

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

August 7, 2013, 3:30 p.m.

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

IRPAC Members Present	Tom Burns Bob Ferraro Mike Forman Warren Hardy Joyce Haldeman Katherine Jacobi	Carol Jefferies Bob Kasner Bobbi Miracle Scot Rutledge Danny Thompson Virginia Valentine
IRPAC Members Absent	Yvanna Cancela Kirk Clausen Thalia Dondero Garry Goett Jennifer Lewis	Otto Merida Phil Ralston John Restrepo David Scherer
Financial Subcommittee Present	Brian McAnallen Jarmilla McMillan-Arnold	Gay Shoaff Joe Woody
Financial Subcommittee Absent	Jay King Terry Murphy	Tom Warden
Staff Present:	Ken Albright Andy Belanger John Entsminger Kevin Fisher Rick Holmes Katie Horn	Alisa Mann Zane Marshall Frank Milligan Phil Speight Julie Wilcox Ron Zegers
Others Present:	Guy Hobbs Brian Thomas	Thomas Toepfer

PUBLIC COMMENT

Ed Uehling stated that the IRPAC's funding recommendations have not been considered adequately. He said the committee should recommend a prohibition on borrowing, elimination of the Groundwater Development Project, and the requirement that the Rate Stabilization Fund be used to pay down existing debt.

SUMMARY OF ACTIVITIES

The Southern Nevada Water Authority's (SNWA) Integrated Resource Planning Advisory Committee (IRPAC) and member agency financial subcommittee (Financial Subcommittee) met on Wednesday, August 7, 2013. The meeting began at 3:43 p.m.

Approve the June 24, 2013 meeting summary. It was noted that Scot Rutledge's name was inadvertently omitted from an exhibit provided to the committee for review. There being no comments or questions about the corrected version, the meeting summary was approved by the committee.

Dave Ebersold, facilitator, said the meeting goals include an update on hydrology, an update on the Technical Resource Committee, a review of committee recommendations made to date, finalizing the fund balance variance policy, discussion and recommendation on sales tax permanence, a review of the rate implementation calendar, and discussion of education and outreach plans.

Receive an update on hydrologic conditions. John Entsminger, SNWA Senior Deputy General Manager, stated that the SNWA has access to Lake Mead via two intakes. The pumps for Intake No. 1 are at elevation 1,050 feet and the pumps for Intake No. 2 are at elevation 1,000 feet. A third intake is currently under construction. Mr. Entsminger then showed a drought monitor slide, published monthly by the National Oceanic Atmospheric Administration (NOAA), which shows extreme drought conditions in most of the western United States. He advised that summer monsoons have given some drought relief to areas of Nevada and Arizona, but the upper parts of the basin have continued to experience extremely dry conditions. Mr. Entsminger said the entire basin is below 50 percent of average. The inflow into Lake Powell for June 2013 is at 35 percent of average and the unregulated inflow into Lake Powell for July 2013 is 13 percent of normal. He said the basin is on track to have the driest two consecutive-year period in the recorded history of the Colorado River.

Mr. Entsminger explained that by mid-August, the Bureau of Reclamation (BOR) will release its August 24-Month Study, which officially determines what the water year release will be for 2014. He explained that when full at elevation 3,700 feet, Lake Powell holds approximately 24.32 million acre feet (MAF) of water. Currently, Lake Powell's elevation is 3,573 feet, which equals about 9.52 MAF of water. Because Lake Powell is below 3,575 feet for the first time ever, it is expected that the August 24-Month Study will state that the BOR will release 7.48 MAF of water from Powell, which is 750,000 acre feet (AF) less than a normal release of 8.23 MAF.

Mr. Entsminger showed a chart titled "Lake Mead Elevation Projections," which depicts the possible impacts of a 7.48 MAF release versus an 8.23 MAF release. Assuming a 100 percent of normal water year in 2014, it is expected that a 7.48 MAF release will result in Lake Powell's elevation dropping approximately 20 feet by July 2014 and to an elevation of approximately 1,060 feet by June 2015. Mr. Entsminger noted that this is of concern because the SNWA does not know exactly when and how the upper intake (Intake No. 1) will be affected. The SNWA knows it will lose operation of Intake No. 1 at elevation 1,050 feet, but it could be as early as 1,065 feet. Regardless, the water quality at 1,065 feet will be extremely poor and will require extra treatment, incurring additional costs.

