JOINT MEETING OF THE
INTEGRATED RESOURCE PLANNING ADVISORY COMMITTEE
AND FINANCIAL SUBCOMMITTEE
MEETING SUMMARY

January 14, 2013, 4:00 p.m.

Colorado River Conference Rooms, Southern Nevada Water Authority
100 City Parkway, Seventh Floor, Las Vegas, Nevada

IRPAC Members Present	Tom Burns	Phil Ralston
	Thalia Dondero	John Restrepo
	Bob Ferraro	Scot Rutledge
	Mike Forman	David Scherer
	Carol Jefferies	Danny Thompson
	Bob Kasner	Virginia Valentine
	Jennifer Lewis	
IRPAC Members Absent	Kirk Clausen	Katherine Jacobi
	Garry Goett	Otto Merida
	Joyce Haldeman	Bobbi Miracle
	Warren Hardy	D. Taylor
Financial Subcommittee Present	Jay King	Jarmilla McMillan-Arnold
	Brian McAnallen	Joe Woody
Financial Subcommittee Absent	Terry Murphy	Gay Shoaff
	Launce Rake	
Staff Present:	John Entsminger	Andy Belanger
	Phil Speight	Katie Horn
	Julie Wilcox	
Others Present:	Guy Hobbs	Brian Thomas

PUBLIC COMMENT
There was no public comment.

SUMMARY OF ACTIVITIES

The Southern Nevada Water Authority's (SNWA's) Integrated Resource Planning Advisory Committee (IRPAC) and member agency financial subcommittee (Financial Subcommittee) met on Monday, January 14, 2013. The meeting began at approximately 4:10 p.m.

Approve the December 15, 2012 meeting summary. There being no comments or questions, the meeting summary was approved by the committee.

Dave Ebersold, Facilitator, informed committee members that a public information request was made for committee email addresses. Mr. Ebersold also noted that commercial bills of various meter types from the City of North Las Vegas have been provided to the committee and added that outstanding questions from the last meeting would be addressed during today's presentation.

Discuss results from the committee's rate attribute weighting exercise. At the December 5, 2012 meeting, Mr. Ebersold asked the committee to assign a level of importance or weight to each attribute (1 = "low importance;" 10 = "high importance"). Mr. Ebersold reported the results from that exercise:

Attribute	Level of Importance (Average)	Range
Legal	Threshold requirement	--
Sufficiency or Adequacy	Threshold requirement	--
Equitable and Fair	8.8	5 to 10
Understandable	7.9	2 to 10
Predictable	7.5	2 to 10
Conservation	7.3	3 to 10
Stable	7.2	2 to 10
Financeable	7.1	1 to 10
Simple to Administer	7.0	3 to 10
Economic Environment/Flexibility	6.7	0 to 10

In addition to having the highest average rating and the narrowest range, Mr. Ebersold explained that the attribute "Equitable and Fair" was the most frequent response to the question "Which five attributes are most important?" However, because all of the attributes received a rating of 6.7 or higher, Mr. Ebersold concluded that, on average, the committee found all attributes important.

Mr. Ebersold noted some trends: a small group of committee members rated everything high (8 to 10), while another group felt that *almost* everything was important. This group rated each attribute at a 10, except for one or two items per person, including "Economic Environment/Flexibility," "Conservation," and "Simple to Administer." These three attributes were rated at five. Mr. Ebersold stated that a number of committee members fit another pattern, wherein they rated only one or two attributes as important.

Bob Ferrero asked what can be drawn from this data. Mr. Ebersold said the data shows that there is a lot of diversity of opinion about what attributes are important. Despite this diversity, the results of the weighting exercise are not "all over the map."

