Agenda Item #2

MINUTES
MOAPA VALLEY WATER DISTRICT
BOARD OF DIRECTORS MEETING
HELD
THURSDAY, APRIL 14, 2016

PRESENT: Kenneth Staton
Jon Blackwell
Randy Tobler
Lindsey Dalley
Ryan Wheeler

Joe Davis
Lon Dalley
Susan Rose
Jeannie Poynor

Lori Houston, 4th of July Committee
Scott & Heidi Farnsworth

ORDER OF BUSINESS: At 4:04 p.m., Chairman Ken Staton called to order the regular meeting of the Moapa Valley Water District Board of Directors. The agenda items were addressed in the following order:

1. Public Comment (May be limited to five minutes)

None

2. Approval of the minutes of the previous meeting held March 10, 2016 (For Possible Action)

On motion of Randy Tobler and seconded by Lindsey Dalley, the Board voted 4-0 in favor to approve the minutes of the March 10, 2016 meeting.

3. 4th of July Committee – Donation – Lori Houston (For Possible Action)

Lori Houston asked the Directors for a donation for this year's 4th of July fire works show.

On motion of Ryan Wheeler and seconded by Lindsey Dalley, the Board voted 4-0 in favor to donate $100 to the 4th of July Committee.

4. Approval of the Tentative Budget for FY 2017 (For Possible Action)

Joe Davis explained that there were two budgets in the Directors packets. The original budget was in blue and was the budget that the Board saw last month. At last month's meeting there was discussion about the increased maintenance costs and about the money we've saved to do certain things. Staff talked to Chad at Hinton Burdick and also met with Randy to come up with something that might work. There was also an alternate budget in their packets. The alternate budget was in pink and had three items added to it. IT Upgrades added $5,000 to the budget, $30,000 was added for replacing a vehicle and $27,000 was added for increased maintenance costs. We also increased the funding for the capital improvement plan. Before we were talking about $56,000 but that was raised to $70,000 with the mindset that we were looking at the low end of that. If we have to have any hydrology work done to verify any of the work the engineers do, we wanted to make sure that we had enough money for that. The original budget had a positive ending balance of $500 but the alternate budget has a negative ending budget of $76,500 however this is money that we have saved.

Jeannie Poynor said that the original budget form F1 will be a little different because she made an error on the interest but it increases it so that good news. Jeannie spoke with Chad and Randy and also Kelly at the Department of Taxation and Kelly said that it would be nice for us to submit something that shows where we're drawing the cash from. Just submitting Form F1 showing the negative balance is fine because we have cash in the bank and we'll be showing where the cash is coming from. On the back of Form F2 Jeannie put a spreadsheet showing all of our cash flows, how much money is in them and how much will be in them at the end of the year. Jeannie will update those balances at the end of the fiscal year before she sends the forms to the State.

Joe explained that if we would have transferred the amount of money we were saying we were going to be transferring, we would have drawn one of the accounts down below a certain amount and then the bank would have started charging us fees which could have been anywhere between $600 to over a $1,000 a month. We have to keep our main checking account at just under $3M in order to keep from being charged monthly fees. We decided to forgo putting money in some of the accounts because we're going to be doing some capital improvements so we will just leave the money in the checking account.

Jeannie explained that what it amounts to is that we're not making the revenue we need to make the transfers into those accounts. Rather than draw down our savings and start paying bank fees, we're choosing to forgo the savings because we not spending like we thought we were going to.

Randy said that he's ok with it. It's not his ideal but it's the difference between public and government. He put a plug in for Chad because he was great to work with.

Jeannie said that on Form 2 under purchase of fixed assets from fixed assets replacement account is what Randy was asking Jeannie about last month. He wanted to know where the money was going to be coming from. It now explains it on that form.

Randy said that he thinks it makes it transparent which is what he was concerned about. He didn't think that it actually showed where the money was coming from and that there wasn't a paper trail but he thinks it fixed both of those.

