

**MEETING OF THE  
INTEGRATED RESOURCE PLANNING ADVISORY COMMITTEE  
MEETING SUMMARY**

November 5, 2014, 3:00 p.m.

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

IRPAC Members Present	Chris Armstrong Tom Burns Thalia Dondero Bob Ferraro Warren Hardy Katherine Jacobi Carol Jefferies	Jennifer Lewis Otto Merida Paul Moradkhan Terry Murphy John Restrepo David Scherer Danny Thompson
IRPAC Members Absent	Yvanna Cancela John Guedry Joyce Haldeman April Mastroluca	Bobbi Miracle Phil Ralston Virginia Valentine
Staff Present:	John Entsminger Dave Johnson Phil Speight Julie Wilcox	Ken Albright Andy Belanger Zane Marshall Kathy Flanagan

**PUBLIC COMMENT**

*For full public comment remarks, please visit [www.snwa.com/apps/agenda/snwa/index.cfm](http://www.snwa.com/apps/agenda/snwa/index.cfm)*  
There were no persons wishing to speak.

**SUMMARY OF ACTIVITIES**

The Southern Nevada Water Authority's (SNWA) Integrated Resource Planning Advisory Committee (IRPAC) met on Wednesday, November 5, 2014 to discuss funding options for construction of Intake Pumping Station No. 3 (IPS3). The meeting began at 3:12 p.m.

***Item No. 1: Approve the meeting summary for October 10, 2014.***

Carol Jefferies recognized that on page 6 of the summary, IPS3 was mistakenly identified as Pumping Station No. 2. With that correction, the meeting summary was approved.

Dave Ebersold, meeting facilitator, asked the committee if there were any additional comments regarding the draft list of recommendations made to date. The committee made no additional changes.

***Item No. 2: Receive an update on current drought conditions.***

John Entsminger, SNWA's General Manager, welcomed the committee, thanked them for attending, and referred them to a handout on the most recent drought information.

***Item No. 3: Receive a presentation on Phase 1 Funding Recommendations.***

Before discussing the funding options for IPS3, Mr. Entsminger reviewed the underlying assumptions that were present during the Phase 1 funding recommendation process. They included: 1) that the process be transparent with a great deal of community involvement; 2) have an appropriate mix of volumetric vs. fixed charges; 3) phased versus fixed implementation options; and 4) segregation of funds for capital and debt reduction. The recommendations from Phase I were provided to the committee as a handout for reference.

***Item No. 4: Receive a presentation on Intake Pumping Station No. 3.***

Mr. Entsminger briefly reviewed the components of IPS3 and the estimated costs of the project. The estimated cost is \$650 million, which includes \$30 million for design and engineering and a 30 percent contingency.

***Item No. 5: Receive a presentation on SNWA's current rate and financial status.***

Guy Hobbs, Managing Director, Hobbs Ong & Associates, began the presentation on SNWA's financial standings. Financial consultants Brian Thomas and Thomas Toepfer, Public Financial Management, also were present to answer any questions.

Mr. Hobbs first described some of the differences between IRPAC Phase 1 and Phase 2. In Phase 1, the committee knew the amount of the outstanding debt service and was tasked to determine how that debt service would be funded by SNWA. In Phase 2, the committee will be making a number of assumptions since the municipal bonds have not been issued. Mr. Hobbs then reviewed those assumptions:

- Tax exempt financing of bonds. Two bond issues: \$490 million in 2016 and \$130 million in 2019, totaling \$620 million in bonds needed to fund the cost of IPS3;
- \$30 million applied to the design and engineering of IPS3 as a one-time capital expenditure (SNWA's ending fund balance this year in excess of \$280 million is expected to be approximately \$30 million);
- Incorporate an ending fund balance near \$280 million going forward;
- In the interest of prudent and conservative planning, the debt service estimates account for a 2 percent increase (200 basis points) in interest rates from current historic lows;
- Water use of 10,000 gallons per month (the median amount for the middle 80 percent of residential water users); and
- No change to population growth rates or SNWA expenditures – same as Phase 1.

Mr. Hobbs then reviewed four rate models with the committee. Two models considered whether a rate increase should be conveyed through a fixed charge only, or rather use a combination of a fixed charge and a commodity charge (a charge based on water consumption). The remaining two models considered whether the rate increase begins in 2016 at its full amount, or rather is gradually phased in over a three-year time period.

### **RATE MODELS**

**1. Non-phased with 100% fixed charge**

TOTAL MONTHLY INCREASE = \$4.53

[Increases the fixed charge by \$4.53 a month, starting in year 2016]

**2. Non-phased with 50% commodity charge and 50% fixed charge**

TOTAL MONTHLY INCREASE = \$3.67

[Increases the commodity charge by \$0.14 per 1,000 gallons (or \$1.40 for 10,000 gallons) and increases the fixed charge by \$2.27, starting in year 2016]

**3. Phased-in with 100% fixed charge**

TOTAL MONTHLY INCREASE: \$4.81

[Gradually increases the fixed charge by \$2.41 in 2016, then \$3.61 in 2017 and ultimately by \$4.81 for years 2018-2046]

**4. Phased-in with 50% commodity charge and 50% fixed charge**

TOTAL MONTHLY INCREASE = \$3.91

[Gradually increases the commodity charge by \$0.07 per 1,000 gallons in 2016, \$0.11 in 2017 and then by \$0.15 for years 2018-2046. In addition, the fixed charge increases by \$1.21 in 2016, \$1.81 in 2017 and by \$2.41 for years 2018-2046]

Mr. Hobbs informed the committee that an additional model had been run that deferred any rate increase until the year 2018. The results showed that SNWA would need to borrow an additional \$50 million to pay for the debt service on the \$620 million bond issuances due in years 2016 and 2017. The additional \$50 million loan would increase the overall debt burden of the project by approximately 6 million per year over 30 years. Considering these facts, Mr. Hobbs recommended that the committee pursue the other options presented.

