

**SOUTHERN NEVADA WATER AUTHORITY
BOARD OF DIRECTORS
SPECIAL METING
APRIL 17, 2014
MINUTES**

CALL TO ORDER 9:01 a.m., Colorado River Conference Rooms, Southern Nevada Water Authority; 100 City Parkway, Seventh Floor, Las Vegas, Nevada

BOARD MEMBERS PRESENT Mary Beth Scow, Chair
Sam Bateman, Vice Chair
Susan Brager (via phone)
Bob Coffin
Duncan McCoy
Steve Sisolak

BOARD MEMBERS ABSENT Anita Wood

STAFF PRESENT John Entsminger, Greg Walch, Phil Speight, Dave Johnson, Julie Wilcox, David Wright

OTHERS PRESENT Guy Hobbs, Hobbs, Ong & Associates

Unless otherwise indicated, all members present voted in the affirmative.

COMMENTS BY THE GENERAL PUBLIC

For complete comments, audio is available online at snwa.com

There were no persons wishing to speak.

1. For Possible Action: Approval of Agenda

FINAL ACTION: A motion was made by Director McCoy to approve the agenda for this meeting. The motion was approved.

2. For Information Only: Receive an overview and discuss the Fiscal Year 2014/2015 Tentative Budget.

John Entsminger, General Manager; Dave Johnson, Deputy General Manager of Engineering and Operations; and David Wright, Chief Financial Officer, gave an overview of the Authority's tentative budget. The presentation is included with these minutes. Throughout the presentation, Board members asked clarifying questions. Director Sisolak noted that he would like to ensure that the Authority's Integrated Resource Planning Advisory Committee is receiving the same information and requested future, recurring updates on rate collections, specifically as they relate to the IRPAC's recommendations and projections.

NO ACTION TAKEN

Public Comment

Ed Uehling, Las Vegas, stated his concerns about recent budget cuts, staff reductions and employee salaries.

Brian McAnallen, Las Vegas Metro Chamber of Commerce, thanked staff and the Board for their efforts in realigning the organization and efforts taken and underway to implement IRPAC recommendations. He also noted a recent trip to Washington D.C. to discuss federal funding opportunities for drought relief.

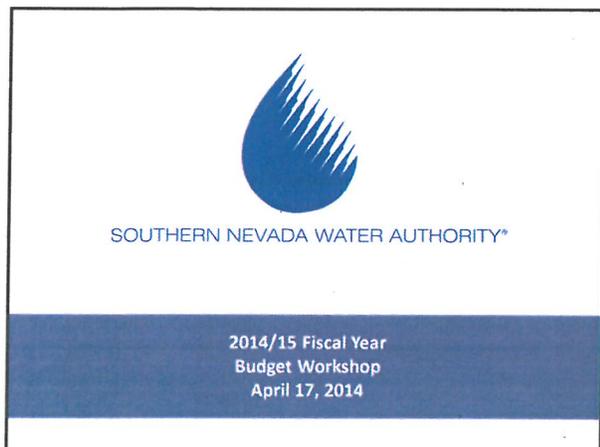
Adjournment

There being no further business to come before the board, the meeting adjourned at 10:00 a.m.

APPROVED:

Mary Beth Scow, Chair

John J. Entsminger, General Manager



Fiscal Year 2014-15 Budget

- Implement the new strategic plan
- Review overall operations as the economy in Las Vegas continues to evolve to relative stability and modest growth
- Increase efficiency and eliminate less effective efforts
- Clear that current budget trajectory cannot be maintained given fiscal constraints
- The executive team and directors consulted and developed recommendations for placing our organization on a sustainable path into the future



Economic Environment

- The U.S. entered a recession in 2007
- Between 2007 and 2010, Southern Nevada's unemployment rate tripled
 - Unemployment rate exceeded 15%
 - 120,000 jobs lost
- Visitor volume dropped in Las Vegas
- Las Vegas became the center of home foreclosures
- Since hitting bottom in 2010, the local economy has improved, but slowly