Joe said that it boils down to someone being able to pick up the budget and if there isn't anyone here that can answer questions about the budget they can look at it & see that we're in the negative $76,500 but now they'll be able to see why. It wasn't that way in the past. Now you can see exactly what happened.

On motion of Randy Tobler and seconded by Ryan Wheeler, the Board voted 4-0 in favor to approve the alternate tentative budget for FY17.

5. Manager's Reports

Office Manager – **1)** Jeannie Poynor explained that we're still on track to come in right on budget this year unless something unforeseen happens. Revenues are down a little but it's going to be getting hot real soon so that should change.

Assistant General Manager – **1) Production** – Lon Dalley said that production was up but part of that was due to the fact that we had to drain the Overton Tank twice for the recoat and we had to flush the lines. Joe explained that we had to flush every line in Overton because the water had a paint taste and smell to it. Every bac-t sample that we took before the complaint came in about the taste came back fine. Joe thinks that we had the problem because we had a shorter cure time but we did meet State requirements on the cure time. Joe asked three engineers about it and none of them have experienced that before. Joe thinks the problem happened because we took samples and had to let the water sit in the tank for a week. It was extremely warm that week so the water just sat there and baked while we waited for the results to come back. There is a warranty on the work. We have a few rough spots in the tank and we've taken pictures of those and at the one year mark we will drain the tank, do a complete inspection on it and if there are any flaws in there, they'll have to repair it. That's all part of the contract. **2) Arrow Canyon** – It's the only well that ran in March. We pumped 68,201,487 gallons of water out of it.
3) Lossed and Unaccounted for Water- Last year we lost 40M gallons which is 5% of the water we produced which is really good. **4) Meter Installs** – Two residential meters were installed last month.

General Manager- **1)** Joe attended the NV Rural Water Conference in Reno last month. He got a lot of good information up there. He spoke with Cheryl Couch and Daralynn Dotson who both work for USDA. They said that there are opportunities for us to borrow money at 2.25% right now but they're actually looking at lowering it to 1.7%. They were extremely excited that Joe is working on the capital improvement master plan. They wanted to know why he hasn't filled out an application to borrow money. Joe told them that we don't want to borrow money. The master plan actually looks at our entire system from top to bottom so there might be an opportunity there for us to get some money. We won't know unless we fill out an application so that's what he did. It doesn't bind us to anything but it does give us a placeholder. When the plan is done we might find some things that we can get some money for so it keeps us ahead of other individuals. We have too much money to get free money. Joe reminded the Directors that we have money saved but it's saved for certain things. The master plan will help us identify what the money is slated for. There might be an opportunity for us to get a grant once they see the master plan. **2) Capital Improvement Plan** – Joe drafted a Request for Qualifications for Culinary Water CIP Proposal. He wants to make sure that he has everything in it that the Board wants information on.

Ryan said that he was supposed to go through the draft proposal but he hasn't had time. He told Joe that he should have it done in the next two weeks.

Joe explained that the red in the proposal are things that he added after the last Board meeting. On the very last page are the different dynamics of our system compared to everyone else. We are split by the river, our service territory is 26 miles long, & all of our water comes from the upper valley so we need to make sure that those things are addressed when the request come in. The proposal is only going to be sent out to the engineering firms that are on our prequalified list. **3) Overton Tank** – Joe had already talked about this. **4) Operating Revenue Increase Information -** Lon reminded the Directors that the last couple of months Randy has been talking about where the District sits financially for the future so Joe, Lon, and Jeannie sat down to discuss that. They came up with the attached spreadsheet. Lon explained that on the top of the sheet it shows the total operating revenue; they left that as it was. They went back five years and figured out what the average for the operating expenses was which was around a 4½% increase every year. The non-operating income doesn't change much. They did increase the ¼ cent sales tax until 2022. Lon said that his purpose of doing this was to see where we're going to be in the future if our water sales are maintained where they have been. They also increased expenses by 4½%. That's when you can start to see our total net income in 2019 going in the negative. At that time we won't be able to operate with our income.