Mr. Ebersold stated that he received specific feedback on the attribute "Sufficiency and Adequacy." Defined as:

> *A threshold requirement. Any rate structure must provide adequate revenues to cover costs and appropriate levels of reserves.* ***(A minimum of the average of the highest years of principal and interest on outstanding debt).***

Two committee members weighed the language *"A minimum of the average of the highest years of principal and interest on outstanding debt"* at a zero, but weighed the remainder at a ten. David Scherer asked if there was a time period of the average of the highest years of principal and interest to past or future. Mr. Hobbs advised that it is on a forward-looking basis. The committee members opted to not consider any changes to the attribute based on this information.

Continue a presentation on SNWA debt, finances and bond financing. Mr. Hobbs began by noting that there were a couple of questions raised about debt reserves at the last meeting. Specifically, Phil Ralston asked if part of the amount borrowed, when the SNWA issues debt, is to set up debt reserves for those specific issuances. Mr. Hobbs answered no—the only money borrowed is money needed for the construction project. The fund balance serves as the reserves for the debt; the SNWA does not actually borrow reserves.

Mr. Hobbs reminded the committee of the topics covered during the December 5 meeting:

- Existing SNWA revenue sources
- SNWA bond financing options
- The SNWA's accrued debt to fund needed capital investments
- Connection Fee revenues

At the last meeting, Kirk Clausen asked for some examples of the interest cost that the SNWA carries as a part of its debt. To address Mr. Clausen's question, Mr. Hobbs provided the committee with a handout describing the true interest cost (TIC) of the debt that has been issued since 2008. Mr. Hobbs added that if the committee wanted a weighted average cost of capital, that information could be calculated and provided. There was no request for this additional information.

Mr. Hobbs explained that in response to the dramatic decline in connection fee revenue, the SNWA took several steps to deal with the shortfall:

- Evaluated Expenditures
- Restructured Debt
- Financed Capital at Lower Interest Rates
- Conducted a Rate Study
- Implemented New Revenue Source

Mr. Ralston asked if debt refinancing impaired the SNWA's rating at all. Mr. Hobbs answered that the rating agencies took note of such action, and if it was done on a continuing basis, it could negatively impact the SNWA's rating. Continuing, Mr. Hobbs delineated other measures taken in response to the decline in connection fee revenue.

Mr. Hobbs presented a chart depicting the correlation between the decline in connection revenue and the New Expansion Debt Service Fund balance. From 2006 through 2012, connection fee revenue diminished, which necessitated using the SNWA reserves to maintain pace with expenditures.

Next, Mr. Hobbs discussed the SNWA's 2011 Rate Study, which determined that existing revenue sources, including connection charges, were insufficient to meet the SNWA's short-term and long-term debt obligations. To evaluate alternative rate structures, Hobbs, Ong & Associates and Public Financial Management (PFM) developed a rate model. The rate model looked at alternative ways of apportioning the need for revenue among the various user classes and relied upon certain critical assumptions:

- Sales Tax collections
- Population projections
- Water sales and consumption projections

Mr. Hobbs asked the committee to finalize the types of assumptions to be used in the model. These assumptions have nothing to do with how the rates will be apportioned among user groups, but are important in setting the model's basic parameters.

Sales Tax Revenues - Sales tax revenue is an external revenue source to the SNWA that offsets the need for revenue that would otherwise be generated by rates and charges. Sales tax will be in the model going forward, but one of the model's assumptions is the revenue's growth projection. The previous model assumed a 3.5 percent growth rate on an annual basis. The committee will have to decide if 3.5 percent is a reasonable assumption for sales tax revenue growth or if an alternative projection rate is more appropriate.

Population Growth - The Rate Study relied on a projection that the community's annual population growth rate would increase 1.07 percent annually between 2013 and 2021. The committee will be asked to discuss whether this growth rate percentage is appropriate and should be used within the model. Mr. Hobbs stated that population projections help determine future connection charge revenue.

Water Sales - The SNWA provided a projection of a 0.96 percent increase annually. Mr. Hobbs noted that water sales reflect water consumption, which drives the revenue that is associated with volumetric rates or variable rates.