Recession Impacts

- The business environment changed
- SNWA Connection Charges – used to pay for most of the community's water infrastructure – declined from \$188.5 million in 2006 to \$3.2 million in 2010, slightly rebounding to \$19 million in 2013.
- Water sales and sales tax revenue decreased
- Population growth slowed dramatically
- Third Intake Project and other large capital projects still required significant labor and capital expenses even during the recession



Response to Economic Conditions

- **The SNWA implemented a number of interim measures to survive the worst of the economic downturn since 2008**
 - Laid off contingent and contractor staff
 - Left vacant or unfunded open positions
 - Implemented an early retirement program
 - Developed the Voluntary Furlough option
 - Eliminated longevity pay for employees hired after 2010
 - No Cost-of-Living Adjustment (COLA) in 2009 and 2010
 - Revised the Water Smart Landscape Program



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Response to Economic Conditions

- Deferred SNWA capital project spending
- Deferred asset management efforts
- Reduced operating and capital costs
- Negotiated fixed rates for power
- Negotiated lower property and casualty insurance rates
- Refinanced debt
- Renegotiated leases for Virgin and Muddy River water for 2012-2014, saving \$4.73 million
- Amended the Arizona Water Bank agreement, relieving SNWA of a \$217.3 million obligation from 2015 to 2024, retaining the ability to bank additional water on a pay-as-you-go basis



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Current Environment

- **Current level of deferred projects is not sustainable from an infrastructure system maintenance management perspective**
- **SNWA is transitioning its primary focus from system expansion to operations, asset management and increased service to the community**
- **Established new strategic goals to guide the organization**



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Organizational Direction

- **The SNWA Board of Directors has provided direction:**
 - Streamline the organization to address current and future community needs
 - Make operational efficiency and service to purveyors and customers ultimately the hallmarks of the realigned organization
 - Begin to focus on long-term asset management
 - Provide rate stability



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Strategic Plan Development

- In 2012, the organization began the strategic planning process
 - Reflects changing business environment
 - Shifts focus from expansion to system maintenance and management
- **Realigns organizational goals to new focus:**
 - Maintain and enhance service levels
 - Respond to changing community needs
 - Focus on asset management



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Strategic Plan Development

- Executive Team worked with employees across departments and at all levels to develop strategies and tactics to achieve the strategic goals
- The plan addresses fiscal realities of the organization's current environment while maintaining core assets in critical areas



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Strategic Plan - Goals

- Assure quality water through reliable and highly efficient systems
- Deliver an outstanding customer service experience
- Anticipate and adapt to changing climatic conditions while demonstrating stewardship of our environment
- Develop innovative and sustainable solutions through research and technology
- Ensure organizational efficiency and manage financial resources to provide maximum customer value
- Strengthen and uphold a culture of service, excellence and accountability



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Organizational Structure

- Reorganization reflects a more streamlined, efficient organization and helps realign with new goals
- Recent changes include:
 - Combined the SNWA and LVVWD Engineering Departments to maximize efficiency of engineering design and construction given the shift in focus to operations and maintenance
 - Combined the SNWA and LVVWD Facilities Divisions to increase operational efficiency and to support work to evaluate and standardize our service levels
 - Created an Infrastructure Management Department to provide specific asset management and operational engineering focus for our new strategic plan



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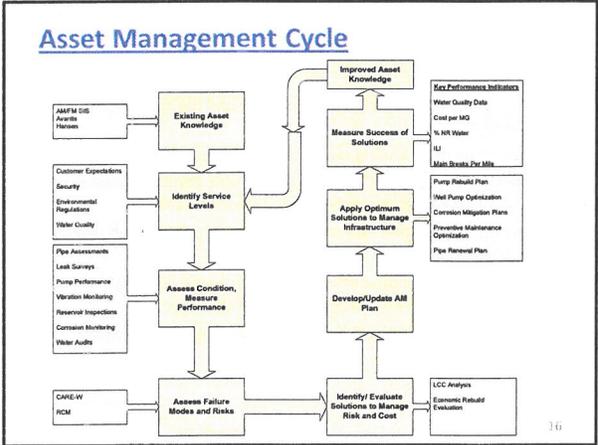


