

**MINUTES OF THE MEETING  
OF THE  
ASSEMBLY COMMITTEE ON GOVERNMENT AFFAIRS**

**Seventy-Fourth Session  
February 22, 2007**

The Committee on Government Affairs was called to order by Chair Marilyn K. Kirkpatrick at 8:02 a.m., on Thursday, February 22, 2007, in Room 3143 of the Legislative Building, 401 South Carson Street, Carson City, Nevada. Copies of the minutes, including the Agenda ([Exhibit A](#)), the Attendance Roster ([Exhibit B](#)), and other substantive exhibits are available and on file in the Research Library of the Legislative Counsel Bureau and on the Nevada Legislature's website at [www.leg.state.nv.us/74th/committees/](http://www.leg.state.nv.us/74th/committees/). In addition, copies of the audio record may be purchased through the Legislative Counsel Bureau's Publications Office (email: [publications@lcb.state.nv.us](mailto:publications@lcb.state.nv.us); telephone: 775-684-6835).

**COMMITTEE MEMBERS PRESENT:**

Assemblywoman Marilyn Kirkpatrick, Chair  
Assemblywoman Peggy Pierce, Vice Chair  
Assemblyman Kelvin Atkinson  
Assemblyman Bob Beers  
Assemblyman David Bobzien  
Assemblyman Chad Christensen  
Assemblyman Jerry D. Claborn  
Assemblyman Pete Goicoechea  
Assemblyman Ruben Kihuen  
Assemblyman Harvey J. Munford  
Assemblywoman Bonnie Parnell  
Assemblyman James Settlemeyer  
Assemblyman Lynn D. Stewart  
Assemblywoman RoseMary Womack

**STAFF MEMBERS PRESENT:**

Amber Joiner, Committee Policy Analyst  
Scott McKenna, Committee Counsel  
Emilie Reafs, Committee Secretary  
Olivia Lloyd, Committee Assistant



**OTHERS PRESENT:**

Michael A. T. Pagni, General Counsel, Truckee Meadows Water Authority, Nevada

Lori L. Williams, General Manager, Truckee Meadows Water Authority, Nevada

[Call to order, Roll Call]

**Chair Kirkpatrick:**

I would like to welcome everybody. Yesterday we heard from the south on the way the Water Authority works there. Today we will be hearing from the north on how the Water Authority works here.

**Michael A. T. Pagni, General Counsel, Truckee Meadows Water Authority:**

[Introduced self] I am from McDonald, Carano, Wilson. We are the legal counsel to the Truckee Meadows Water Authority. With me today is Lori Williams, General Manager of the Truckee Meadows Water Authority. She has a brief history of the TMWA (Truckee Meadows Water Authority), how we came to be.

**Lori L. Williams, General Manager, Truckee Meadows Water Authority:**

Thank you for the opportunity to be here with you today.

[Accompanied by PowerPoint presentation, ([Exhibit C](#))]

[Page 2] To tell you a little history of the Water Authority, we are a very young agency. We have been in existence for only about five and half years. The Water Authority was formed by a collaboration of Reno, Sparks, and Washoe County when Sierra Pacific Power Company decided in 2000 that they would divest their water assets: basically it was an asset sale to the highest bidder. This was a monumental cooperation by the local agencies to keep water under local control and to make sure that this precious resource did not go to some non-Nevada agency; I can tell you there were some, and there also was a foreign agency that was quite scary for all of us.

They formed the new agency under the *Nevada Revised Statutes* (NRS) Chapter 277 as a joint powers agreement, and you can see on the slide that the make up of the Board is members appointed by or members of the City Council of Reno, Sparks, and Washoe County. They are pretty much apportioned as the current customer base would be from those three entities.

[Slide 3] We were 100 percent debt financed in 2001 for the acquisition, and we had to convince the bond markets to loan us \$452 million to acquire the assets, fund the first two years of capital investment and improvements, and get the company set up and running. Since that time we have become a little less leveraged as we have added new facilities and had new facilities contributed by new development.