Mr. Hobbs then asked the committee to provide input on sales tax revenue and growth rates. Mr. Hobbs mentioned that sales tax growth, year over year, has been approximately 13 percent. Because of this, he acknowledged that the committee might have a desire to increase the sales tax growth percentage in the model. Mr. Hobbs noted that increasing the sales tax growth percentage, however, would not have a dramatic affect. Mike Forman clarified that the growth in sales tax revenue was larger in 2012 than the assumption made in 2011. He then asked if the model is frontloading the 2013 number as a bigger base. Mr. Hobbs said the most recent number from the actuals will be used and the growth rate would be applied to that.

Mr. Ralston asked if the $43.5 million in projected sales tax revenue was based on true percent growth from 2012. Mr. Hobbs responded that for 2013, $43.5 million was probably still an estimated number.

When actuals for fiscal year 2013 are available, they will be utilized by the model. Mr. Ralston asked how the 3.5 percent sales tax estimate compares with other forecasts. Mr. Hobbs answered that most local governments tend to be more conservative, because it represents a significant source of revenue. He doubts they would exceed five percent. As far as business planners are concerned, Mr. Hobbs explained that during the 2011 rate study, business groups felt 3.5 percent was in line with their internal planning. Mr. Ralston stated that he is inclined to leave the sales tax rate at 3.5 percent. He feels that looking out over a nine-year horizon, he wouldn't want to go above five percent.

Mr. Scherer asked what metrics were used to determine the projected annual increase. Mr. Hobbs explained that prior to the recession, forecasters would use mathematical analyses. Post-recession, forecasters began tempering historic forecasts to account for real conditions. Mr. Scherer asked if there are other agencies or municipalities that align with 3.5 percent. John Restrepo noted that tweaking the number from 3.5 percent to 3.75 percent will not have a huge impact in the end.

Mr. Hobbs said that in the event any of the SNWA revenue sources over-perform—variations that occur to the positive— additional revenue would go into the Rate Stabilization Fund and could be available to cushion future rate impacts. He then noted that the same would be true on the other side: if revenues under-performed, a mechanism must be available to increase revenues due to a high amount of fixed costs. Mr. Hobbs stated that he feels 3.5 percent is conservative and reasonable. At a later date when more information becomes available, that number could be adjusted.

Mr. Restrepo asked if there is a formal process by which these rates would be reviewed and updated on an annual basis. Mr. Hobbs responded that the actual revenue fund must be compared to what was forecasted. He added that maintaining currency is an important feature of the model. Mr. Hobbs said he has spoken with the SNWA financial department almost monthly since the new rate structure was instituted to see how revenues were doing in comparison to projections. He recognized that there would be some variance between projections and actuals over the long term.

Bob Kasner said that 3.5 percent is as conservative as he would feel comfortable with. He added that if a one percent increase is factored in population and a 2.5 percent increase for inflation, on a per-person unit, sales could be flat for the next eight or nine years. Mr. Kasner suggested that the biggest variable would be whether the State decided to tax services or internet sales. Mr. Kasner added the tough part about projecting may not be inflation or population growth, but what sales are taxable. Mr. Hobbs agreed and said he would come back to the discussion about the possible expansion of the sales tax base.

Referring to recent quarter-cent sales tax increases, Virginia Valentine asked if an initial increase is seen, but then collections return to previous levels. Mr. Hobbs said data like that might be available on a month-to-month basis, but usually there is a certain area of trade that will explain these month-to-month variations. The biggest undercut to the sales tax base was dependency on taxable construction materials. Mr. Hobbs said he does not expect to see a return to prior levels of inflation-adjusted per capita sales tax as experienced before, simply because of continued reliance on that area of trade performing as it performed five or six years ago. Mr. Hobbs further stated he believes Southern Nevada is reaching a new equilibrium without the advent of construction spending. Mr. Hobbs said that would help in two ways: (1) sales tax revenue; and (2) connection charge revenue.

