Harrison replied it was hoped the operational efficiencies would be initiated as early as next March or June. She said the legal consolidation would be done as soon as the bonds could be defeased. Chairman Carrigan asked if 2012 would be the earliest that could be done. Ms. Harrison replied staff was thinking it would be done by the next Fiscal Year. Chairman Carrigan said the defeasance of the bonds could hang things up. Ms. Harrison felt by March it would be determined if the consolidation would work or not. She said there was a high degree of confidence this was doable at the staff level. She said not all the rocks had been kicked over yet, which was the reason for Article V.

In discussing Article VI, Ms. Harrison explained TMWA's and Washoe County's existing retail service areas would remain the same. It would be the status quo for the customers until the legal consolidation was affected.

Vice Chairman Aiazzi asked what the purpose was of pointing out the Verdi settlement area. Ms. Harrison explained the Verdi settlement and indicated staff felt it was an opportunity to take care of what staff always felt was an awkward and inefficient situation. She explained it was an opportune time to transfer that service to TMWA, but there would need to be agreement from all of the parties involved to amend the settlement agreements.

Chairman Humke asked for clarification on what the South Truckee Meadows General Improvement District (STMGID) bullet meant. Ms. Harrison replied Washoe County was contracted to provide operations to STMGID. She said that contract would be looked at to determine the most efficient way of handling it, whether that meant leaving a few employees at DWR to administer it or moving those employees to TMWA and having TMWA administer the contract. She stated that bullet was a placeholder to make sure the contract was addressed. She advised if it was decided to expand TMWA's facility to accommodate DWR personnel, it would have to be committed to fairly soon. If a situation arose 18 months down the road that cancelled the ILA, there needed to be some consideration regarding what would happen to that building.

Chairman Carrigan asked if Washoe County billed its water and sewer charges monthly. Rosemary Menard, DWR Director, replied they were billed monthly. Chairman Carrigan asked if it would be cheaper to jointly bill for water and to do quarterly billings for sewer. Ms. Menard noted there were some customers who received both water and sewer services from DWR, but the billings had not been looked at yet.

Commissioner Larkin asked if there were any deal killers up front. Mr. Simeoni replied no legal impediments were foreseen. Ms. Harrison felt the only legal impediments were the financial obligations.

Commissioner Larkin asked about the \$3 million in estimated cost savings. Ms. Menard replied the financial analysis discussed by Jeff Tissier, TMWA Chief Financial Officer, identified a need to reduce operating expenses between \$2

million and \$3 million. The difference between those two numbers was based on what decisions were made with respect to the water planning function. She said staff felt \$2 million was doable given the size of the joint operating budget. She stated the \$3 million figure would come into play if there was no more General Fund funding for water planning.

On motion by Commissioner Larkin, seconded by Director Cashell, which motion duly carried, it was ordered that the staff's proposal be accepted regarding the Interlocal Agreement and staff be given direction to proceed with the suggestions and recommendations regarding consolidation.

Vice Chairman Aiazzi thanked Mr. Simeoni and Ms. Harrison for their work on the ILA.

09-938 AGENDA ITEM 7

Agenda Subject: "Consolidation of recommendation from the Western Regional Water Commission regarding amendment of the Truckee Meadows Water Authority Cooperative Agreement (the "Joint Powers Agreement" or "JPA") to modify governance structure, consideration of staff's recommendation to request the TMWA Technical Advisory Committee to review the JPA and make other recommendations for possible amendment, and possible direction to staff."

Mark Foree, Truckee Meadows Water Authority (TMWA) General Manager, noted a recommendation was made at the Western Regional Water Commission's (WRWC) August 14, 2009 meeting to change the governance structure so the At-Large Rotating Member seat would be a second County Commissioner's seat. He noted any changes to the Joint Powers Agreement (JPA) would need to be approved by the Board of County Commissioners and the Reno and Sparks City Councils.

Vice Chairman Aiazzi asked when the rotating seat would currently go to the County. Mr. Foree replied in January 2010, but staff also recommended other changes to the JPA be considered. Chairman Carrigan suggested making that one change and then locking it back up again. Mr. Foree explained certain things were incorporated in the JPA because the entity was a startup entity, and staff believed some of that language could be cleaned up or removed. It was also felt other changes should be made to coordinate the JPA with the bond covenants.

Mr. Foree said the recommendation was that TMWA's Technical Advisory Committee review the JPA and bring those changes back to the governing bodies in the October timeframe. Ms. Harrison explained the reason it was felt the Advisory Committee would be a good body to consider looking at any changes to the JPA was because it was comprised of top management from the three agencies and they had a lot of experience with the JPA.

Vice Chairman Aiazzi noted the Boards would only be giving staff permission to come forward with something on the JPA. Chairman Carrigan felt there were only three issues he would like anyone to look at: the governance, the bond part of it, and the startup language.

On motion by Director Cashell, seconded by Commissioner Breternitz, which motion duly carried, it was ordered that staff be directed to look at the JPA and send it to the TMWA's Technical Advisory Committee for review at the October 2009 meeting.

09-939 AGENDA ITEM 8

Agenda Subject: "Public Comment. Limited to no more than three minutes per speaker."

There was no response to the call for public comment.

09-940 AGENDA ITEM 9

Agenda Subject: "Staff Comments."

Rosemary Menard, Department of Water Resources Director, said the staff report for Agenda Item 6 proposed another joint meeting to look at the Interlocal Agreement on Wednesday, October 21, 2009, between 11:00 a.m. and 1:00 p.m.

09-941 AGENDA ITEM 10

Agenda Subject: "Board Comments."

There were no Board comments.

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9:02 a.m. There being no further business to come before the Board, on motion by Director Cashell, seconded by Director Young, which motion duly carried, it was ordered that the meeting be adjourned.

ATTEST:

DAVID HUMKE, Chairman
Washoe County Commission

AMY HARVEY, County Clerk
and Clerk of the Board of
County Commissioners

ATTEST:

MIKE CARRIGAN, Chairman
Truckee Meadows Water Authority

CORINNE CASSELL,
Administrative Assistant
Truckee Meadows Water Authority

*Minutes Prepared by:
Jan Frazzetta, Deputy County Clerk*