What is Asset Management

- Reduce life-cycle costs while meeting water quality standards and reliability goals by:
 - Developing maintenance and repair strategies that extend infrastructure life and prevent failures
 - Assessing condition of critical assets to prioritize short-term renewal requirements
 - Planning for long-term expenditures required to maintain high quality service levels
 - Keeping costs to a minimum over the long run by maximizing asset life

SNWA Asset Management Plan

- Development of plan:
 - Review the state of assets
 - Establish service levels
 - Identify assets critical to sustain those service levels
 - Develop optimal capital and O&M strategies
- The Asset Management Cycle is used by SNWA to routinely evaluate, measure and define our infrastructure needs



Asset Management: Existing Infrastructure

- **Gross book value of all SNWA water facilities: \$3 billion**
 - Subject to depreciation
 - Current replacement value is much higher
- **Includes facilities constructed by the Colorado River Commission (CRC) and Bureau of Reclamation (BOR)**
 - Construction beginning in 1968
 - Intake No. 1 construction completed in 1971
 - SNWA construction beginning in 1995
- **CRC and BOR facilities transferred to SNWA in 1996**



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Asset Management: Major Components

Existing infrastructure includes facilities inherited from the Colorado River Commission and Bureau of Reclamation



Lake Mead Intake 1
Completed: 1971



Alfred Merritt Smith
Water Treatment Facility
Phase 1 Completed: 1971

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Asset Management: Major Components

Two additional intakes were needed



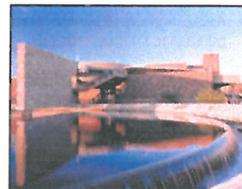
Lake Mead Intake 2
Completed: 2002



Lake Mead Intake 3
Expected Completion: 2015

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Asset Management: Major Components



River Mountains Water Treatment Facility
Completed: 2002

An additional treatment facility was required to meet production demands and increase system reliability

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Asset Management: Major Components

Water Quality Laboratory



Water Quality Laboratory / Applied Research and Development Center
Completed: 2007

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Asset Management: Major Components

Pumping Stations and Reservoirs



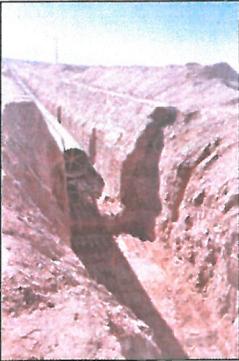
28 Pumping Stations
Shown: Decatur Pump Station



38 Reservoirs
Shown: Horizon Ridge Reservoir Construction

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Asset Management: Major Components

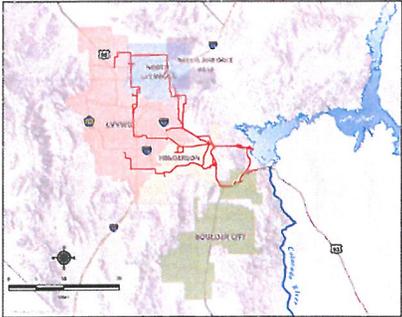


Laterals

- Approximately 163 miles of lateral pipeline in Southern Nevada
- Lateral pipeline ranges between 16 inches and 12 feet in diameter
- Up to 43 years old

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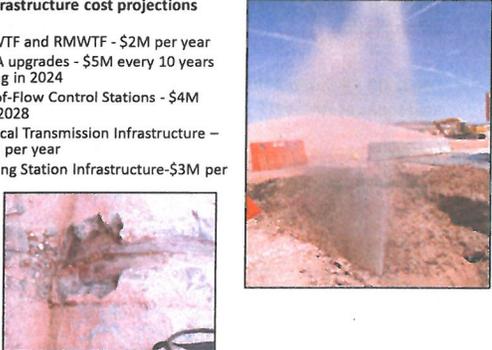
Asset Management: System Layout



