

**WASHOE COUNTY BOARD OF COMMISSIONERS
BOARD OF TRUSTEES
SOUTH TRUCKEE MEADOWS GENERAL IMPROVEMENT DISTRICT
WASHOE COUNTY, NEVADA**

TUESDAY

11:00 A.M.

SEPTEMBER 25, 2012

PRESENT:

Bob Larkin, Washoe County Commissioner, Board of Trustees, Chairman

Bonnie Weber, Washoe County Commissioner, Board of Trustees,

Vice Chairperson

John Breternitz, Washoe County Commissioner, Board of Trustees, Trustee

David Humke, Washoe County Commissioner, Board of Trustees, Trustee

Kitty Jung, Washoe County Commissioner, Board of Trustees, Trustee

The Board of County Commissioners and the Board of Trustees convened at 11:13 a.m. in joint session in the Commission Chambers of the Washoe County Administration Complex, 1001 East Ninth Street, Reno, Nevada. Also present were Washoe County Chief Deputy Clerk Nancy Parent; Washoe County Manager Katy Simon; Washoe County Legal Counsel Paul Lipparelli; Pete Simeoni, Local Managing Board Legal Counsel; and Dwayne Smith, Water Resources Acting Sr. Licensed Engineer. The Chief Deputy Clerk called the roll and the Boards conducted the following business:

12-39STM AGENDA ITEM 2

Agenda Subject: “Public Comment. Comment heard under this item will be limited to two minutes per person and may pertain to matters both on and off the STMGID Board of Trustees agenda. The Trustees will also hear public comment during individual action items, with comment limited to two minutes per person. Comments are to be made to the Trustees as a whole.”

There was no response to the call for public comment.

12-40STM AGENDA ITEM 3

Agenda Subject: “Status report on the analysis and development of a feasibility plan related to the possible establishment of the STMGID as a general improvement district independent from Washoe County Department of Water Resources including status report of progress, consultant contract status through September 14, 2012 and recommendations regarding alternatives for Local Managing Board (LMB) consideration to amend the feasibility study scope, which plan shall be presented to the Board of Trustees no later than November 13, 2012 (Agenda Item #9 on Washoe County Commission Agenda.)”

Rod Savini, Gray and Associates Project Manager, said the status report included a progress report, the status of the consultant's contract through September 14, 2012, and recommendations regarding the alternatives for consideration by the Local Managing Board (LMB) of the South Truckee Meadows General Improvement District (STMGID) to amend the scope of the feasibility study.

Chairman Larkin noted there was a staff report dated September 17, 2012 and one dated September 24, 2012, and he asked which staff report Mr. Savini would be addressing. Mr. Savini replied he would be referring to both. He stated the September 17th staff report was in response to the meeting held on September 11th. He said the September 24th staff report would be introduced as part of the body of the feasibility alternatives identified at the LMB meeting on September 20th.

Mr. Savini said the report included the scope of work for the feasibility study, which required the development of a plan for infrastructure improvements to make STMGID a standalone-water system. He said it also required development of a plan for infrastructure improvements for existing Washoe County service areas that would have to be separated from the interdependent Washoe County/STMGID system.

Mr. Savini noted the feasibility study team consisted of four consultants as shown on page 4 of the September 17th staff report. He said part of the process was making sure the ratepayers and stakeholders knew what was involved. He stated after the study was published, the ratepayers would be polled and a response would be provided to the LMB and the STMGID Board of Trustees and, after the LMB took action, a report would be provided to the Trustees. He said the final draft of the feasibility study was targeted for completion on October 18, 2012. He stated after the two-week comment period, the document would go back to the LMB for consideration on November 1, 2012 and to the Trustees on November 13, 2012.

Mr. Savini said the preliminary infrastructure cost estimates provided on September 11th to separate STMGID and make it a standalone system came in at roughly \$4.5 million and at \$10 million to separate the Washoe County service areas. He said the preliminary findings, based on the bonding for those improvements, had an aggregate total of approximately \$15 million and would impact approximately 80 to 90 percent of STMGID's current customer rates.