[Slide 4] We rely on three basic sources to produce water for the Truckee Meadows area. We intend to use these for the maximum benefit from all the resources. We have surface water rights on the Truckee River. Some of them are old rights that Sierra Pacific had rights to, and some of them are rights that have since been transferred. We continue to increase the water supply for the Truckee Meadows by transferring what were predominantly irrigation rights, as set out in the Truckee River Orr Ditch Decree, from an agricultural purpose to a municipal purpose. That is really the focus of increasing the water supply for the TMWA in the region. We also have extensive groundwater resources in the region; we are limited by a management order issued by the State Engineer to pump groundwater up to 15,000 acre feet a year in normal years. We can go up to 22,000 acre feet plus or minus in drought years. We also recharge the groundwater aquifer with surface water when the surface water is available. In addition to that, a very integral component of our water supply and management plan are the storage rights. We own all the water in Independence Lake, and we operate the dam and own the control structure on that. We operate the Donner Lake water diversion dam, and we own half of that water. We share that water in Donner Lake with TCID (Truckee-Carson Irrigation District). We also have a contract that came about in 1994, when we were in the middle of a drought, to store water in the federal reservoirs in Boca and Stampede.

[Slide 5] To give you some point of reference, here is a map of the Truckee River System. The Truckee River System is operated by a Federal Water Master under a decree called the Orr Ditch Decree. He has very prescribed flows for operations on the river that require about 500 cubic feet per second (cfs) of water to cross the State line in the summer, and 400 cfs in the winter. The decree came out in the early 1940s. As I mentioned, we have the water in Independence Lake and part of the water in Donner Lake, we also can store water in Boca and Stampede Reservoirs to bring it down the river to the community.

[Slide 6] When we talk about increasing our water supply and converting the agricultural rights on the Truckee River to municipal rights, one of the important keys is looking at how the river is operated and how we manage those resources. In 1990, Senator Reid was instrumental in passing

Public Law 101-618, which is called the Negotiated Settlement of the Truckee River. We have been negotiating provisions of the Truckee River Operating Agreement (TROA) since that time. We anticipate that the Federal EIS (Environmental Impact Statement) and the California EIR (Environmental Impact Report) will issue records of decision on that this year. We anticipate a few court proceedings to follow that and hope to implement the settlement agreement, after 18 long years, at that time. TMWA is one of the five mandatory parties to the Truckee River settlement and the TROA operating agreement. The other parties are the State of Nevada, the State of California, the United States, and the Pyramid Lake Piute Tribe.

[Slide 7] So why is the Truckee River Negotiated Settlement so important for our continued water supply and our existing water supply? You saw that we have storage in the federal reservoirs through what we call an interim storage agreement, and we look at that storage as the supply that makes water available. In years when we do not have a good snow pack and the reservoirs are not full on the Truckee River system, the storage is what we rely on to make sure that we have enough water coming down the Truckee River to serve the customers.

The biggest thing that the Truckee Meadows gets out of the Negotiated Settlement is an increase in our drought storage and a permanent storage contract to store water in those federal reservoirs. It is a much better idea to store water in existing reservoirs than it is to construct new reservoirs of our own. From an environmental standpoint, that is very important. The other important component is that this agreement will ratify the allocation of water between California and Nevada, which has never been set. This agreement will set that. In addition, it provides a lot of other benefits to the Truckee River, including enhanced in-stream flows, fish flows, enhanced reservoir storage, and provisions for operations on the Truckee River that meet requirements and today's needs on the river. This is looking at our future resource and supply for the community. In addition to adding water rights, there will come a time in the not too distant future when we will also need to increase our storage availability. The worst two drought cycles in history have been eight years, so we are planning for those two worst eight year droughts, plus an additional year, which is a conservative drought standard. We need to make sure that in those drought years that there is sufficient storage as we increase our supply of water from the Truckee River to meet the supply needs during the worst drought years.

[Slide 8] We contributed conservation plans to the negotiated settlement, as it is very important that we conserve in this community. Prior to 1995, our system had about 44,000 customers that were not metered. We have been working

with contributions from developers. As they come in to get the new "will-serve" letter, they give us money and we retrofit meters on the system. It is important to understand the commitments our community has made to conserve water. Unlike other communities where conserved water can be reissued for new developments, the water that we save by installing water meters on the system is the water that we will store in those storage reservoirs under the contract with the federal government. We will use that water to make the drought supply for those customers. It will not be issued for growth.

Another important component of conservation is water meters, and we have a twice weekly watering plan that is one of our conservation programs. It is hard to give incentives to folks to save water if they are not metered. Currently about 16,000 of our 92,000 customers have yet to convert to the metered rate. We have only about 4,500 of those now who actually do not have meters. We are working to install meters for all the customers, and the Board is looking closely at when we could transfer to a completely metered system.

Another component is that we would pay the federal government for storage, and they would pay us for our loss of hydroelectric generation. The Truckee Meadows Water Authority operates four hydroelectric plants on the Truckee River, but one is inoperative now. We generate about six megawatts of electricity from them. We get the energy credits, and those water rights associated with the hydroelectric plants are instrumental to the water utilities operation. That is why we are in the electric generation business. One of the things that we gave up was the claims to unappropriated water.