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Asset Management: Renewal Needs

- Major infrastructure cost projections include:
 - AMSWTF and RMWTF - \$2M per year
 - SCADA upgrades - \$5M every 10 years starting in 2024
 - Rate-of-Flow Control Stations - \$4M 2026-2028
 - Electrical Transmission Infrastructure - \$1.6M per year
 - Pumping Station Infrastructure - \$3M per year



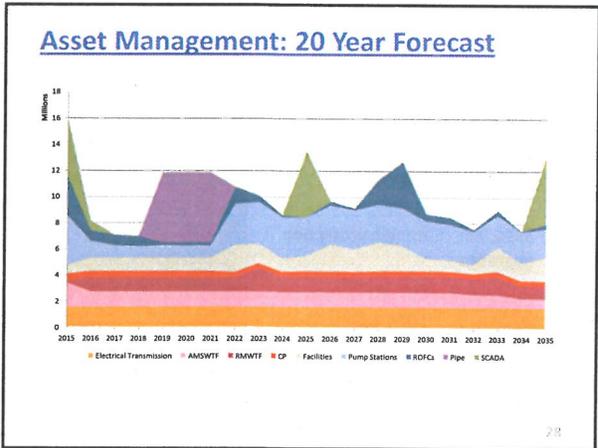
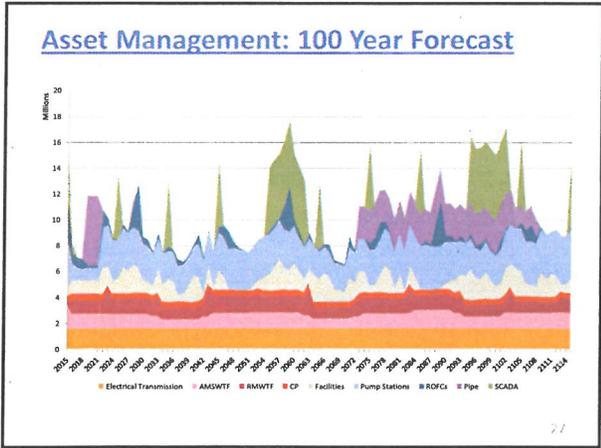
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Asset Management: Definitions

- SCADA: Supervisory Control and Data Acquisition**
 - Computer system for gathering and analyzing real-time data
 - Allows remote monitoring and control of facilities
 - SCADA gathers information, such as level of a reservoir, and transfers it to a central site
 - SCADA operators can remotely respond to the information
- Nessie Curve: An infrastructure asset management tool that graphically depicts annual replacement needs**
 - Based on when the assets were installed and how long they are expected to last



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Asset Management

Infrastructure	Short Term (2015 to 2021)	Long Term (Avg Annual Cost)	Every 10 Years	Every 20 to 30 Years	More Than 30 Years Out
Electrical Transmission System		\$ 1,600,000			
AMSWTF	\$ 8,708,815	\$ 1,125,863			
RMWTF	\$ 6,494,000	\$ 1,129,192			
Cathodic Protection	\$ 3,500,000	\$ 381,167			
Facilities	\$ 6,813,392	\$ 1,230,189			
Pump Stations	\$ 9,795,980	\$ 3,067,419			
Rate of Flow Control Stations	\$ 6,084,402	\$ 454,472			
Pipe	\$ 16,136,863	\$ 0	\$ 0	\$ 0	\$ 2,500,000
SCADA	\$ 5,150,000		\$ 5,000,000	\$ 40,000,000	
TOTAL	\$ 62,683,452	\$ 8,988,301	\$ 5,000,000	\$ 40,000,000	\$ 2,500,000