Mr. Savini stated the process after September 11th involved identifying alternatives and reducing the improvements identified in the original scope of work. He said the process also included obtaining input from the other stakeholders to make sure the identified alternatives met their business models. He stated the alternatives shown on pages 2 and 3 of the September 24th staff report were presented to the LMB on September 20th.

Randall Long, Lumos & Associates, conducted his PowerPoint presentation, which provided a brief overview of the alternative findings as presented to the LMB on September 20, 2012. The presentation reviewed the standalone costs, the

preliminary alternative savings, alternative evaluation categories and criteria, the summary of savings per category, the overall summary of cost savings, the separation costs for STMGID and Department of Water Resources (DWR), the total separation cost with alternatives, and the STMGID Feasibility Analysis. A copy of the presentation was placed on file with the Clerk.

Mr. Long said all the alternatives had ripple effects. For example, Item 2 had a Division of Service Agreement that identified several STMGID properties slated to be de-annexed into DWR. He stated initially it was believed that de-annexation would generate some savings in terms of the infrastructure required to service those properties; but it was found moving the customer base into DWR would require additional supply and storage, which would zero out any savings.

Mr. Long said professional services would also be required to design and implement the alternative infrastructure changes and to address contingencies associated with the feasibility level of the process. He said the estimate would be \$4.9 million when taking all of that into account.

Mr. Long stated when looking at STMGID as a standalone system, the costs would be proportioned to either STMGID or DWR. He said when taking into account the savings, STMGID's net separation costs would be \$457,634 to build the infrastructure required to have STMGID operate as a standalone. He stated conversely the net separation costs for DWR would be \$7.9 million. He said the total separation costs with alternatives would be \$8.4 million and would cut the costs by approximately \$5 million.

Commissioner/Trustee Jung asked if the analysis looked at the terms of the agreement to merge DWR with TMWA. Mr. Long replied it did not. Commissioner/Trustee Jung said that analysis was brought up at the meeting last week when she took the TMWA Board the Commissioner's requests for them to direct staff to talk with STMGID. She advised STMGID accepted that analysis as an upcoming agenda item, but there was quite a pushback by TMWA that this was opposite of one of the conditions that had to be met or it would be a deal breaker. She said there was also the fear of what the new Western Regional Water Commission (WRWC) and the Legislature would do, because it was not in keeping with the intent of the law passed. She felt the feasibility of the alternatives needed to be considered in terms of all of that. Mr. Long replied the current annexation and de-annexation policies were applied but, if the project manager saw that was the direction to go, it could be looked at.

Chairman Larkin stated he understood the interconnections and the service area exchanges, but he did not understand the wholesale criteria of DWR to STMGID. Mr. Long stated assuming the potential of DWR to merge with TMWA, TMWA's model was to sell wholesale water to customers, which would be STMGID. He said STMGID's selling water to TMWA was not looked at because that was not one of STMGID's operating models. Chairman Larkin said some combination of the three alternatives was

being proposed to lower the \$13.3 million in standalone costs. Mr. Long replied that was correct.

Chairman Larkin said he understood the service area exchange concept of STMGID to DWR was eliminated because of the debt and STMGID to DWR would actually be STMGID to TMWA. Mr. Long replied that was correct. Chairman Larkin said with those assumptions, the costs would be reduced to \$4.9 million. Mr. Long clarified the \$13.3 million was being reduced by \$4.9 million.

Commissioner/Trustee Breternitz said the key element in his support of this concept would be the affect of the DWR/STMGID on the consolidation of DWR and TMWA, and he asked if this proposal was in the best interests of DWR. Dwayne Smith, DWR Acting Sr. Licensed Engineer, advised it made no sense to separate water systems and build redundant infrastructure from a technical standpoint, and he did not believe it would benefit any of Washoe County's or STMGID's ratepayers.

