INTEGRATED RESOURCE PLANNING ADVISORY COMMITTEE 2020
MEETING SUMMARY

January 29, 2020, 3:00 p.m.

Colorado River Conference Rooms, Southern Nevada Water Authority
100 City Parkway, 7th Floor, Las Vegas, Nevada

IRPAC members present:	Ken Evans	Peter Guzman
	Carol Jefferies	Andy Maggi
	Paul Moradkhan	Tom Morley
	Bob Murnane	Jonas Peterson
	Phil Ralston	John Restrepo
	Virginia Valentine	
Staff present:	John Entsminger	Dave Johnson
	Julie Wilcox	Kevin Bethel
	Ken Albright	Andy Belanger
	Peter Jauch	Doa Meade
	Colby Pellegrino	Katie Horn
	Jordan Bunker	
Others present:	Terry Murphy, Facilitator	
	Guy Hobbs, Financial Consultant	

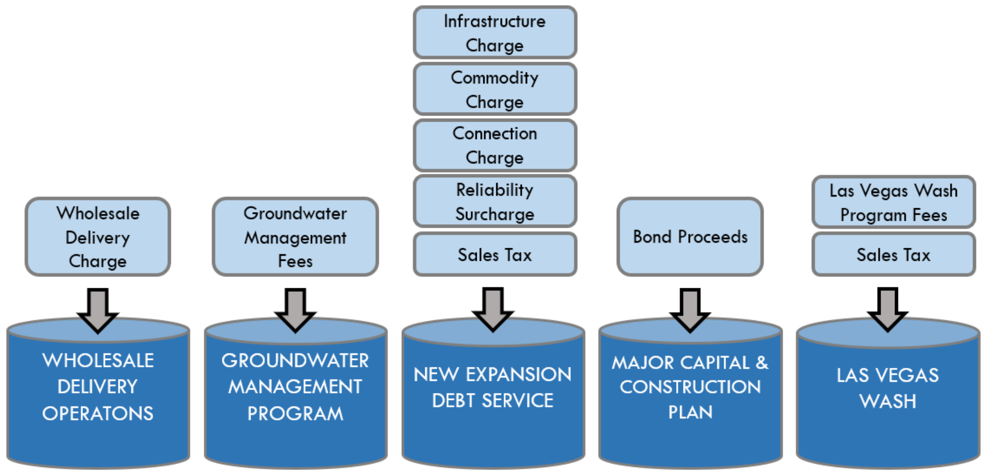
PUBLIC COMMENT
There were no speakers.

SUMMARY OF ACTIVITIES
The Southern Nevada Water Authority's (SNWA) Integrated Resource Planning Advisory Committee 2020 (IRPAC 2020) met on Wednesday, January 29, 2020. The meeting began at 3:03 p.m.

#1 Approve agenda and minutes from the January 8, 2020 meeting.
Peter Guzman motioned to approve the agenda and minutes from the January 8th meeting. The agenda and minutes were approved.

#2 Receive a presentation on the Authority's financial structure.
Kevin Bethel, Chief Financial Officer, gave a presentation on SNWA's financial structure and began by reviewing the capital cost assumptions presented to the committee in prior meetings that total $3.51 billion in present dollars. He explained that SNWA segregates funds into either Operating and Capital and uses five sub-funds for internal tracking purposes. The Wholesale Delivery Operations and Groundwater Management Program make up the Operating Fund, and the New Expansion Debt Service, Major Capital & Construction Plan and Las Vegas Wash make up the Capital Fund. He reviewed each sub-fund by explaining its intent, what it's funded by and what it's used to fund.

SNWA SUB-FUNDS



Mr. Bethel then reviewed SNWA's funding sources, addressing how each source is collected, its contribution to SNWA's overall funding picture, and what it's typically used to fund. He noted that the Infrastructure, Commodity and Connection charges are the preferred and available sources to help fund new capital projects. They are collected by SNWA purveyor members via either customer bills or new connection fees.