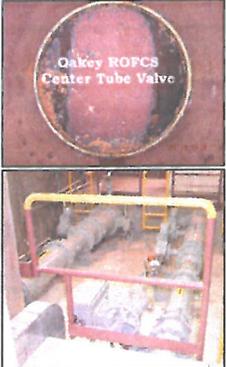
Asset Management: Short-Term Needs

- \$600,000 - Ozone generator rehabilitation
- \$400,000 - Rebuild 2 fluorosilicic acid tanks at AMSWTF
- \$300,000 - Hitachi motor replacements
- \$150,000 - Refurbish 2 sodium hypochlorite generators



Asset Management: Short-Term Needs

- \$3.05 Million - Replace Stage II Valves and Venturi Meters
- \$700,000 - Pumping station 1B and 2B isolation valves
- \$500,000 - Cathodic protection upgrades
- \$300,000 - Pumping station roof repairs





SOUTHERN NEVADA WATER AUTHORITY®

BUDGET

Overall Financial Goals

- Incorporate new Strategic Plan
- Provide high level of service to customers
- Maintain payroll at sustainable levels
- Increase asset management efforts
- Improve long-term financial forecasting
- Develop long-term projections of Wholesale Delivery Charge
- Monitor IRPAC Recommendations



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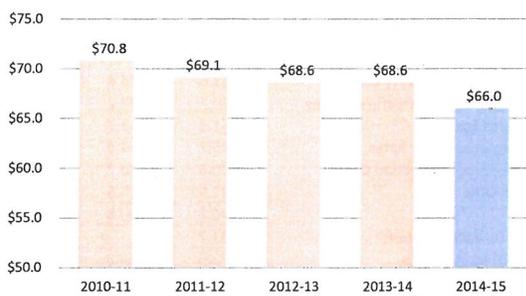
Financial Results – Sustainable Staffing

- Reviewed staffing needs based on the new Strategic Plan
- Projected FY 2014-15 labor budget would have been \$72 million
- Reduced labor budget to \$66 million
 - Eliminated 49 FTEs for FY 2014-15
- \$6 million reduction in anticipated staffing costs



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SNWA Payroll History



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Budget Process: Key Dates

- April 15** Tentative Fiscal Year 2014-15 budget submitted to State
- April 17** SNWA Budget Workshop
- May 15** SNWA Public Hearing
- June 1** Deadline to file approved Fiscal Year 2014-15 budget with State



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Financial Forecasting

- IRPAC created financial forecasts for New Expansion Debt Service Sub Fund which require annual comparisons to actual
- Obtained detailed long-range financial forecasting model
- Transferring IRPAC projections to model, including all SNWA sub funds
- Allows for improved budgeting, reporting, debt timing, rate setting, projecting Wholesale Delivery Charge, etc.
- SNWA has adequate bond proceeds to cover FY 2014-15 projects



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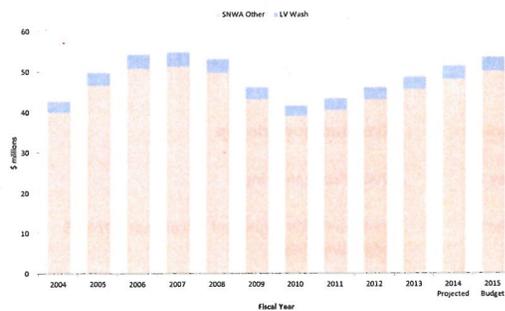
FY 2013-14 vs. 2014-15 Budget Highlights

- Sources of Funds to increase by \$36 million
 - \$20 million from IRPAC recommended rate adjustments
 - \$18 million from Connection Charges due to growth
 - Sales tax revenues steadily improving
- Uses of Funds to increase by \$10 million
 - Debt Service to increase \$20 million as “debt spike” begins
 - Payroll to decrease by \$2.6 million, but \$6 million lower than originally projected in tentative budget
 - Asset management to increase by \$6 million for multi-year deferrals
 - Construction expenditures decreased by \$17 million
- IRPAC
 - On track to meet IRPAC recommended New Expansion Debt Service fund balance target of \$280 million plus adequate funding to pay debt service through 2021