[Slide 9] Before I go to water resources, I will add that the Board has always supported a regional management of those water resources. We at the Water Authority, and the Board has supported this, think that we could do better if we were working with the other water agencies to regionally manage the combination of surface water resources, imported water, groundwater resources of other utilities, in addition to storage. There are a number of regional benefits that can be had, whether they produce a new supply or not, that will enhance our ability to manage our water supplies to keep the groundwater aquifers, the reservoir pools, and the river full.

On the facilities side, we have two major water treatment plants on the Truckee River: the Glendale Surface Water Treatment Plant (SWTP), the Chalk Bluff Surface Water Treatment Plant, and 32 groundwater wells spread throughout our service territory.

[Slide 10] Our distribution system is quite extensive. We have over 1,200 miles of distribution mains, 550 miles of service lines, and 98 booster pump stations

because of the wide variability in elevations in our community. We have 117 regulating stations and 33 treated water storage tanks, which are differentiated from the upstream raw water storage, and two major storage reservoirs. All of our distribution facilities and plants are SCADA (System Control and Data Acquisition), controlled remotely from our plants.

[Slide 11] This is a look at our service territory. We serve about 92,000 connections in the service territory, and in addition we serve Washoe County wholesale water in the Spanish Springs area. Prior to the County building a new water treatment plant at Hidden Valley, we served wholesale water to Hidden Valley. We serve part of the County's supply down to the South Truckee Meadows in the Double Diamond area and the Sun Valley General Improvement District. This little outlined area is Stead.

[Slide 12] A few statistics on the water utility: we hold about 150,000 acre-feet of water rights between surface water and groundwater rights. We are the only purveyor with upstream storage, and that is for drought protection. We have about 92,000 service connections; we serve approximately 90 percent of the water demands in the Truckee Meadows, either retail or wholesale. In 2006, our operating revenues were about \$76 million, and we spent about \$92 million in capital improvements, including infrastructure, rehabilitation, new facilities for new development, and water rights acquisitions. We acquire water rights and then sell the "will-serve" letters for those to the development community.

[Slide 13] Since we became the Truckee Meadows Water Authority, we have engaged in extensive planning activities beginning with a 20-year Water Resource Plan. We look at the resource needs to meet our customer's projected demands. We did an extensive Water Facility Plan, which has been commended because we have gone back and looked at all of the infrastructure needs of our existing facilities over the next 20-year period, as well as the facilities that are required to serve future growth. We rolled those two plans into a 10-Year Funding Plan. The 10-Year Funding Plan identifies a \$200 million requirement over that 10-year period for infrastructure rehabilitation. I would submit to you that when we bought the system from Sierra Pacific, it had a lot of deferred maintenance and a lot of deferred rehabilitation. We are well on the way to turning the corner on correcting some of those deficiencies. The funding plan also identifies \$155 million for projects that are required for development. On the facility front, this is also an area where we think a regional effort could enhance the cost to the customer and enhance the efficient use of resources by integrating our facilities with the other utilities and ensuring we are not duplicating efforts, or building treatment plants at the same time as other utilities. No one wants to strand investment in treatment facilities when another utility already has one just because we had a line drawn through the

middle of our service territories. We think that is another area that could be enhanced by a regional effort, and the Board has supported that regional effort.

[Slide 14] Looking back on our five year history, it has been nothing but a challenge. We started with \$452 million in debt, we had a weak bond rating, and we knew going in that we probably were not going to be able to go back to the bond market for any money until we fixed that. Sierra Pacific had not done a rate increase for about three and half years, and their rates did not support the cost to serve the customers' water. In addition to that, the TMWA guaranteed a 2-year rate freeze. By the time we had gone into a rate review process and a rate adjustment process, we were about five and one half years behind the curve keeping up with the cost of service. We looked at our long-term financial plans, and the Board adopted early on a "Growth Pays for Growth" policy. Then, as we got out of the guarantee of no rate increase, they implemented developer facility charges in 2003 and updated those once in 2005. As the Facility Plan and the Funding Plan became clearer, the Board again updated them in November of 2006.

They phased in customer rate adjustments because there were a lot of different issues playing into the financials here, including the institution of developer fees. We were planning to improve our bond rating and our ability to bring down our debt service cost. In September 2003, there was the first rate increase in five and one half years, and the second adjustment was made in March 2005. Because of the other financial things that we have been able to put into place since then, the Board has been able to defer rate increases since the March 2005 increase. I would also like to point out that up to July 2004, we had been paying [interest] only on our \$452 million debt, and in 2004 we had our first \$6.5 million principal payment. It was necessary for us to plan for and be able to fund the \$6.5 million payment that was coming.