While reviewing historical Connection Charge revenues, which last increased in November of 2008, Ken Evans asked if an adjustment to that charge is needed, and if so, how is a balance struck to not discourage development in the valley. Mr. Bethel stated that a Consumer Price Index-based (CPI) adjustment is recommended as a phased-in approach. John Entsminger, General Manager, added that the committee should consider if the Connection Charge should keep up with inflation for the long term so that growth and development can support infrastructure, and to what degree does the community want to rely on this type of revenue stream given what has happened in the past with the economic recession. Mr. Bethel stated that any Connection Charge revenues collected in excess of $16.1 million are currently available to be, and have been used for early payment or pre-refunding of existing debt or one-time capital expenditures, as recommended by a previous IRPAC. That balance is referred to as the Rate Stabilization Fund, and a portion of these funds were used for the Low Lake Level Pumping Station. Phil Ralston asked how operating capital would be affected if an adjustment was made to the $16.1 million Connection Charge threshold. Mr. Bethel stated that any adjustment to the Connection Charge would increase overall collections and anything above the $16.1 million threshold would be used for SNWA's one-time capital needs. Mr. Entsminger clarified by adding that the way the IRPAC recommendation was made, excess beyond the $16.1 million could have been used for something other than one-time capital purposes, but as a practical matter, the SNWA has only been using Connection Charge revenues for two purposes since the 2014 committee made those recommendations: debt defeasance and one-time capital expenses. Guy Hobbs, financial consultant, stated that the committee could consider a scenario that adjusts the $16.1 million threshold.

While reviewing the sales tax proceeds that funds water and wastewater improvements in Clark County, Mr. Bethel noted the removal of the sunset clause that was approved in 2019. Mr. Hobbs emphasized the importance of the removal of the sales tax sunset, stating that if that had not happened, new funding sources would be needed to replace approximately $65 to $70 million each year. Mr. Bethel also reviewed the SNWA reserve policy and its four components: base operating reserves, debt service reserves, capital related reserves and unforeseen events. The reserve balance at the end of fiscal year 2018-19 was $665 million.

#3 Discuss capital funding scenarios, and, if appropriate, make recommendations to the rate model.
Mr. Bethel reviewed the rate model assumptions with the included variables including capital costs, CPI, Engineering News Record index, UNLV's Center for Business and Economic Research's (CBER) population growth rate, interest on new debt and the SNWA's reserve policy. He showed three graphs that each assumed baselines of $3.5 billion in capital costs in present dollars and no increase to funding sources, but with different debt issuances of 100%, 50% and 0%. After showing these three scenarios, he recommended that additional revenue or sources of revenue would be needed to adequately fund a new capital plan. Without a rate adjustment to keep pace with inflation, reserves diminish over time.

Mr. Bethel reviewed the increases needed to catch up with inflation the Infrastructure (+7.8%), Commodity (+11.7%) and Connection charges (+36.3%). He discussed a phase-in approach citing a 2013 IRPAC recommendation to "temporarily reduce the maximum rate to provide the community time to adjust to the new rates," adding that ratepayers find incremental increases easier to absorb and budget for than a large increase. He then stated that the first modeling effort proposes a 6-year phase-in of the catch-up component of inflation, with an additional current year inflation component in order for charges to be current with inflation at the end of the 6-year phase-in period.

SNWA Rate Model Assumption:
Catching up SNWA's Funding Sources with CPI and Applying Current Year Inflation

		2021	2022	2023	2024	2025	2026	2027 ➡
Connection Charge (ENR)	Catch-Up Inflation	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	0.0%
	Current Year Inflation	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
	Total	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	3.0%
Commodity Charge (CPI)	Catch-Up Inflation	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	0.0%
	Current Year Inflation	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
	Total	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	2.5%
Infrastructure Charge (ENR)	Catch-Up Inflation	1.3%	1.3%	1.3%	1.3%	1.3%	1.3%	0.0%
	Current Year Inflation	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
	Total	4.3%	4.3%	4.3%	4.3%	4.3%	4.3%	3.0%

Mr. Ralston asked if all three revenue sources are currently not indexed to inflation, which Mr. Bethel affirmed. Mr. Ralston added that the committee would then not only need to consider a recommendation for inflation catch-up, but to consider a recommendation to impose inflation as well.