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SNWA Sales Tax



Net of distributions to Blue Diamond, Boulder City, Kyle Canyon, Laughlin, Big Bend, Moapa Valley, Searchlight, Jean, Virgin Valley, Clark County Water Reclamation District, City of Las Vegas, and City of Henderson

Sources of Funds

Tentative Filed vs. Proposed Budget

	Projected Actual 2013-14	Tentative Budget 2014-15	Proposed Budget 2014-15
Wholesale Delivery Charge	\$ 119.6	\$ 123.4	\$ 123.4
Regional Infrastructure Charge	80.7	87.2	87.2
Sales Tax	51.3	53.7	53.7
Regional Water Rates	45.7	54.3	54.3
Regional Connection Charge	20.6	30.7	30.7
All Other	22.9	15.5	15.5
	<u>340.8</u>	<u>364.8</u>	<u>364.8</u>
Insurance Proceeds	31.7		
TOTAL SOURCES	\$ 372.5	\$ 364.8	\$ 364.8

millions

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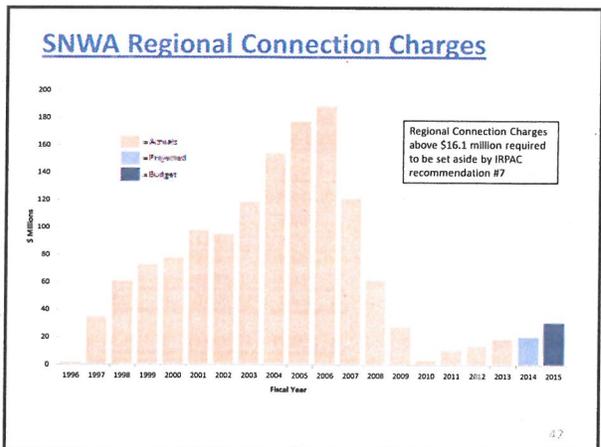
Uses of Funds

Tentative Filed vs. Proposed Budget

	Projected Actual 2013-14	Tentative Budget 2014-15	Proposed Budget 2014-15
Energy	\$ 43.9	\$ 45.8	\$ 45.8
Payroll	66.3	72.0	66.0
Operating Expenses	30.2	30.2	30.2
Capitalized Expenses	35.2	34.6	40.6
Construction Expenditures	87.3	110.5	110.5
Debt Service	150.7	170.5	170.5
TOTAL USES	<u>\$ 413.6</u>	<u>\$ 463.6</u>	<u>\$ 463.6</u>
NET USE	<u>\$ (41.1)</u>	<u>\$ (98.8)</u>	<u>\$ (98.8)</u>

millions

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SNWA Regional Connection Charges

2012-13 Actual		\$ 19.0
	<u>Budget</u>	<u>Projected</u>
2013-14	\$ 13.1	\$ 20.6
2014-15	\$ 30.7	\$ 30.7
2014 Hobbs-Ong base year		\$ 16.1

millions

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Sources of Funds

FY 2013-14 Budget vs. FY 2014-15 Budget

	Budget 2013-14	Budget 2014-15	Difference	
			\$	%
Wholesale Delivery Charge	\$ 122.0	\$ 123.4	\$ 1.4	1.1%
Infrastructure Charge	77.4	87.2	9.8	12.7%
Connection Charges	13.1	30.7	17.6	134.4%
Regional Water Rates	44.0	54.3	10.3	23.4%
Sales Tax	51.3	53.7	2.4	4.7%
All Other	20.6	15.5	(5.1)	-25.0%
TOTAL SOURCES	<u>\$ 328.4</u>	<u>\$ 364.8</u>	<u>\$ 36.4</u>	<u>11.1%</u>