Going back to Mr. Kasner's point, Mr. Hobbs said there would likely be discussion about expanding the sales tax base during the 2013 legislative session. Mr. Hobbs said he believes that to remove the volatility from the sales tax base, it should be applied over a broader area of economic trade than it currently covers. If that were to happen, Mr. Hobbs said it begs the question of where the revenue would be allocated. For example, a separate transaction charge on services could be established and that revenue would be routed to state programs. Alternatively, the base might be expanded and all recipients of sales tax (K-12 education, local governments, police, RTC and other programs) would be the beneficiaries. Mr. Hobbs assumed that if this happened at the state level, it would be regarded as an enhancement to state revenue.

Mr. Restrepo said that if the sales tax base is expanded, the rate lowered, and applied to services, then services must be defined (i.e., retail services to consumers, business-to-business services). If business-to-business services are considered, then there is a pyramid effect.

Mr. Hobbs then asked the committee if a 3.5 percent increase in sales tax revenue seemed like a good starting point for the rate model. Mr. Restrepo asked if it is problematic to use a sales tax range. Mr. Hobbs responded that it can be done, but it becomes confusing when there are multiple versions of the model, especially in combination with other things that will be modeled (i.e., fixed charges, variable charges, population rates, consumption rates, etc.). Mr. Hobbs said if 3.5 percent is used and later on the committee wants to see what would happen if the economy improved in certain areas, models can be adjusted. He stated he is just looking for a consistent baseline. Mr. Ebersold asked the committee if 3.5 percent seems like a reasonable starting point. The committee reached consensus and agreed that 3.5 percent is a reasonable assumption for the rate model.

Mr. Hobbs then asked the committee if a 1.07 percent annual increase in population appeared reasonable. Mr. Ralston asked for clarification regarding the population growth rate versus the water sales projected rate, specifically if water sales growth is a combination of price change and volume. John Entsminger, SNWA Senior Deputy General Manager, said that even though Southern Nevada's population has increased since 1998, water sales have remained essentially flat because per capita water use has significantly decreased despite the addition of 400,000 new residents. The 0.96 percent rate is a derivative from two sources: the SNWA's Water Resource Plan and shorter-term budget projections of water sales over a three- to five-year time period.

Mr. Scherer asked if the existing vacant housing stock was considered to calculate how the population could affect connection fees. Brian Thomas, Public Financial Management, responded yes and explained it was presumed that it would take a couple of years for that housing stock to be filled.

Mr. Kasner asked the unit of measure used within the water sales projections. Mr. Entsminger responded the projections are in acre-feet. Mr. Kasner asked if it is acre-feet per year. Mr. Entsminger responded that it was acre-feet diverted from Lake Mead and supplied to SNWA customers each year—not the amount consumed from the lake.

Jay King asked how much water is available given Nevada's agreements with other states. Mr. Entsminger explained that Nevada is entitled to consumptively use 300,000 acre-feet per year from the Colorado River, assuming no river shortages. Last year, Nevada used 235,000 acre-feet so there is some unused apportionment available. Referring to the *SNWA Rate Model Assumption* chart, Mr. King asked

how the water sales projections in 2013 (415,486 acre-feet) can exceed the 300,000 acre-feet allotment. Mr. Entsminger explained that when water is diverted from Lake Mead, on average, 60 percent is used outdoors and 40 percent is used indoors. The 40 percent that is used indoors is captured, treated and returned back into the lake for return flow credits. He stated that one could multiply the 300,000 acre feet by 1.7 and that is the amount that could actually be diverted from the lake each year. Nevada cannot deplete more than 300,000 acre-feet from Lake Mead annually. Mr. King asked if the drought continues, would there be a recalculation of what is available and who decides that. Mr. Entsminger said that a series of agreements among the Seven States and the Federal Government, dictated by elevations in Lake Mead, determine how much of a shortage Arizona and Nevada would take. There are set shortages for the first three trigger elevations. After that, the Basin States and the Federal Government would be required to determine additional shortage amounts. Mr. King asked how close we are to the first shortage level. Mr. Entsminger responded that Lake Mead's current elevation is 1,115 feet. The first shortage trigger is at 1,075 feet, and therefore, Nevada is currently 40 feet above the first trigger point. Mr. Entsminger added that as recently as November 2010, Lake Mead's elevation was 1,081 feet—only six feet above the trigger point. Fortunately, Southern Nevada experienced an extremely good water year in 2011.