Steve Cohen, LMB Chair, said TMWA wondered why DWR was not taking care of some of the back and forth discussion about this, while DWR said STMGID should talk to TMWA. He stated STMGID was stuck in the middle of DWR and TMWA. He said right now DWR managed STMGID, which was a service STMGID was paying for. He stated STMGID needed the help of DWR to break some of these things down before STMGID becoming a standalone could be presented to TMWA.

Commissioner/Trustee Humke inquired if Mr. Cohen had asked TMWA for a meeting. Mr. Cohen replied both staffs met, but TMWA's staff indicated they needed direction from their Board to go beyond that. He said Commissioner/Trustee Jung asked for that at last week's TMWA meeting, but there was a question regarding why they needed to get involved because they believed STMGID should be dealing with the County. He stated they reluctantly put an agenda item on their next meeting about whether they should talk with the LMB. Commissioner/Trustee Humke felt this was a timing issue, but he believed someone needed to talk with TMWA rather than having to talk to them in the halls of the Legislature.

There was no public comment on this item.

On motion by Commissioner/Trustee Breternitz, seconded by Chairman Larkin, which motion duly carried, it was ordered that Agenda Item 3 be accepted.

12-41STM AGENDA ITEM 4

Agenda Subject: "Discussion and possible direction by the Board of County Commissioners to Washoe County's Department of Water Resources staff regarding the Feasibility Study for the South Truckee Meadows General Improvement District (STMGID), which evaluates a range of future operational models for STMGID. (Agenda Item #10 on Washoe County Commission Agenda.)"

Dwayne Smith, Department of Water Resources (DWR) Acting Sr. Licensed Engineer, stated this item was being presented to allow the Board to ask clarifying questions and to provide direction to County staff to review the feasibility study being generated by the South Truckee Meadows General Improvement District (STMGID).

Commissioner/Trustee Breternitz asked if any efficiencies could be gained by commenting on the aspects of the STMGID feasibility study as the study was developed, so it would not be completed without getting feedback from DWR. He said the goal was to make this work for everyone. He stated he would like to see the entities working together to come up with a solution that would work for both of them.

Chairman Larkin said the Truckee Meadows Water Authority (TMWA) and the Board of County Commissioners (BCC) representing DWR entered into an agreement regarding three conditions TMWA wanted met before entering into a merger with DWR. He said one condition was the disposition of the developer credits, which was mostly resolved; the second was the establishment of the Bond bank for the eventual defeasement of debt incurred by STMGID's water treatment facility; and the third was the outcome of the plan for STMGID.

Chairman Larkin stated at the last meeting, the STMGID Trustees requested the BCC representatives on TMWA's Board to place an item on TMWA's agenda regarding a discussion allowing STMGID to discuss negotiations with TMWA. He said some concern was expressed by the members of TMWA's Board that the discussion between DWR and STMGID for the disposition of STMGID should occur before the discussion was brought to TMWA. He stated STMGID's Local Managing Board (LMB) was seeking some covenant with TMWA as it moved forward towards being a standalone system. He editorialized having STMGID become a standalone system made no sense whatsoever due to the water system being highly integrated. He said it made some sense to facilitate some agreements such as other water systems had, and he hoped the BCC would direct DWR's staff and STMGID's consultants to present a findings report at the next TMWA Board meeting that outlined what was being done. He stated TMWA had no dog in this fight and did not want to be in a position of having to figure this out, which was the pushback Commissioner/Trustee Jung felt. He said he agreed with TMWA's concerns, because the three conditions specified the County and the LMB should figure this out. He stated the LMB was requesting additional resources to do that, which included having a dialog with TMWA. He said he did not believe that request would be well received by TMWA's Board unless DWR was involved.

Chairman Larkin said as a TMWA representative, he did not want to see Sparks' taxpayers saddled with the cost of operating a system that did not relate directly to them. He stated he hoped the BCC would authorize DWR and the consultants to prepare companion reports showing the differences and what the BCC's plan was regarding STMGID.

Commissioner/Trustee Breternitz felt the key was there should be a statement from TMWA indicating they were willing to sell water to STMGID, because STMGID becoming a standalone-water system depended on the ability to purchase wholesale water.