millions

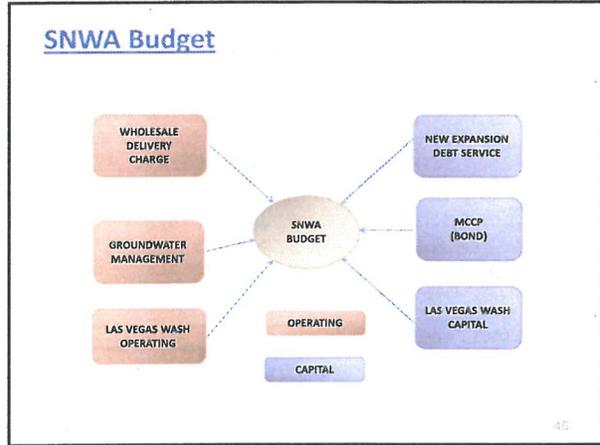
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Uses of Funds

FY 2013-14 Budget vs. FY 2014-15 Budget

	Budget		Difference	
	2013-14	2014-15	\$	%
Power	\$ 44.3	\$ 45.8	\$ 1.5	3.4%
Construction Expenditures	127.7	110.5	(17.2)	-13.5%
Payroll	68.6	66.0	(2.6)	-3.8%
Operating Expenses	27.9	30.2	2.3	8.2%
Capital Expenses	34.9	40.6	5.7	16.3%
Debt Service	150.7	170.5	19.8	13.1%
TOTAL USES	\$ 454.1	\$ 463.6	\$ 9.5	2.1%
NET ACTIVITY	\$ (125.7)	\$ (98.8)	\$ 26.9	-21.4%

millions



Sources of Funds

New Expansion Debt Service Sub Fund

	Projected	Budget	Difference	
	2013-14	2014-15	\$	%
Regional Infrastructure Chrg	\$ 80.7	\$ 87.2	\$ 6.5	8.1%
Sales Tax	48.0	50.2	2.2	4.6%
Regional Water Rates	45.7	54.3	8.6	18.8%
Regional Connection Charge	20.6	30.7	10.1	49.0%
Other Revenues	4.6	3.2	(1.4)	-30.4%
Interfund Loan	(5.1)	(6.6)	(1.5)	29.4%
TOTAL SOURCES	\$ 194.5	\$ 219.0	\$ 24.5	12.6%
TOTAL WITHOUT INTERFUND	\$ 199.6	\$ 225.6	\$ 26.0	13.0%

millions

Uses of Funds

New Expansion Debt Service Sub Fund

	Projected	Budget	Difference	
	2013-14	2014-15	\$	%
Debt Service Payments	\$ 137.0	\$ 157.6	\$ 20.6	15.0%
Labor	23.1	20.9	(2.2)	-9.5%
Capitalized Expenses	10.6	9.5	(1.1)	-10.4%
TOTAL USES	\$ 170.7	\$ 188.0	\$ 17.3	10.1%
Beginning Fund Balance	\$ 316.9	\$ 340.7		millions
Ending Fund Balance	\$ 340.7	\$ 371.7		

IRPAC Recommendation No. 6

- IRPAC modeled that \$20.9 million would be collected from phased-in rates during FY 2013-14 and FY 2014-15. Those funds being set aside in fund balance to pay future debt service.
- Budget forecasts currently show revenues are on target with IRPAC phased-in rate projections.

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IRPAC Recommendations No. 7 and No. 8

- No. 7 – Connection Charges over 2014 base year of \$16.1 million; and
- No. 8 – Fund balance above \$280 million (not including funds identified to pay debt service) only used to:
 - Redeem outstanding bonds, thereby reducing outstanding debt and future debt service requirements
 - Acquire capital assets that would otherwise need to be funded with borrowed money, thus avoiding additional debt and debt service
 - Moderate further the impact of future rate increases
 - Reduce water rates

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IRPAC Recommendations No. 7 and No. 8

- FY 2014-15 Budget Projections:

	Proposed June 30, 2015
Excess Connection Charges (#7)	\$ 19.1
Funds in Excess of Target Balance (#8)	<u>3.1</u>
	\$ 22.2
	(millions)

