Summary Minutes of the
Nevada Board for Financing Water Projects

Meeting of June 20, 2007

Held at the Bryan Building, 901 S. Stewart St., Carson City, Nevada

Members Present:

Kurt Kramer, Chairman
Bruce Scott, Vice Chairman
Brad Goetsch
Stephanne Zimmerman
Bob Firth
Dana Pennington (Ex-officio member)

A. Introduction and Roll Call

Chairman Kramer called the meeting to order at 9:30 a.m. At the Chairman's invitation, Board members introduced themselves.

Others present associated with the Board at the hearing included Nhu Nguyen, Deputy Attorney General and Counsel to the Board, Adele Basham, Nevada Division of Environmental Conservation (NDEP) and Michelle Stamates (NDEP).

Members of the audience who introduced themselves included Ray Davis, State Engineer's Office; Brett Farr, Kate Nelson and Susan Jorgensen from Farr West Engineering; Dave Emme, Chief of Administrative Services (NDEP); Mike Workman, Lyon County Utilities; Bert Bellows, Bureau of Safe Drinking Water (BSDW); Dana Tuttle, NDEP; Kirk Swanson, Farr West Engineering; Mark Nixon, Walker Lake General Improvement District; Dan Newell, City of Yerington; Andrea Seifert and Patty Lechler, BSDW; Ryan Collins, Lovelock Meadows Water District; Marcie McDermott, NDEP; Shwetta Bhatnagar, Las Vegas Water District; Doug Zimmerman, former Chief, and Jennifer Carr, new Chief, BSDW; Robert Pearson, NDEP Bureau of Administrative Services, served as Recording Secretary for the meeting.

Chairman Kramer announced that he was happy to be back to the Board meetings after his recent illness, but that due to the limited amount of talking he was currently able to do he would ask Bruce Scott, Vice Chairman, to run the meeting. Hereafter Mr. Scott is referenced as "Chairman Scott."

B. Approval of Minutes—March 14, 2007 Meeting

Motion— When there was no comment from the Board, it was moved by Mr. Firth and seconded by Mr. Goetsch that the minutes be approved as presented, and the vote in favor was unanimous.

C. Set a Date for Next Board Meeting in September

After some discussion between staff and Board members the date of September 20, 2007, was agreed upon for the next meeting of the Board.

D. Arsenic Cost and Technology Update From Farr West Engineering

Susan Jorgensen, Farr West Engineering, gave a technical presentation on Point of Entry and Point of Use equipment for arsenic filtration. Board members followed up with several technical and practical questions about the equipment and methods mentioned in the presentation.

Farr West is creating a Guidance Document for Point of Entry and Point of Use filtering the BSDW. Also, a cost analysis of arsenic treatment alternatives will be prepared for the BSDW and will be made available to the Board when it is completed.

E. Capital Improvement Grant program

E. 1. AB 198/237 Financial Report by Marcy McDermott

(Begin Prepared Remarks by Marcy McDermott)

The AB198 Program has $125,000,000 in bond authority. After subtracting the unpaid grants, the approved LOIs, and the administrative budget for the next five years we have $41,000,000 left for grants. If the projects in this meeting are approved we will have a little over $34,000,000 in grant funds for future projects.

There is a new line on the Financial Summary page near the bottom called Transfer from Treasurer's Office. The Board of Finance adopted a resolution on April 12, 2007, that allowed the AB198 program an advance of $4,000,000 in grant funds for FY07. These funds are transferred to the grant account, upon request, to make grant payments.

We have been told by the Treasurer's Office that the next bond sale for this program in the amount of $14,500,000, will be processed within the next month. Approximately $4,000,000 of this sale will repay the transferred funds from FY07.

Chairman Scott spoke about how he had attended the recent State Board of Finance meeting and that that Board had allowed the transfer of sufficient funds to meet current project needs and avoid any stoppage of construction. There was further discussion on staff projections and reporting requirements.

E. 2. Project Update from Walker Lake Improvement district—Summary by Michelle Stamates:

(Begin Prepared Remarks by Michelle Stamates)

Applicant: Walker Lake General Improvement District
Project: Rehabilitation of a Community Water System

Walker Lake GID has received 4 increases in grant amount since the original grant was approved in December 1997. The project elements included: 1 new well with appurtenances; 1 new 225,000 storage reservoir; repair/replacement of distribution mains and system looping; and adding the Cliff House private water system to the GID. The District completed the new 225,000-gallon reservoir and distribution system piping, but abandoned the Cliff House connection in favor of completing a new well due to the fact that the owners of the Cliff House system had not requested the interconnection to the District and the litigation the owners of the Cliff House were involved in.

As water quality and well production degrades further due to declining lake levels, the 2 wells that currently serve the GID may not be able to provide drinking water to the community. While an elevated TDS concentration is not considered a health hazard by the EPA, it is a Secondary Drinking Water Standard and is therefore regulated as an aesthetic issue rather than a health hazard. An elevated TDS indicates that the concentration of the dissolved ions may cause the water to be corrosive, salty or have a brackish taste, it may also result in scale formation, and may contain elevated levels of ions that are above the Primary or Secondary Drinking Water Standards, such as elevated levels of nitrates, arsenic, aluminum, copper and lead. For aesthetic reasons, a limit of 1000 milligrams per liter has been established as part of the Secondary Drinking Water Standard. The water quality data provided in Graph 1 in your binders shows that water from the Sanderson Well is approaching the secondary standard for TDS. As water levels continue to decline in Walker Lake, arsenic has increased and as of September 2003, the arsenic concentration was measured at 9 parts per billion. This is shown on Graph 2.