Mr. Bethel reviewed a 6-scenario summary with variables including <u>with</u> and <u>without</u> the $162 million contingency and differing debt issuances of 100%, 75% and 50%. He stated that the 50% debt funding scenario did not seem realistic without needing to raise rates even more and recommended a debt funding strategy between 75% and 100%, with some flexibility for the committee's consideration.

SNWA FINANCIAL FORECAST: SCENARIO SUMMARY

Scenario Variables		Scenario Results							
		% of Reserve Target				Projected Reserves (in millions)			
With Contingency ($3.51 B)		Floor		Year 5 2024-25	Year 10 2029-30	Year 5: 2024-25		Year 10: 2029-30	
		%	Year			Amount	Target	Amount	Target
1A	100% debt funded	89%	2022-23	93%	131%	$694	745	1,007	769
1B	75% debt funded	58%	2028-29	73%	74%	$538	735	529	718
1C	50% debt funded	-22%	2030-31	53%	5%	$381	724	34	668
Without Contingency ($3.35 B)									
2A	100% debt funded	91%	2022-23	95%	138%	$695	732	1,036	752
2B	75% debt funded	62%	2026-27	75%	83%	$539	722	584	705
2C	50% debt funded	-7%	2028-29	54%	18%	$384	712	119	657

Mr. Hobbs suggested setting a debt funding target, given the goal of the reserve policy and to keep credit ratings high. He suggested giving administration some flexibility as to the timing of the debt issuances and amount. Carol Jefferies suggested shortening the phase-in approach, given the health of the economy and market. Mr. Bethel responded that the optics of the percentage rate increase might not be very palatable for the community. Bob Murnane added that homebuilder's planning horizon is out five to six years, and a 6-year phase-in fits well within their financial models.

Mr. Bethel reviewed proposed rate impacts to sample customers. He noted these sample customers, which range between typical residential customers to high use commercial customers, include LVVWD charges. The chart showed current bill charges and future charges with the proposed inflation increases embedded. Mr. Bethel also showed the Connection Charge impact but noted that it is only a one-time impact upon connection to the water system. Virginia Valentine asked if the Connection Charges are in addition to purveyor member charges, which Mr. Entsminger affirmed. Mr. Evans requested staff to show what the total Connection Charge picture looks like with both the SNWA and the purveyor members charges combined.

The committee took a few minutes to review the different rate scenarios, which included variables such as catching inflation up and keeping SNWA's charges current with inflation, different debt funding scenarios (100%, 75%/25% and 50%/50%), and how these scenarios impacted SNWA's reserves and customers. Following a pause, Mr. Bethel noted that as CFO, he would not be comfortable moving forward with a 50%/50% debt funded scenario. He added that SNWA would feel comfortable with removing the 50% debt funded scenario for future considerations. Mr. Evans expressed concern about the scenario without contingency stating that he would prefer more financial flexibility with future conservation opportunities and resource efforts. Mr. Ralston would also like the staff and committee to consider some assessment of increasing the $16.1 million Connection Charge threshold. Mr. Restrepo asked to review a 5-year phase-in scenario and to cap the percentage increase annually. In light of the new parameters, Mr. Evans asked if staff could update charts to visually show sources, uses and reserves implemented with the committee's considerations. SNWA staff noted these recommendations and will show the different scenarios at the next meeting.

With no additional comments or proposed changes to the funding model, Ms. Murphy noted staff's commitment to offer a facility tour to interested committee members. She asked the committee to contact her by Friday, February 7th if they would like a tour of SNWA's facilities. Following no more comments or questions from committee members, Ms. Murphy closed the meeting and stated that the next meeting will be held February 12th.

PUBLIC COMMENT

Priscilla Howell, Director of Utility Services for the City of Henderson, was concerned that the sample customer impacts did not reflect proposed rate increases for all the purveyor members. Mr. Entsminger noted that the sample customers shown include LVVWD approved inflation indexed rates for future years.

ADJOURNMENT

The meeting was adjourned at 4:27 p.m.