Mr. King noted that the SNWA's water sales projections, as reflected on the *Rate Model Assumptions* chart, extend to 2021 assuming water is available. Mr. Entsminger stated that the largest federally-mandated shortage for Nevada is 20,000 acre-feet. Mr. Ebersold clarified that the assumption is an adequate supply exists to achieve the water sales reflected on the chart.

Thalia Dondero asked if other states are over drafting water. Mr. Entsminger responded that the four states in the Upper Basin are using less than their legal entitlements, and Arizona is using close to its legal entitlement. On average, California uses its legal entitlement, but regulations, known as the Inadvertent Overrun Policy, allow California to use more in one year as long as it pays it back in the following year.

Mr. Ebersold reminded the committee that the question the committee was asked to respond to was whether a 1.07 percent annual increase is a reasonable assumption for population growth rate. The committee agreed that it was.

Mr. Ralston asked how population relates to forecasted job growth—or if it needed to. Mr. Restrepo noted that the employment-to-population ratio has held fairly constant with a slight dip due to the recession. For the most part, local population is generally driven by job growth; therefore, the one percent is consistent with job growth projections. Mr. Hobbs noted that those relationships should be watched as they can change over time.

Referring to the population growth estimates on the Rate Model Assumption chart, Bob Ferraro asked why a downturn is reflected in 2019. Mr. Hobbs stated that these projections mimic the ones made by UNLV's The Center for Business and Economic Research (CBER). Mr. Restrepo added that as population grows, the rate of change declines. Mr. Hobbs said that he would check with CBER to see if there are updated numbers available. Mr. Restrepo said that Mr. Hobbs should also consult the Southern Nevada Area Population Estimation and Projection Committee (SNAPE), which uses a different set of metrics to determine population growth. Mr. Restrepo suggested that Mr. Hobbs consider using a blended number from both sources. Mr. Hobbs stated that he is open to using a blended number, should

the committee make that recommendation. Mr. Forman added that if population growth is driven largely by job growth, then population growth is a good indicator of housing needs. If population growth is driven by people retiring in Southern Nevada—with smaller households—that means more housing starts per person. Mr. Forman expressed his concern that population growth is used as a basis for connection charges when it seems like other variables should be considered. Mr. Hobbs stated that he was open to a different driver for connection charges. Mr. Forman noted that he didn't have a better idea. Mr. Hobbs explained that they were looking for a proxy and population growth seemed to make the most sense at the time. Mr. Hobbs then said he would use CBER's numbers until such time as SNAPE's revised numbers are available. At that time, he will substitute a blended number.

Mr. Ralston asked if it makes sense, in this kind of modeling, not to count connection charges and instead use other numbers which might not be as variable. He suggested that the committee not count on connection charges for the sake of rate hikes or bonding capability. Mr. Hobbs said that Mr. Ralston made a good point, and he can provide scenarios with and without connection charges. Mr. Hobbs said that if a new equilibrium in connection charge revenue is reached, you would want to use that revenue to the benefit of the ratepayers as an offset to their requirement. Mr. Hobbs added that the same thing troubled him about sales tax projections—where he relied on certain things repeating themselves from year to year that are not necessarily repetitive. Mr. Hobbs said it is something that should be discussed as the committee moves through the modeling phase.