Danny Thompson asked what happens when Intake No. 1 becomes inoperable. Mr. Entsminger said that Intake No. 2 has a pumping capacity of 700 million gallons per day (MGD) and is capable of supplying all of the Valley’s water for the foreseeable future. He noted that the peak use on the hottest day thus far this year was only 550 MGD. However, the problem is that if Intake No. 1 fails, the Valley will be dependent upon one intake until the Third Intake becomes operational. Mr. Thompson asked what will be done about the poor water quality. Mr. Entsminger explained that additional water treatment will be costly or the SNWA will have to pull water from deeper within the lake, which will increase power costs. Mr. Thomas asked if reaching elevation 1,060 feet is definite. Mr. Entsminger said that 2011 was an extremely good water year and Lake Mead’s elevation rose about 50 feet in a 14-month span—so with extremely good hydrology, there is a slim possibility that the situation could turn around. He added that the purpose of this discussion is to prepare the committee for the BOR’s report, which is anticipated to show the 24-month predictions and subsequent releases.

Receive update from Technical Review Committee and consider modifications to the rate model. Guy Hobbs of Hobbs, Ong & Associates reminded the committee of the consensus reached at the last meeting:

- Fifty percent of the additional annual revenue requirements in 2017 to be paid by Commodity Charge
- Fifty percent of the additional annual revenue requirements in 2017 to be paid by Infrastructure Charge; and
- Keeping the firelines at the current dollar amount.

Mr. Hobbs said the TRC met twice and discussed the various assumptions of the rate model (i.e., growth in sales tax rates, growth in water sales, interest earnings). The TRC has resolved all areas of the modeling except operating expenses. Specifically, the committee still needs to discuss how labor is classified in operating expenses. The TRC is expected to meet one more time in August and finalize the rate model.

To date, the TRC has agreed to:

1. Validate the assumptions used through 2018.
2. Taper the sales tax projections.

2014	2015	2016	2017	2018	2019	2020	2021
5%	5%	4.5%	4%	3.5%	3%	2.5%	2%

3. Make no changes to the connection charges projections used in the model.
4. Make no changes to the water use projections used in the model.
5. Make no changes to the price elasticity projections used in the model.
6. Modify interest earning projections.

2014	2015	2016	2017	2018	2019	2020	2021
1%	2%	3%	3%	3%	3%	3%	3%

Mr. Hobbs said that prior to the Technical Resource Committee (TRC) meetings, all revenues and expenditures in the rate model were updated to reflect actuals through June 30. He added that this had a significant impact on a couple of revenue areas, which from a ratepayer's standpoint are positive. Referring to a chart titled, "Rate Model Changes," Mr. Hobbs pointed out the most notable changes:

- Connection charge revenues increased from \$13.2 million to \$19 million.
- Commodity charge revenues increased from \$38 million to \$40.1 million.
- Sales tax revenues increased by \$408,000.

There being no further comments or questions, the committee agreed to move forward using the rate model as a basis for its analysis.

Brian McAnallen said that he attended both TRC meetings and appreciated the work done by the committee members.

Review and finalize funding recommendations. Mr. Ebersold reviewed the funding recommendations made to date and invited the committee to ask questions and/or make changes, as necessary.

1. Develop rates through a transparent and inclusive community process.
2. Retain the existing rates and charges already adopted by the SNWA Board and its purveyor members and formalize the fire meter charge at 17.5 percent of the current Infrastructure Charge.
3. Cap the infrastructure charge on fire line meters at the 2013 dollar amounts.
4. Increase the Commodity Charge to \$___ per 1,000 gallons to meet 50 percent of annual revenue requirements in the target year 2017 and increase the Infrastructure Charge to meet 50 percent of annual revenue requirements.
5. Temporarily reduce the maximum rate in 2014, 2015 and 2016 to provide the community time to adjust to the new rates.
6. Utilize the revenue earned in excess of the amount needed to make bond payments and maintain adequate reserves in years 2014 and 2015 only to reduce the rates in years 2016-2021.

Bob Kasner commented that there is a general fear that by increasing the rates prior to 2017, excess money in the fund balance will be used to pay operating expenses. He clarified that the purpose of Number 6 is to alleviate that concern.

The committee agreed that this is an accurate reflection of recommendations made to date.

Finalize the fund balance variance policy. Following a lengthy discussion, the committee agreed on three fund balance variance policies. See Exhibit A for information related to committee member preferences.

Policy 1 - Connection Charge Revenues

Any Connection Charge revenues in excess of the 2014 base year (\$16.1 million) shall be allocated and used exclusively to pay the following, in order of priority:

1. Early payment of pre-funding of existing debt or one-time capital expenditures, whichever is most financially efficient.
2. Water rate reductions.

Policy 2 - Rate Collections

Money added to the New Expansion Debt Service fund and related interest attributed to the 2014 and 2015 rates should be separated from the remainder of the fund balance and used only to offset forecasted operating deficits in 2016 and 2021 and not to be used for any other purposes.