[Slide 15] The following are some of our five year financial results. The credit rating agencies have upgraded our bonds twice; we are currently at an A+/A1 bond rating. They have cited strong financial management practices and prudent planning in their upgrades. These upgrades have opened the doors that we needed to open to stabilize the finances of the utility. We were able to borrow money from the Drinking Water State Revolving Loan Fund to do our arsenic compliance project. We had the authorization to borrow \$9 million; the project actually came in at about \$6.5 million, so we were a little less on that project. We were able to finance \$40 million in bonds; those bonds were to fund some rehabilitation. Actually, one of the projects is a storage tank for existing customers where we were storage-deficient in our existing system, and another was for some main replacements and things that were for both existing and future customers. We were able to refund all of the \$452 million in bonds

in May 2006, and in 2007. We were able to start a Tax Exempt Commercial Paper Program to fund the acquisition of water rights, so that we do not have a lot of cash laid out in water rights acquisitions. We are actually funding that through the Tax Exempt Commercial Paper Program.

[Slide 16] This is an article from the *Northern Nevada Business Weekly* about the financial pathway we have come down in the last five years. We credit it to our CFO (Chief Financial Officer), who has led the charge in keeping us on track with the long term financial plan.

[Slide 17] The bottom line results of all of this are that we have been able to produce substantial savings for TMWA customers after pursuing a closer direction towards the cost of service, and with the refinancing, have saved about \$1.2 million a year.

[Slide 18] Last legislative session we became the subject of an audit by the Consumer Advocate's Office, and I would like to share a few of the results. If you are interested in the full report, we will make sure that you get it. The Consumer Advocate's Office did an audit of the TMWA and here are some of the quotes from that. We thought it was a very good audit, and for a utility that is as young as we are, we thought we scored high marks. The Consumer Advocate looked at the 20-year Facility Plan and the developer charges and really had no comments. They identified that the cash contributions from the developers through the developer fees instituted in 2003 were very important to the utility in providing a growing source to fund Capital Improvement Plans. They also identified in the Funding Plan, that if we kept going the way we were, that we were going to have a \$40 million shortfall in the ten-year period. The plan always was to update each of the plans, update the Funding Plan and then go back to the development community and update the facility charges. This was done in 2005. Parts were updated in 2005, and we updated again in 2006. In November 2006 we have updated the facility charges and we will continue that through the planning cycle. It does not stop now: continuing resource planning, facility planning, funding planning, and updating all the rates and charges.

[Slide 19] Another finding of the audit was that the Board and management had taken appropriate steps to put us in an 'A' rating. That would require having large cash balances from the developer fees, and we have strong coverage ratios because of those developer fees. I also will inform you that in the last three or four months we have seen a huge drop off in developer contributions. We saw a big bubble in the developer contributions for a few years, and now we are seeing a big drop off.



We have huge existing debt burdens from the initial debt and from some of the other debt we have incurred since then. It would have been impossible for the TMWA to incur additional debt if we had not taken some of the steps that we took. We do not plan on assuming large quantities of debt because we are so debt financed right now.

[Slide 20] Where are we today? Here is a quote from the Fitch Rating report that came out in January 2007, identifying our planning efforts and the steps we have taken. We are in good financial shape. They give us a positive outlook for the future which is exactly where we wanted to be. With that I will take any questions that you have.

**Michael Pagni:**

There was an Interim Committee on S.C.R. No. 26 of the 73<sup>rd</sup> Session [Feasibility and Advisability of Consolidating Water-Related Services in Washoe County] and there was a Subcommittee [Use, Management, and Allocation of Water Resources] that looked specifically at Washoe County during the last [2005-2006] interim. The TMWA has worked closely with that interim subcommittee; the Board has strongly supported and fully supports the recommendations of the subcommittee for improving and optimizing regional water management in Washoe County. They took a vote last month and unanimously supported the Bill Draft that is being circulated right now by the subcommittee.

**Assemblyman Settlemeyer:**

What percentage of people do you have now, who are not on meters but on a flat rate?

**Lori Williams:**

We have about 92,000 connections, and of those we have about 16,000 customers that are on a flat rate. Of the 16,000, almost 12,000 have meters installed. We are collecting the meter information from those customers and providing them information on their monthly bills, comparing their usage to what it would have been if they had been on the metered rate.