Continuing the presentation, Mr. Hobbs discussed other model drivers:

- Focus on New Expansion Debt Service Fund
- Debt service costs
- Annual operating costs increase of 4 percent
- Connection charge revenues remain steady through 2014, then increase with population growth
- Estimated price elasticity
- Maintaining the Fund Balance target ($280 million)

Tom Burns asked what the biggest driver is in annual operating costs. Mr. Hobbs replied, noting that salaries, supplies, and services comprise the bulk of SNWA operating costs. Mr. Hobbs asked Mr. Entsminger whether salaries or services are the more dominant part. Mr. Entsminger responded that materials, such as chemicals, are probably the dominant factor. Mr. Burns added that many businesses have seen reductions in salaries and staffing, and felt that projecting a 4 percent increase on labor could upset ratepayers. Mr. Hobbs said that using an inflator like this does not reflect the fact that the SNWA has already eliminated some of its base salary. For the remaining part, there still needs to be some sort of escalator for the costs that are remaining after reductions were made in staffing. He also noted that the 4 percent is an aggregated growth factor for salaries, services, supplies and operating capital—not just the salary component. Mr. Hobbs said the 4 percent number has been a historical value. If it was changed to 3.5 percent, the difference would be hardly noticeable.

Despite the fact that the SNWA reduced costs, Mr. Hobbs made it clear that a replacement revenue source was needed to offset the decline in connection charge revenue. The rate study evaluated a number of alternatives to replace that revenue:

- Fixed Charge

- Combinations (e.g., fixed charge and commodity charge)

Mr. Hobbs stated that hundreds of scenarios were evaluated as the SNWA went through this process. He noted that on January 19, 2012, recommendations were presented to the SNWA Board of Directors for their initial consideration. Those recommendations included:

- Option One: An increase in the commodity charge
- Option Two: A fixed infrastructure surcharge
- Option Three: A hybrid of the commodity charge increase and the infrastructure surcharge

Option One - This option would have increased the commodity charge from $0.30 to $1.06 per thousand gallons of water used. The increase borne by residential and business customers would have depended entirely upon the amount consumed. For the average residential customer, this would have equated to an increase of approximately $10 per single-family home.

Option Two - Focusing on reliability, it made sense to look at relative meter size as a proxy for relative degrees of reliability on the system. Customers with larger meters would pay a higher charge. The average residential customer was asked to pay $5 more each month, which was a constrained variable. Had it not been constrained, it would have been closer to $10 per month. It was constrained at $5 to minimize the impact on the residential ratepayer. Non-residential customers would pay a little more than $19 per month for a 5/8-inch and 3/4-inch meter. Customers with a 10-inch meter (or larger) would pay a little more than $1,600 per month. Non-residential fireline meters would have been assessed a fixed charge equal to 40 percent of the infrastructure surcharge (as the SNWA went through this process, that component was changed).

Option Three - A hybrid approach that would have increased the commodity charge by $0.05. This would have resulted in a monthly increase of $5.65 per single-family home in 2013, approximately $6.30 in 2014, and approximately $6.95 in 2016. Non-residential customers would have paid from $16.04 (5/8-inch and 3/4-inch meters) to $1,397.25 (10-inch and larger meter) more per month in fixed charges plus the increase in the commodity charge noted above.

Mr. Hobbs then showed a slide depicting rate scenarios and customer comparisons, which was used during the rate process one year ago. He explained that this chart compared bills at the time versus the relative impacts on the user classes under each of the three scenarios. Mr. Hobbs said that on a going-forward basis, as he runs similar scenarios, a method will be needed to show the committee what the output of each of the models might be. Mr. Hobbs asked the committee to think about what they want the output to look like. Using this chart as an example, Mr. Hobbs explained that he has attempted to show the midpoint or average impact. While this chart clearly shows the average impact, it does not show what the extremes will be on either end of the average. Mr. Hobbs said that from the standpoint of simplicity, this is an easy chart to look at and digest. If the committee wants to see more user groups and ranges of impacts, they should provide such direction. Mr. Ebersold summarized by saying that what Mr. Hobbs is asking the committee to consider is whether they should look at the range where most of the bills fall or do they look at the extremes also. He said that he has discussed with Mr. Hobbs a way to get the committee more information showing a distribution of bills—so that the committee understands how much variability exists and the implications of that variability on specific user classes.