Mr. Entsminger informed the committee that the average residential monthly water bill will be \$45.63 once the Phase 1 rate increase is fully implemented (2017). Even with the Phase 1 rate increase, it places SNWA in the middle of the pack when compared to other western water purveyors (the 62-city average is \$60.80). Comparing commercial water rates among cities is more difficult, but in a sample of major western cities in the West, SNWA remains in the middle of the group, depending on water meter size.

Mr. Hobbs then presented a series of charts that graphically represented the different models, or rate scenarios, and how each scenario would affect different classes of water user. Examples provided included residential users, homeowner associations, small businesses, large businesses, schools, hospitals, restaurants, public parks, golf courses and hotels. The committee was provided an opportunity to review the charts during the meeting.

Mr. Entsminger reminded the committee that the charts reflect the average water use of each user class; however, two customers with the same water meter size may use very different volumes of water.

Terry Murphy reminded committee members that revenue collected from the commodity charge can change year to year because that revenue stream is linked with water consumption, which is variable. She would prefer SNWA use the fixed charge only to provide a more reliable revenue stream.

David Scherer asked how the rate amounts for meter sizes larger than 5/8" and 3/4" were determined. Mr. Thomas explained that the model is constructed upon a baseline of 5/8" and 3/4" meters, then uses a conversion ratio recommended by the American Water Works Association (AWWA) to model larger meter sizes.

Mr. Scherer made the observation that residential water users will pay more as a percentage than water users who have larger water meters, under a 100 percentixed charge scenario.

Bob Ferraro suggested that the general public would be more agreeable to a rate increase that is phased, noting that people are sensitive to any increase, but may be more accepting if it is implemented over time.

John Restrepo asked how much the deferred debt payment would total if SNWA used a phased-in approach. Mr. Toepfer responded \$10 million on a present-value basis.

Warren Hardy said SNWA needs to carefully explain to the public why the project is needed. Mr. Entsminger agreed, emphasizing residents and businesses need to have an adequate amount of forewarning in order to understand the need for the project and to plan for any rate increase; there should be no surprise.

Mr. Restrepo suggested the committee recommend a non phased-in approach. The difference between the direct approach and phased-in approach is relatively small, as are values between customer classes among the scenarios, he said.

Ms. Murphy proposed bond rating agencies would likely favor SNWA utilizing a 100 percent fixed charge to pay for IPS3 versus using a commodity charge, which is variable. Mr. Thomas explained that while variable, a commodity charge can be fairly-well estimated and SNWA has rate making authority, so bond rating agencies will not be particularly concerned.

Danny Thompson agreed that a 100 percent fixed rate makes sense for SNWA. Being in the position where commodity charges don't generate enough revenue to pay for the debt service, and having to potentially raise water rates again, could be problematic.

Mr. Restrepo made an analogy comparing the fixed charge and commodity charge option to fund IPS3 with securing a home mortgage using either a fixed interest-rate loan or an adjustable rate loan; the fixed 30-year rate does not change while the variable interest rate has a level of unpredictability. He asserted that the nature and purpose of IPS3 - infrastructure that provides access to water rather than being based on water consumption - warrants a 100 percent fixed charge approach to funding.

Mr. Entsminger offered there are pros and cons to either approach, but pointed to the fact that, regardless of whether a customer is a part-time resident who uses little water or a business that needs large volumes of water to function, the physical ability to draw that first gallon of water out of Lake Mead is contingent on the construction of IPS3. This discussion is not about paying for additional water supplies for people or businesses; but rather preserving the physical ability to take water at all (if Lake Mead falls below elevation 1,000 feet then SNWA is unable to pump water).

Carol Jefferies asked if the rate increase associated with IPS3 would be retired at the completion of the 30-year loan. Mr. Thomas explained that while the rate increase will be retired at the end the payback period, there may be other needs over the next 30 years which will take the place of those charges. However, SNWA water users are in a better position in terms of asset management than most major metropolitan cities; the Valley's infrastructure is relatively new as compared to the aging infrastructure of most urban water providers.

Mr. Ebersold complimented the committee on their understanding of the funding options and asked if there were any additional comments before moving to a recommendation. There were none.

- The committee made the recommendation that the water rate increase be a 100 percent fixed charge.
- The committee also made the recommendation that the rate increase be gradually implemented over three years.

Mr. Entsminger thanked the committee for their recommendations. He noted that next meeting will include a presentation related to the SNWA's In-State Groundwater Project, as well as potential water quality issues associated with extremely low Lake Mead elevations. Following that, the committee will have an opportunity to finalize all Phase 2 recommendations and approve the recommendations report for submission to the SNWA Board of Directors.

The next meeting is scheduled for November 19, 2014 at 3:00 p.m. The December meeting will remain on the calendar in the event additional meeting time is needed.

## **PUBLIC COMMENT**

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## **ADJOURNMENT**

The meeting was adjourned at 4:56 p.m.