Policy 3 - Rate Stabilization Fund

If funds in excess of the target fund balance remain in the New Expansion Debt Service fund (including phased-in rate revenue), the excess fund balance must be used for any of the following purposes:

- To redeem outstanding bonds (thereby reducing outstanding debt and future debt service requirements);
- To acquire capital assets that would otherwise need to be funded with borrowed money (thus avoiding additional debt and debt service);
- To moderate further the impact of future rate increases; or
- To reduce water rates.

Discuss and make recommendations on sales tax. Mr. Hobbs explained that the legislation that authorized the use of sales tax as part of the SNWA's revenue mix is set to expire in 2023. He asked the committee if they wanted to provide any feedback as to whether or not the sales tax should be retained as part of the funding mix or be allowed to expire. Mr. Hobbs noted that sales tax represents a significant portion of the SNWA's total revenues. He said that if the sales tax is allowed to expire, it will be difficult to find another source in today's environment that can provide \$45 million to \$50 million.

Mike Forman said he believes the sales tax should be extended, but asked how much influence an IRPAC recommendation would carry. Bob Kasner said he doesn't believe the committee should make a recommendation on this issue, and he noted his personal preference that the sales tax be allowed to sunset.

Tom Burns left the meeting. As a result, Mr. Entsminger advised the committee that it no longer had a quorum and was, therefore, not allowed to take any action on this item.

Review rate implementation calendar. Mr. Ebersold reviewed the following dates:

Aug – Dec	Public outreach and education
Aug TBD	TRC meeting
Sep. 4	IRPAC meeting – finalize funding recommendations report
Sep. 26	SNWA Board meeting – consider funding recommendations
Oct. 2	IRPAC Meeting – Begin discussions on resources
Oct. 3	SNWA Purveyors issue Business Impact Statements
Oct 10 – 22	Public Workshops
November	Purveyors set public hearings
December	Purveyors conduct public hearings
Jan. 1	Rate implementation

Discuss IRPAC education and outreach. Mr. Entsminger described proposed public education and outreach initiatives.

- Public open houses
- Information on SNWA.com
- Press releases
- Water Ways segment (public access TV show)
- Social Media
- Water Smart Living newsletter article
- Working with purveyor members for bill inserts and website information
- Editorial boards
- Professional associations
- Stakeholder groups
- HOA meetings
- Chambers of commerce
- Civic groups

Mr. Entsminger asked that committee members help facilitate and participate in public education opportunities. Mr. Ebersold told the committee to coordinate outreach opportunities with Katie Horn. Materials will include presentations and handouts (FAQs, fact sheets, etc.). He said the committee will have the opportunity to review sample materials at its September meeting.

Mr. Ebersold said the Recommendations Report, which includes all committee recommendations made to date will be issued to committee members for review on August 14. Comments/edits are due back to Mr. Ebersold by August 26. A revised draft with edits incorporated/noted will be provided to the committee by August 28. The final review and approval of the Rates Recommendations report will occur on September 4.

The next IRPAC meeting is scheduled for September 4, 2013.

PUBLIC COMMENT

Ed Uehling said the Nevada Legislature voted to increase sales tax because, at the time, the SNWA said it was impossible to raise rates any more. Mr. Uehling said that despite this, rates have increased

several times since then. Mr. Uehling then said he believes Hobbs, Ong & Associates has a conflict of interest since it does business with both the SNWA and Clark County. Mr. Uehling said he feels that the SNWA should not borrow any more money.

ADJOURNMENT

The meeting was adjourned at 5:52 p.m.

Exhibit A

Mr. Ebersold asked the committee members if they agreed to the three fund balance variance policies as discussed. Following are the committee member preferences.

Committee Member	Connection Charge Revenue Policy	Phased-in Rate Collection Policy	Rate Stabilization Fund Policy
Brian McAnallen	Yes	Yes	Yes
Bob Kasner	Yes	Yes	Yes
Bobbi Miracle	Yes	Yes	Yes
Tom Burns	Yes	Yes	Yes
Warren Hardy	Yes	Yes	Yes
Danny Thompson	Yes	Yes	Yes
Joe Woody	Yes	Yes	Yes
Bob Ferraro	Yes	Yes	Yes
Carol Jefferies	Yes	Yes	Yes
Joyce Haldeman	Yes	Yes	Yes
Virginia Valentine	Yes	Yes	Yes
Scot Rutledge	Yes	Yes	Yes
Katherine Jacobi	Yes	Yes	Yes
Jarmilla McMillan-Arnold	Yes	Yes	Yes
Mike Forman	Yes	Yes	Yes
Gay Shoaff	Yes	Yes	Yes