Chairman Larkin said there was a clear precedent in the community for standalone systems, and Sun Valley was a good example of that. He stated he did not have an issue with people wanting to govern themselves, but the playing field had to be level to ensure no one ratepayer or taxpayer was burdened with another's issues. He said at the TMWA meeting, if there was a motion and direction to do so, the BCC would be seeking confirmation that DWR's current commitment to sell water wholesale to STMGID would be honored by TMWA. He said STMGID would manage its own affairs, but it would need some comingling of resources. Mr. Smith said he appreciated Chairman Larkin's comments and he also appreciated the challenges. He said DWR staff was interested in sharing their perspective and putting their engineering technical skills towards looking at these issues. He stated staff was also very cognizant of the timing issues. He said there was some concern regarding how far the feasibility study would go, since only the alternatives were being looked at. He said staff's analysis and reviews were being done from a technical standpoint to look out for the ratepayers. He stated he understood the direction was to do this in a timely fashion, to be respectful, and to be sensitive to the nature of it, but to also look out for all of the ratepayers to ensure none of them were unduly burdened or benefited.

Chairman Larkin said this issue was under the purview of the Western Regional Water Commission (WRWC), which was under the purview of the WRWC Subcommittee. He said how the area's water issues were solved was being watched by the WRWC Subcommittee. He said if the water issues were not solved locally, they would be legislated. He stated he knew the WRWC Subcommittee was seeking reauthorization through the next legislative cycle, so it behooved everyone to deal with this; otherwise, some people in the south would take care of it for us.

Commissioner/Trustee Humke asked Mr. Smith what DWR's policy had been over the last 25 years regarding whether DWR should maintain itself as a standalone water purveyor. Chairman Larkin interjected the BCC had already opined DWR would be integrated with TMWA, and it would be unfair to ask staff to revisit that decision. He said agendaizing that discussion would be appropriate if Commissioner/Trustee Humke wanted to do so, but it was not part of this agenda item. Commissioner/Trustee Humke felt agendaizing that discussion might be helpful to a lot of DWR's and STMGID's ratepayers. Chairman Larkin agreed it would be relevant to do a complete review of what was being done for informational purposes but, if Commissioner/Trustee Humke wanted to style something for voting, doing that would be a little more perplexing. He stated there would be another BCC meeting prior to the TMWA meeting if that would satisfy Commissioner/Trustee Humke. Commissioner/Trustee Humke said it would, and he reiterated he felt it would benefit the citizens to know why STMGID was created.

Chairman Larkin requested a presentation on October 9, 2012 regarding the history of what had been done regarding STMGID/DWR, some of the relevant issues on why the BCC decided to merge DWR with TMWA, Mr. Smith's first take on what would be presented to TMWA, and what Rod Savini, Gray and Associates Project Manager, would be presenting to TMWA regarding the feasibility study. He said that would provide the Commissioners with the opportunity to review and to provide input on what would be presented to TMWA.

Commissioner/Trustee Humke said he also wanted to know how the Sun Valley General Improvement District (SVGID) was being treated by TMWA versus how TMWA was dealing with STMGID. He understood it was not a simple question, but he believed the citizens deserved an answer, because no taxpayer should be required to subsidize another taxpayer.

Commissioner/Trustee Breternitz asked if it was clear what the BCC was asking Mr. Smith to do. Mr. Smith said he understood the question regarding SVGID was how it related to the TMWA-DWR merger and also a compare and contrast technical analysis showing the differences with SVGID's association with TMWA versus TMWA's association with STMGID.

Steve Cohen, STMGID LMB Chair, said he was aware DWR would not be in the water business in the future and that other County customers should not subsidize STMGID customers. He advised the general frustration was the customers of both DWR and STMGID benefited by the entities working together, but that collaboration made STMGID a patchwork quilt that was costing millions of dollars to separate from DWR. He said the people were upset because they did not understand why STMGID customers would be paying 100 percent of the separation costs because there had been a benefit to the other customers. He said there should be a dialog with DWR to try to work out the issues, which included exchanging customers and possibly exchanging pledged revenues. He stated he was aware the exchange of pledged revenues was a legal question, but he did not think that door should be shut.