Mr. Forman said that he feels this information is totally wrong as it pertains to Homeowners Associations (HOAs). HOAs are not commercial properties—they are owned by the homeowners. Anyone who lives in a single-family home is paying a surcharge for their home plus a surcharge for any water meters owned by the Association. For his personal association, the net is $10 per homeowner, per month. Common areas, that are not commercial properties, should be included and it should be determined how those fit into the average residential bill if there is going to be any meaningful discussion on impacts.

Mr. Kasner asked if there was a revenue target when the three rate options were calculated. Mr. Hobbs said that each of the options produced the same revenue target. Referring back to the rate scenarios slide, Mr. Kasner noted that it seems like one of the options would result in higher revenues.

Mr. Scherer asked for clarification as to what Mr. Hobbs was asking the committee. Mr. Hobbs responded that he was more or less planting a seed—asking the committee to think about what types of customer accounts they would like to see as they consider rate alternatives.

Mr. Restrepo said he prefers the information presented in the form of ranges. He added that some of the controversy over the last rate increase resulted from smaller commercial businesses in independent, free-standing buildings with one fire meter who got hit very hard versus larger developers who spread the costs over a large number of tenants. He also said a good point was raised earlier that there is a general view that the commercial non-gaming sector is subsidizing residential customers.

Mr. Burns said he would argue that homeowners within an HOA are paying for a separate amenity and added that it should be considered services received. He then added that he was on the first rate committee and there were a wide range of outcomes. He asked if it would be appropriate to present one standard deviation, which would cover a broad range, recognizing that there will always be anomalies on either side. Mr. Hobbs noted his sensitivities to situations wherein one category there is a midpoint but you also have extreme outliers on both ends. If one standard deviation is used, extreme outliers are ignored, and it could be argued there wasn't full disclosure of the range of impacts. Mr. Burns said he doesn't believe you can promulgate rates based on every anomaly that exists. You have to promulgate rate, if you are talking about fair and equitable, for the majority of people who show up within that range.

Referring to the rate comparisons chart, Brian McAnallen asked that the committee be provided with the number of meters or users per breakdown. Mr. Hobbs said he could show the number of customers in each customer type that is represented.

Mr. Hobbs then discussed Board actions relative to the last rate increase. He stated that in February 2012, the Board approved an amended version of Option Two (Infrastructure Surcharge). The Board reduced the non-residential fire-line fixed charge from 40 percent (as proposed) to 35 percent. Infrastructure collections began in April 2012. In response to customer feedback, the SNWA Board of Directors further reduced the cost of fire-line meter charges by applying a 50 percent credit (making it 17.5 percent of the cost of an equivalent service meter charge).

Mr. Hobbs stated that since the rate adoption, several changes have taken place:

- Refinancing opportunities - The SNWA refinanced debt at lower rates. To date, approximately $14 million was saved in debt service payments from 2013 on to maturity of the debt.

- Lower debt service costs for new money - As new debt is issued, the SNWA will look for the most effective ways to get it issued. Mr. Hobbs noted that there isn't a substantial near-term need for debt, so most activity will occur on the refunding and refinancing side.

- Infrastructure Charge collections - The rate study did not anticipate implementation of a new rate or rate increase in fiscal 2012. The SNWA began collecting infrastructure charge revenues in April 2012, and collected $16.1 million.

- Fire-Line Credit - The 50 percent fire-line credit reduced annual revenues by about $14.1 million.

- Variances in actual results versus model projections - The SNWA continues to monitor these variances.

Mr. Restrepo asked if the interest rate savings go into the Rate Stabilization Fund. Mr. Hobbs said that they do indirectly, as they reduce the need for cashflow and those savings would accrue to the bottom line. Mr. Hobbs added that anything in excess of the $280 million fund balance could go into the Rate Stabilization Fund.