**Assemblyman Bobzien:**

I need some help understanding some of the aspects of S.C.R. No. 26. Something that I just heard further confuses me, Mr. Pagni. You said that the TMWA fully supports the recommendations and specifically the Bill Draft Request (BDR) that has come out subsequent to the study. It is my understanding that there are some minor differences that others have expressed between the BDR that has been circulated and the recommendations themselves. Are you aware of the differences that I am highlighting, and do

you have any comments about where you are in the discussions right now as we are waiting for the bill to be introduced?

**Michael Pagni:**

The Committee circulated a draft of the bill to the four water purveyors in Washoe County, which is TMWA, Washoe County Department of Water Resources, Sun Valley General Improvement District (GID), and the South Truckee Meadows GID. I believe they circulated that around January 15, and they asked all four of us to provide comments or input that we might have on that draft bill. It was a unique opportunity, and we appreciated it. On January 17 the TMWA Board reviewed the draft and unanimously voted to support the bill. They liked the substance of the bill but asked staff to go back and see if we had any technical comments. The Committee has asked that we provide comments to them by tomorrow, the 23rd, and yesterday at our TMWA Board meeting, staff had some technical edits, some grammatical issues, and clarifications on how TROA plays into the bill or does not play into the bill. There are some specific exclusions for TROA, and so we have put those comments together and are providing those to the Subcommittee today. TMWA's position is: we support the bill; we support the efforts of the Subcommittee. I know that the City of Reno and the City of Sparks have taken a similar position. There was a joint meeting of all the purveyors on February 5 in which the Bill Draft was discussed. At that meeting, Washoe County and the two GIDs did not take any position. They were going to take it back to their Boards for further consideration. I do not know what the two GIDs have done since that time; I know Washoe County met on Tuesday and that they had some technical comments about the bill. I think they had something like 21 comments that they are going to submit, but I could not tell you what their position is as a whole. I know that they have had differing opinions among their commissioners on whether to support or to take a different position on the bill.

**Assemblyman Bobzien:**

To follow up, you mentioned TROA and how the proposal fits within that framework, could you...

**Chair Kirkpatrick:**

Excuse me, Mr. Bobzien can you define your acronym?

**Assemblyman Bobzien:**

There are so many acronyms in this Committee. It is the Truckee River Operating Agreement. [To Mr. Pagni] Could you provide the Committee a brief overview of how you see the proposal fitting into that TROA framework, where the conflict may be, where the congruence is?

**Michael Pagni:**

The Negotiated Settlement that came out of the 1990 federal legislation was the starting point, and there are a number of things that were implemented before the Truckee Meadows Operating Agreement was signed, but they are all part of a bigger package. Sometimes people refer to the whole package as TROA, but we are implementing those steps today. It is critical, and there was testimony before the S.C.R. No. 26 Subcommittee, that the efforts [of TROA] not be impeded or interfered with or subverted in any way by what S.C.R. No. 26 was trying to do. Without the agreement, California could say "We are stopping the water at the state line and you get nothing." It is really important to protect that agreement. The bill as it came out, and we were very glad to see this, has numerous provisions that make it explicitly clear that this new authority would not have any powers or jurisdiction to do anything that would contradict or otherwise impair or impede the Truckee River Operating Agreement, TMWA's role as a mandatory party to that agreement, or our obligations under that agreement and the law to implement its terms. We were happy to see that; some of the technical comments that TMWA has provided came from our TROA counsel just to clarify to what extent TROA is unimpaired by this new authority.

**Assemblyman Beers:**

In the presentation, you have a line that states the rates were listed at below the cost of service. Can you tell me what factors influence the cost of service and why this happened?

**Lori Williams:**

The reason it happened is when Sierra Pacific owned the water utility, they made a strategic decision that they were going to try to stay out of the regulatory environment. By doing that for up to three years prior to selling the water assets, there were a lot of facilities that had been built but had never been included in the rate base, including a portion of the Chalk Bluff Water Treatment Facility. That was to comply with the Safe Drinking Water Act, Surface Water Treatment Rule. There had been three years of new facilities, tanks, pipes, mains, and treatment facilities that were not included in the rates. During that time we saw about a doubling of our electric utility bills. As electricity goes up, the cost of producing chemicals goes up, so we also saw a doubling of our chemical treatment costs, labor, benefits, all of those costs had been going up over that five-and-one-half year period. We were diverging from the cost to serve customers water during that whole five-year period. We are one of Sierra [Pacific's] ten largest customers for electric usage, so when I talk about a doubling of electric, I am not talking about \$50,000 a year to \$100,000; we are talking from \$4 million a year to \$7 million a year. We are talking large numbers there. Then if you add to that the cost of financing the

debt to acquire assets that happened in the middle of that five-year period, all of those contributing factors did not support of the cost to serve customers.