Chairman Cohen said it was not just about the water, because currently STMGID provided its own water and did not have to buy it wholesale from DWR. He stated through the Division of Service Agreement, DWR and STMGID never exchanged a dime, but did exchange water. He said depending on the time of year STMGID would be short of water and at other times of the year STMGID provided water to DWR. He said without DWR, STMGID might have to supplement its water with a wholesale agreement with TMWA the same way SVGID did. He stated he did not want the discussion with DWR to be limited to just water purchases, but wanted the door left open to discuss other items.

Chairman Larkin said he believed that door was still open. He stated the direction to Mr. Smith relating to DWR was to disclose to TMWA what the plan was. He said Mr. Smith was also authorized to talk with Mr. Savini so there would be collaboration on what was brought back to the Board on October 9, 2012.

Mr. Smith commented DWR and STMGID had worked well together for a long time, and he hoped the public could respect that as staff carefully moved forward through the next few weeks.

12-42STM AGENDA ITEM 5

Agenda Subject: “County Commission, Trustees, and Staff Comments (limited to announcements, requests for information, statements relating to items not on the agenda or issues for future agendas.)”

There were no Board or Trustee member comments.

12-43STM AGENDA ITEM 6

Agenda Subject: “Public Comment. Comment heard under this item will be limited to two minutes per person and may pertain to matters both on and off the Commission agenda. The Commission and the Trustees will also hear public comment during individual action items, with comment limited to two minutes per person. Comments are to be made to the Commission and Trustees as a whole.”

Ted Short advised the South Truckee Meadows General Improvement District (STMGID) did not want to separate from the Department of Water Resources (DWR). He stated during the time he was on STMGID’s Local Managing Board (LMB), the LMB believed in conjunctive water use for the whole area. He said before the new treatment plant was finished, the area had some massive rainstorms and a lot of mudslides. He stated Sierra Pacific could not process any water. He said STMGID opened its gates and provided Sierra Pacific with all of the water possible. He stated in a community like this, the entities needed to cooperate with each other when a vital commodity like water was involved. He stated there was a lot of work to do, but he implored the Board to do it and to make this happen. He said if STMGID’s ratepayers were fully apprised of what would happen if STMGID went to TMWA and the Board took a vote, 95 percent of STMGID’s ratepayers would be against going with TMWA because all of STMGID’s assets were being given away without any compensation. He stated all of STMGID’s reserves and all of its representation would also be given away. He said STMGID had been spoiled, because there had been five good elected people who had been making 99 percent of all of the major decisions. He stated DWR had been great with handling engineering and it had been a good marriage, which was now over.

Eric Denton said an important but unanswered legal question was on what legal basis the Commissioners and the Commissioners sitting as the STMGID Trustees had for setting out the ground rules for incorporating STMGID into Washoe County’s water system. He stated the law for the fiduciary obligations for Trustees was extensive and well defined. He wondered if there was an inherent and irreconcilable conflict of interest between the obligations and fiduciary duties of the Commissioners and the STMGID Trustees. He said the apparently ill-defined laws governing the Commissioners

actions relative to STMGID would appear to be subordinate to the well-defined laws governing the duties and obligations of the STMGID Trustees. He stated the assumption that STMGID must bear the lion's share for separating its water system from the County's water system showed a marked preference for the interests of the County at the expense of the best interests of STMGID.

* * * * *

12:14 p.m. There being no further business to come before the Board, the meeting was adjourned without opposition.

ROBERT M. LARKIN, Chairman
Board of County Commissioners and
South Truckee Meadows General
Improvement District

ATTEST:

AMY HARVEY, County Clerk,
Clerk of the Board of County Commissioners
and Ex-Officio Secretary, South Truckee
Meadows General Improvement District

*Minutes Prepared by:
Jan Frazzetta, Deputy County Clerk*