Joe said that were two things that they were going to put on the spreadsheet. The numbers are actually skewed by $500,000 because we have the $200,000 that we receive from SNWA that is being accounted for as operating and also the ¼ cent sales tax that we collect in order to do capital improvements. If you strip those off the spreadsheet (they would still go to what they were allocated for) we would already be in the hole. We definitely can't put any money into equipment, infrastructure replacement or anything else right now. We're just treading water.

Lon said that looking at where we are now with expenses increasing we're going to be continuing on the same path we're on right now. The next few pages showed water sales increasing which could be from an increase in rates or population or something else.

Joe would recommend the 5% increase for the 1st year and the Board can decide what they want to do the next 10 years. If you look at the spreadsheet you can see how it affects our bottom line. The one thing that Staff can't say enough is that this doesn't include any capital improvements at all. This is just to stay stagnant by repairing existing infrastructure and sending bills out every month.

Jeannie said that it does include vehicles and equipment because we do have to have those to operate.

Randy reminded the Directors that this doesn't include our bank accounts.

Joe said that the average monthly usage is 15,000 gallons. If we increase rates by 5%, it adds $3.21 to the average monthly bill. We know we're going to have to raise rates. The question is by what percentage. Staff would recommend a 5% increase because it wouldn't truly be a 5% increase.

Jeannie said that we're only making enough money right now to operate. We're not making enough money to do anything else. We're drawing down the cash that's in the bank to pay for a new vehicle. Any capital improvements that might need to be done or if anything catastrophic happens, we would have to draw down our cash. Right now we are making the revenue and spending the revenue. If we want to continue to put money away for capital improvements or to even do capital improvements at all, we have to have more revenue. The only way we can see to do that is to increase rates.

Lindsey said that he definitely doesn't want to draw down the cash because he doesn't feel that it's fiscally responsible to take the money that the previous Board saved. We have cash in the bank and that's good. It gives us a chance not to operate in crisis mode but he doesn't think it prudent to use that while we try to figure out what's going on. We have enough evidence to say that we need to have a rate increase but at the same time he knows that we have other potential non water sales revenue that might come in to being. He thinks it would be fiscally irresponsible not to look at some kind of increase especially with price elasticity. Usually when you do an increase it takes 2-3 years for that increase to be fully realized in terms of money in the bank. Lindsey's looking at the 5% and then the 3% rate increase every year after that.

Joe explained that we're going to be looking at it every year so we might not do 3% every year after the 5% increase. This is only informational. Randy had brought this up the last few months so Joe wanted to have something on paper for the Directors to see. If the Directors want to do an increase he would recommend doing the 5% the first year and then they can figure out how much they want to do the next year.

Ryan understands that we're in a downward trend and that something needs to happen but he thinks the timing of this needs to wait until we understand what our needs are. He doesn't think that we have a full understanding of what our needs are. We're barely covering our operating budget and that's not the intent. We have the ¼ cent sales tax and the $200,000 from SNWA that suppose to go towards infrastructure but it's not going to infrastructure and we're barely making ends meet. With that said he has a hard time approaching the rate payers and saying that we're going to raise rates when we have $6M in the bank. He understands that we don't want to take advantage of that but he's saying that he's the one that's more risk adverse to utilize some of that to a certain threshold to buy us the time that we need to not only understand our needs from a capital improvement perspective but also with a glimmer of hope that maybe we do have some of these things that we have been talking about that may come into play such as Faraday and some other potential growth. If he looks at the last sheet of the spreadsheet which is the 5% rate increase and then a 3% rate increase after that and he then looks at the total net amount income lost and he does a quick calculation on the 1st couple of years, in 2017 it's $264,000, on the 5% increase it's around a $150,000 difference, in 2018 we have $97,000 with a difference of $250,000, in 2019 we have $304,000 minus $40,000 so that's $350,000, and in 2020 we have a $331,000 increase and we're in the negative $114,000 so that's a difference of $450,000. If we add 2017 – 2020 it would tell us how risk adverse we are. The 1st year would be $150,000, the next year we would be dipping into our checking account $400,000, if we went another year it would $750,000. He thinks we need to finish the capital improvement plan study so we can identify our critical needs so we're increasing rates to cover our operational budget shortfall and also capturing what our critical needs are with an infrastructure perspective identifying those critical needs and making sure that when we increase rates we only go to the rate payers one time rather than just covering our operating budget right now. Then a year down the road when we finish this study, we'll have to increase it again to cover our critical needs. Ryan is comfortable with continuing down the downward slide until we have the information we need to make what he would consider as the right decision.