**Assemblyman Goicoechea:**

What is your average water rate for the average residential?

**Lori Williams:**

I should have brought that information with me. I am going to say that the average metered customer is about \$45 a month and the average flat rate customer is about \$79 a month. If you think that is an anomaly, the fact is that flat rate customers use, on average, twice as much water as the metered customers use. It is just about right.

**Assemblyman Goicoechea:**

I guess I do not understand. You are talking about the 16,000 that are flat rate, but a portion of them are metered. Explain that to me.

**Lori Williams:**

One of the commitments of the Negotiated Settlement for us to get our drought storage and reoperate the river was that we would meter the system. We started in 1995 installing meters in the system; we had about 44,600 customers that were flat rate, not metered. We came up with a program through the Public Utilities Commission, where new development would contribute money to a fund, and that fund would be used solely to retrofit meters on the system. So since 1995, we have been systematically going through and retrofitting meters for all of our customers. For example, when the City of Reno is doing a street reconstruction project, we go down before their reconstruction, replace our mains and service lines, if necessary, and install meters. We have been trying to coordinate those activities.

Of the 44,000 customers that were originally unmetered, we have about 4,500 remaining to have meters installed. Those are the most difficult ones because they are where we have one service line going to four individuals, and we have to put in four service lines. Those kinds of things and apartment complexes with a single service lateral are the tough ones that have to be handled one at a time.

There are 11,000 or 12,000 customers that have meters installed [and are still on flat rate.] The Board has looked at this annually and continued to take a position that in the interest of fairness, they would like to wait until all the meters are installed before they make customers switch to the metered rate.

So far, customers have had the choice to go onto the metered rate. We provide them information, and last spring we sent out 5,000 letters to customers telling

them how much money they would have saved over an annual period had they been on the metered rate. Customers who would save, typically, not all, will shift to the metered rate, and customers who will not save will continue on the flat rate. As we adjust rates, some of those imbalances should be taken into account. The Board's position so far has been to give the customers a choice. In a change of customer situation when someone buys a home that was not previously metered, the new customer is then forced onto the metered rate. They are offered only the metered rate. We are moving along with that plan and expect to have it complete in about two years.

**Assemblyman Goicoechea:**

That is fairly generous of the Board, that they would allow them to stay on the flat rate after the meter has been installed. You said that you do issue "will-serve" letters. We heard yesterday from the Southern Nevada Water Authority that they do not. You sell them, is that correct?

**Lori Williams:**

That is correct. We are in the water rights market; we purchase water rights, and we predominantly use our Tax Exempt Commercial Paper program. All of the costs of that program are rolled into the water rights cost that is the basis for the price of the "will-serve" letters we sell to developers. The developers can also bring us water rights, but they either have to buy a "will-serve" letter from us or bring a new water right to us in order to obtain service on the system.

**Michael Pagni:**

There are significant differences between the water systems in southern Nevada and northern Nevada. The south has a big contract for 300,000 acre-feet off the Colorado. Northern Nevada was historically agricultural, so we have to collect all those agricultural rights, then convert them to municipal in order to play into the system. There is not a huge amount of water out there so that we could initiate a contract. The Truckee Meadows Water Authority is the only purveyor that is in the market to try to get those rights as people are willing to convert them, and we are the one resource for anybody that is looking for water rights to join onto a municipal system.

**Assemblyman Goicoechea:**

I agree with that, but I also think that it is very fortunate for the TMWA. Since 140,000 acre-feet is about half the appropriation of the Colorado, it looks like your reserves are fairly good. One last question: I have not yet seen the bill on the consolidation of the regional water in Washoe County, but what percentage of the customers in Washoe County do you serve?

**Lori Williams:**

I apologize, I did not bring that number today, but I can get it to the Committee. I do not know the percentage of customers, but we do serve about 90 percent of the water demand in the community. We do that in several ways, first through retail service to our customers, and second those wholesale contracts with Washoe County, and Sun Valley GID. On a water supply basis, it is about 90 percent.

**Assemblyman Goicoechea:**

How big would this regional water authority be? That is my biggest concern because I represent the outlying portions of Washoe County, and clearly you are not going to service Sutcliffe, Nixon, Gerlach, or Wadsworth. So how big would a regional system be as you foresee it?