- At June 30, 2015, Fund Balance in excess of IRPAC projection of appx. \$22 Million will be available for the options recommended by IRPAC

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Wholesale Delivery Operations Sub Fund

	Projected 2013-14	Budget 2014-15	Difference	
			\$	%
Wholesale Delivery Charge	\$ 119.6	\$ 123.4	\$ 3.8	3.2%
Other Revenues	0.6	0.3	(0.3)	-50.0%
TOTAL SOURCES	<u>\$ 120.2</u>	<u>\$ 123.7</u>	<u>\$ 3.5</u>	<u>2.9%</u>
Energy	\$ 41.1	\$ 44.4	\$ 3.3	8.0%
Labor	36.1	37.0	0.9	2.5%
Operating Expenses	25.5	28.7	3.2	12.5%
Debt Service Payments	13.7	13.0	(0.7)	-5.1%
TOTAL USES	<u>\$ 116.4</u>	<u>\$ 123.1</u>	<u>\$ 6.7</u>	<u>5.8%</u>
Beginning Fund Balance	\$ 24.9	\$ 28.7	millions	
Ending Fund Balance	<u>\$ 28.7</u>	<u>\$ 29.3</u>		

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Wholesale Delivery Charge

- No anticipated increase in Wholesale Delivery Charge in Fiscal Years 2014-15 or 2015-16
- Energy costs appear stable for the next five years
- Additional long-term financial forecasting will help project necessary charges and timing

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Budget Summary

	Wholesale Delivery Operations	New Expansion Dist. Service	MCCP Construction	Other/Other Programs	Las Vegas Water	Total
Beginning Balance (July 1, 2014)	\$ 26.7	\$ 140.7	\$ 156.7	\$ 1.7	\$ -	\$ 425.8
Source of Funds:						
Wholesale Delivery Charge	231.2	-	-	-	-	231.2
Other Services	3.3	3.4	9.1	-	-	15.8
Regional Construction Charge	-	30.3	-	-	-	30.3
Regional Infrastructure Charge	-	17.2	-	-	-	17.2
Regional Connectivity Charge	-	28.2	-	-	-	28.2
Reliability Surcharge	-	2.9	-	-	-	2.9
Sales Tax	-	166.2	-	-	0.5	166.7
Interconnection Program Fees	-	-	-	0.9	-	0.9
LV Water Program Fees	(1.7)	-	-	-	2.0	0.3
Non-Fund Loans	-	(6.6)	-	-	-	(6.6)
DEIS Issuance Proceeds	-	-	-	-	-	-
Asset Proceeds	0.2	0.9	-	-	1.7	2.8
Interest Income	0.1	1.1	0.2	0.0	-	1.4
Total Source of Funds	229.8	229.8	9.4	0.9	2.0	461.9
Uses of Funds:						
Energy	42.4	-	1.2	-	-	43.6
Payroll	17.0	20.4	6.6	0.5	1.5	46.0
Operating Expenses	20.7	-	-	0.7	-	21.4
Construction Expenses	-	9.5	81.1	-	-	90.6
Capital Equipment	-	-	92.7	-	16.3	109.0
Dist. Service	18.0	(17.1)	-	-	-	0.9
Total Uses of Funds	228.1	229.8	221.4	1.2	20.0	479.5
Fiscal Year Net Change	0.6	0.0	(12.0)	(0.3)	0.2	(11.5)
Ending Balance (June 30, 2015)	\$ 27.3	\$ 150.4	\$ 144.7	\$ 1.4	\$ 0.2	\$ 424.0

Amounts may be slightly off due to rounding

Fiscal Year 2014-15 Budget

- Is responsible to customers and operations
- Enhances SNWA's implementation of the new Strategic Plan
- Continues to provide high level service to purveyors and customers
- Maintains payroll costs at sustainable levels which are below 2009-10 expenses
- Increases funding of asset management efforts
- Tracks IRPAC recommended balance levels



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SOUTHERN NEVADA WATER AUTHORITY®