Lindsey asked Ryan if he's comfortable with delaying the rate increase for a year or two.

Ryan thinks it would be about a year. We should have that study back by the end of November or December. When we're looking at our budget for next year we'll have a good idea of what the Board thinks is essential on that study.

Lindsey asked when we'd raise rates.

Ryan said we would rates around this time next year.

Lindsey wanted to know how much we would be dipping into savings to buy that time.

Joe said that if we wait a year it would be $76,000.

Randy said that PERS and insurance are going to go up every year. Look at Overton Tank. We thought it would be $200,000 and it came in at $395,000. We're seeing an increase in operating cost. Our budget could be off this year. It could just keep growing. We just don't know what we're going to run into. When we raise it we're not going to get the whole 5%. We're just pushing that curve off and maybe waiting a year is fine. He's not totally against waiting a year. At some point we'll have to have a plan. He doesn't want to do to an increase that's over 10% but he does think it needs to be higher than 5%. We know there are capital improvement needs out there especially if we forgo two projects.

Chairman Staton said that he's not for a rate increase over 10% either.

Ryan knows the needs are there but he wants validation.

Randy not saying that we spend the money on what we've already decided on maybe the next two projects. He's saying wait until that report comes back but we need to get the operating to where it needs to be and if it's a year, he's ok with that but we need to define what we're doing and have a plan in place for the percentage. If we wait that long, the rate increase is going to be higher. He thinks we should have been looking at an increase a year and a half ago then we probably wouldn't be looking at a 5% or an 8% increase.

Chairman Staton thinks the same thing. He doesn't want to get us to a point where we're where we've kicked this can down the road so long that we'll find ourselves where we have to have a huge increase just to get us back to treading water. We're just barely treading water now. How long do we keep treading water?

Jeannie reminded the Directors that we start working on the budget in January so if we don't get that report before that we will be kicking the can another year.

Ryan said that he's willing to spend some of the money that we've been saving to wait a year. The other aspect of that is that he would like to put the plan in place one time and go to the public one time knowing the full picture.

Randy said that when we get the plan we could have five Directors with different opinions and management could have a different opinion also. Prioritizing what's not a want could take months.

Chairman Staton asked that a discussion item be placed on the agenda for next month's meeting regarding a rate increase. He also asked that we have on the agenda an item regarding the bank account levels.

Jon Blackwell came into the meeting at 4:50 pm.

6. Public Comment (Maybe Limited to Five Minutes)

None

7. Director's Preference

- **Review Monthly Expenditures**

Randy Tobler disclosed that he has an interest in a small business that is on the monthly expenditures list.

On motion of Chairman Staton and seconded by Jon Blackwell the Board voted 5-0 to call a closed-door session at 6:20 pm.

- **Litigation (Closed-Door Session)**
- **Water Rights Discussion (Closed-Door Session)**

On motion of Chairman Staton and seconded by Jon Blackwell the Board voted 5-0 to reconvene the open-door session at 6:29 pm.

8. Personnel (Closed Door Session)

None

9. Approval of the May 12, 2016 Board Meeting

The general consensus was to hold the next Board meeting on May 19, 2016 at 4 pm.

10. Public Comment (May be limited to five minutes)

None

11. Adjournment

The meeting adjourned at 6:30 p.m.