**Michael Pagni:**

Right now the Bill Draft as it came out has what they call the planning area, limited to Washoe County, but it also excludes Lake Tahoe, which is a different water source, and it excludes the Gerlach General Improvement District by request from Gerlach. The bill right now is limited to Washoe County.

**Assemblyman Goicoechea:**

How about Wadsworth?

**Lori Williams:**

It could be part of the new water authority since it is in Washoe County.

**Assemblyman Goicoechea:**

So you would supply those?

**Lori Williams:**

It could be. It is not currently conceived that they would be members of the Board. The Committee was interested in keeping it broader so that others could join in the Authority if it made sense.

**Assemblyman Goicoechea:**

I know that the rates in Gerlach have risen significantly, but they are not quite as high as yours. I will have to talk to my people in the Gerlach GID. It might benefit them to be part of this regional.

**Assemblyman Settlemeyer:**

In Douglas County we have seen water savings of about 30 percent from people switching over from a flat rate to a regulated rate. Have you seen similar

effects to individuals when they switch over? Not money, but actual water usage.

**Lori Williams:**

Our water resource planners are constantly trying to figure out exactly what will happen, especially with some of the large-end users. What we have seen so far is that water use is fairly inelastic with price, which suggests that most customers would be willing to pay more and use the same amount. When we converted to meters, we saw the low-end users converting so far. It is very hard to say what will happen when we start billing the person who is irrigating a pasture with four million gallons of water a year, when we convert him from the flat rate service to the metered service. It is very hard to say what his behavior will be. He may just pay the bill. We are trying to assess the impact of that conversion to our revenue stream.

**Chair Kirkpatrick:**

Last session we talked about who actually served on the Board and their terms. Can you remind me who makes up the Board and how long they serve?

**Lori Williams:**

[Referring to Slide 2] There is the Board make-up; we have a seven member Board. Three Board members are City of Reno Council members or appointees. If you are an elected official, you cannot serve beyond your term per the agreement; however, the City of Reno could appoint one of the unelected officials as their appointee. The City of Reno current members are Mayor Cashell, Dave Aiazzi, Councilman, and an appointee, Mike Cate. Mr. Cate has an extensive background with the construction industry. The City of Sparks has two members, currently Mayor Geno Martini and Councilman Mike Carrigan. The City of Sparks also holds the seventh seat, which is the at-large seat. The Board voted a little over a year ago to make that a rotating seat. So the City of Sparks gets a two-year term on that seat [held by Ron Smith], this is the second year of that two-year term, and then Reno will get a two-year term, and then Washoe County will get the third two-year term. The Washoe County appointee on the Board currently is Commissioner and Chairman Bob Larkin.

**Chair Kirkpatrick:**

So there is one constituent on there and the rest are elected officials at this time?

**Lori Williams:**

That is correct.

**Chair Kirkpatrick:**

Those run concurrently with their terms?

**Lori Williams:**

They really are appointees of the City of Sparks, and so the City of Sparks could appoint them differently than concurrent with their terms. The at-large member has to be an elected official, and he cannot serve beyond his elected term in his office. The at-large seat is the only seat that has to be served by an elected official.

**Chair Kirkpatrick:**

Currently, in southern Nevada, every year the term comes up and new people are re-appointed, or someone else takes their place. How often is that done here?

**Lori Williams:**

For example, the Reno City Council member, who was previously their citizen member, had some health issues. He resigned this past fall and so the City just re-appointed. It is really up to the City of Reno whether they want to reappoint—each of the entities gets to decide whether they will reappoint or re-up their appointees.

**Chair Kirkpatrick:**

So with the current Board, how long have most of them been in place?

**Lori Williams:**

Councilman Carrigan and Councilman Aiazzi from Reno are two of the original Board members, the other Board members, Mayor Cashell, this time, a little over a year; Mayor Martini came on the Board with the passing of Mayor Armstrong who was one of the original Board members. It really is variable; right now there are three new Board members; Commissioner Larkin is a fairly new Board member, Mike Cate from Reno is a fairly new Board member, and the at-large seat, Councilman Ron Smith from Sparks just joined the Board.

**Chair Kirkpatrick:**

We discussed S.C.R. No. 26 of the 73<sup>rd</sup> Session, which created an interim study on the use, allocation and management of water resources in Nevada, during the discussion on affordable housing. One of the main concerns was, as a State, we try to look at the fees across the entire State to see what we, as Legislators, could do to mitigate the impact on affordable housing. The TMWA's fees were astronomical as compared with the rest of the State. At one point it was \$70,000 for one water right; that was the number quoted in



what was actually submitted to us. One of the cities submitted that. If you have a different number, that would be great to see because it will be a topic during our discussions as a Committee on affordable housing. Some of the connection fees get passed onto the consumer.