Mr. Kasner asked how much the SNWA was trying to raise initially and how that was adjusted by the February 2012 Board action. Mr. Thomas said the intent was to raise $93 million a year; now the SNWA is raising approximately $78 million. He added that savings that would have gone into the Rate Stabilization Fund are offset by that reduction in revenue that will occur over this year and the following two years due to the fire-line credit. Mr. Hobbs added that he has been asked how the fire-line credit was funded, and explained that it was funded from the Rate Stabilization Fund, which the SNWA has effectively spent back to nearly zero.

Referring to the chart provided earlier in the meeting regarding interest on the bonds, Mr. Burns noted that the debt only goes back to 2008. He asked if there was older debt that is causing the increase. Mr. Hobbs said yes, and explained that the intent of the chart was to show interest costs on recently-issued debt, and it is not a comprehensive profile of all of the SNWA's outstanding debt. Advancing to a chart titled *SNWA Total Debt Profile*, Mr. Hobbs explained that the chart depicts the combined debt profile. He noted that in 2016, 2017 and 2018, the principal piece (in blue) is at a much higher level than in 2013, 2014 and 2015, which is due, in part, to restructuring that was done to push out principal. Mr. Hobbs noted that in years 2016 and 2017, the debt reaches the $280 million mark.

Mr. Hobbs then showed a chart titled *Projected Debt and Expenditure Profile - New Expansion Debt Fund*, which depicted revenues, operating expenses and debt. Mr. Hobbs noted that costs exceed the revenue line in 2015 and the gap widens significantly beginning in 2016. Mr. Ebersold asked if the goal of the first round of modeling will be to fill the gap between revenues and costs. Mr. Hobbs replied yes.

Mr. Hobbs said his final chart titled *Shortfall Beginning 2016* attempts to quantify the shortfall that will achieve all of the results that need to be achieved: pay the debt service and leave an ending fund balance equal to one year's principal and interest. He stated this chart assumes that the rates in place today, which include the previous rates, the infrastructure surcharge, and fire-line credit, would apply on a going-forward basis and become part of the base. Mr. Hobbs asked the committee if it is reasonable to assume that the current rate structure should be considered base line to identify the funding gap on a go-forward basis. Mr. Hobbs advised the committee that absent any direction, that is how he will do the modeling.

Mr. Hobbs thanked the committee for their feedback relative to rate model assumptions.

Referring to the *Shortfall Beginning 2016* chart, Mr. Restrepo asked what a breakeven scenario would do to rates—bringing the "shortfall" line to zero. Mr. Ebersold explained that Mr. Hobbs will model a revenue stream to take that line to zero.

Mr. Kasner stated that the rate increase in 2012 shifted the overall burden from individuals to businesses. He requested that the committee be given an estimate of the allocation before the rate change and after the rate change for businesses versus individuals for the SNWA.

Mr. Scherer thanked the SNWA, Hobbs, Ong & Associates, and Public Financial Management for all of the detail provided to the committee.

Noting that the fire-line credit is not sustainable, Danny Thomas asked if the credit was a one-time thing. He said that State law mandates the fire lines. If you have a fire-line, the expectation is that there will be water there if they all come on at the same time. Mr. Hobbs reminded the committee that the existing fire-line charge, depending upon the size of the meter, is only 17.5 percent of the true cost of a service line. The committee needs to discuss and determine if 17.5 percent is an appropriate level for that fire-line charge. He acknowledged that some would argue the charge needs to be zero. On the other hand, there are economics associated with fire meters and capacity issues.

PUBLIC COMMENT

Ed Uehling distributed a letter to the committee and commented about the rate structure attributes. He stated that his letter contains three factors that pertain to the rates. Mr. Uehling stated that the fire-line charge on his building increased from $250 per month to $640 per month. He said he believes the rate for hotels increased by less than one percent ($184,000 per month to $186,000 per month). Mr. Uehling questioned whether any user class got a reduction in their rates. Mr. Uehling said he requested the committee's email addresses so he can send information directly to them. A copy of the letter provided to the committee is included with this meeting summary.

ADJOURNMENT

The meeting was adjourned at 5:50 p.m.