**Lori Williams:**

I would like to clarify that the Water Authority purchases water rights in the open market: supply and demand, or perceived supply and demand. We did have a bump in the water rights market when there was a challenge, as Mike [Pagni] pointed out: Those are individually owned rights, and there were some challenges in getting some of those collected and transferred to municipal use, either through the TMWA's water agency or by private developers. Some folks paid as high as \$50,000 an acre foot. The Water Authority buys water rights and resells them through what we call Rule 7, our Rule 7 price. I believe that the highest that our Rule 7 price ever got was about \$33,000. Our current Rule 7 price is \$27,600, so that is a hair less than the \$70,000 number that you heard. We are acquiring water rights today in the \$8,000 to \$10,000 acre-foot price range, and as we roll those in, our goal is to bring down that Rule 7 price. The cost of water rights probably far exceeds any of the other costs for a project for affordable housing. If you look at our other facility costs, they are very much in line with the other utilities as far as our treatment costs are concerned: it is about \$3,200 per gallons per minute (GPM), we have about a \$1,500 GPM storage fee, and then the developer would have to build some of the pipes and main and pay for the meter retrofit program. The water rights purchase can be an extensive cost.

**Michael Pagni:**

As [Lori Williams] indicated, our Board's policy is to have "Growth pay for growth." On the open market, we have to pay what the market value is on these water rights. We will pass those costs on to growth, so the customers are not subsidizing any of the costs when we are buying these water rights. The improved financial condition allowed us to develop that Commercial Paper Program, which has also enabled us to be more aggressive in buying water rights. Since that 'blip' if you will, we have built up a good reserve, so we have a lot of water rights on hand for developers or anybody else when they want to build a project. That is starting to stabilize now in the community.

**Chair Kirkpatrick:**

Clarify this for me. When someone buys a home, do they end up with what they pay for water rights at the end? I am trying to understand because in Utah I had to buy a water right for my piece of property, and I got a paper that says I

own it, but in southern Nevada I need no water rights to live. Can you explain how it works?

**Lori Williams:**

On the Truckee River, the Orr Ditch Decree set out all of the water rights available on the River. The same number of water rights are changing hands and changing uses. When the Water Authority is expanding its service, it requires a water right, either a water right that we bought or a water right brought in by the developer. We require that those water rights be deeded to the Water Authority because we will be the ones diverting the water off the river, treating it, and delivering it to the houses. The customer would have to buy the "will-serve" letter from the Water Authority or bring the water right to the Water Authority. The customers do not hold the right to the water, the Truckee Meadows Water Authority holds the deed and the right to the water, and the right and obligation to divert and treat and deliver that water to that customer.

In southern Nevada, it is a little bit different because the Southern Nevada Water Authority has an allocation of water from the Colorado River. They hold all of that allocation, and they issue a will-serve letter to the customer from their allocation, whether it is the Colorado River or groundwater rights or whatever. They look at their resource pool and issue commitments to customers from that. Does that make sense?

**Chair Kirkpatrick:**

Actually that makes great sense; it makes it very easy to understand. I appreciate that.

**Michael Pagni:**

One little clarification: when a developer comes in for a subdivision and they come in for a map, they have to have all their water rights at the time they get their map recorded. The average person going out to buy a house does not have to come in with a water right; that is already taken care of as part of the development process.

**Chair Kirkpatrick:**

Thank you for coming to Government Affairs. I am sure we will see you, especially when we have S.C.R. No. 26 and the affordable housing interim study.

Do we have any public comment? [There was none.]

I want to pay the Committee a compliment. Yesterday we received several compliments for a job well done, moving out the first four bills of the session. Our floor statements were well prepared, so on behalf of the whole staff and Committee, I want to congratulate our Government Affairs Committee.

[Meeting Adjourned 8:56 a.m.]

RESPECTFULLY SUBMITTED:

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Emilie Reafs  
Committee Secretary

APPROVED BY:

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Assemblywoman Marilyn K. Kirkpatrick, Chair

DATE: \_\_\_\_\_

**EXHIBITS**

**Committee Name:** Committee on Government Affairs

**Date:** February 22, 2007

**Time of Meeting:** 8:00 a.m.

<b>Bill</b>	<b>Exhibit</b>	<b>Witness / Agency</b>	<b>Description</b>
	A		Agenda
	B		Attendance Roster
	C	Truckee Meadows Water Authority	PowerPoint Presentation