In an effort to drill a new production well, the District drilled a total of 4 test holes at depths ranging from 290-ft to 800-ft. These wells were all drilled in the same general vicinity in the upper most part of the alluvial fan near the mouth of Cottonwood Canyon in the area recommended by the 1986 hydrologic report. Only the 800-ft test boring was drilled to a depth that encountered the

regional aquifer. However, this well was targeted to a granitic rock type of poor permeability.

In the last two years, the District worked closely with the Department of Defense and other federal agencies to secure land and funding to drill a deep well at the mouth of Cottonwood Canyon near the storage reservoir. Cooperation of all agencies was lacking and funding did not materialize; therefore, the District will drill an alluvial well to be the primary water source. This well is located east of the range front fault zone. The district's hydrogeologist has determined that a location directly east of the range front fault as shown in Figure 1 provides the greatest potential for an alluvial aquifer as far from the influence of Walker Lake as possible.

Financial Information

The Walker Lake GID was formed on October 21, 1996, and the water system was transferred to the newly formed GID from County Water Company (a California based public utility) shortly thereafter. Walker Lake GID charges an inclining block metered water rate. The base rate is $37.50 per month for 5,000 gallons with an inclining block rate above 5,000 gallons. At an average monthly usage rate of 15,000 gallons, a user would pay $61.00. The District charges a franchise fee or system obligation fee of $85 per year for lots adjacent to the system. Homes used primarily for summer recreation are charged a $13 per month stand-by fee.

The grant percent for this project was originally set at 85% and will remain at this percentage through the end of this project per the current funding agreement. The District has approximately $75,000 in an account reserved to match the 15% required by NRS 349.983 subsection 3 to complete the well drilling.

During the Board meeting of September 1998, the District had an additional condition added to the funding agreement to fund a restricted capital reserve account per the Board's 1998 policy on depreciation. The amount of this annual contribution was set at $18,005. The District has been contributing to a reserve account per the policy and currently has a total of $93,622.00 in the account. A portion of this reserve is required to meet obligations to the USDA.

Project Plan

The District along with their hydrogeologist and engineer from Farr West Engineering will drill a new well at the location labeled Alluvium Test Well #4 on Figure 1. This site was selected based on hydrogeologic assessment. Tie-ins for water and powers are 50-feet and 285-feet respectively. The location of the power in relation to the proposed well is shown on Figure 2.

Appurtenances from the Sanderson Well will be moved to the new well. This project is anticipated to be complete by the end of the calendar year 2007 or

early in 2008. Mark Nixon with the Walker Lake GID and Kirk Swanson with Farr West Engineering are here to answer any questions you may have pertaining to this project.

(End Prepared Remarks)

Mark Nixon of the Walker Lake GID and Kirk Swanson of Farr West Engineering now answered questions from the Board about technical issues, costs, and timelines for the new Walker Lake well. The project is expected to start very soon and to be within budget projections.

E. 3. a. Letter of Intent, Lyon County Utilities for Crystal Clear Water Company—Summary by Michelle Stamates.

(Begin Prepared Remarks by Michelle Stamates)

Applicant: Lyon County Utilities Department for the Crystal Clear Water Company

Project: Letter of Intent for Rehabilitation of a Community Water System and Arsenic Treatment

The Crystal Clear Water Company is located off US Highway 95A in Lyon County, approximately 6 miles east of Yerington. The water company was started in 1966 and was privately own until ownership of the system transferred to Lyon County Utilities Department on June 1, 2006. Lyon County Utilities is an eligible grant recipient per NRS 349.983.

Crystal Clear owns 3 wells and, currently, 2 of the wells are used for public consumption. There is no treatment process. Water is pumped and stored in a pressure tank before being sent into the distribution system. The system does not have enough capacity to protect against fires.

Water from the wells is generally of good quality; however, with a concentration over 40 parts per billion, arsenic, exceeds the drinking water standard of 10 parts per billion in both wells. The water has relatively high silica content which interferes with some arsenic treatment technologies. The average concentration of fluoride in the production wells is 2.67 milligrams/Liter which is above the secondary MCL of 2 mg/L.

Crystal Clear does not meet all storage requirements under NAC 445A.6674 – 445A.66755. The system is served by a 20,000-gallon pressure tank, which has been leaking. The existing distribution system is made up primarily of 6-inch pipe; however, little is currently known about the distribution system with respect to pipe material, location of valves, and general condition. Some

customers have complained about pressure problems, and it appears that there are numerous undersized and dead end lines.

The booster pressure tank that serves Zone 2 is not in good condition. Shortly after Lyon County Utilities took possession of the system, there was a severe failure in the booster station where the inlet piping expanded under extreme pressure and separated from the pump. The booster station was severely damaged and required significant repairs.

Due to the high concentrations of arsenic in the drinking water, the Division ranked this project as a Class II water project per NAC 445A.67569 subsection 1 part b2. Class II water projects are intended to address chronic health concerns by satisfying the requirements for water quality set forth in NAC 445A.453 and 445A.455. Arsenic is a primary standard per the National Primary Drinking Water Regulations. In September 2006, the State Environmental Commission granted Crystal Clear an exemption from the arsenic compliance requirement until January 23, 2009.

Preliminary Engineering Report

Some initial preliminary planning and investigation of the system was completed for Crystal Clear by Lyon County Utilities. They conducted field work to gather information on the condition of system components. In order to apply for match funding from the USDA, a detailed PER including updated information on system condition, alternatives analysis, a project scope and cost estimate, and an environmental report was completed in May 2007.

Installing and operating treatment for arsenic and fluoride at the well head for 90 active connections is not a preferred alternative. The residents also rejected the idea of point-of-use reverse osmosis units. The PER included an arsenic study throughout the Yerington area and found that all wells located near Crystal Clear have arsenic levels exceeding the MCL. The wells studied were apparently only in the valley and generally shallow; however, the possibility of finding a new source, free of arsenic and fluoride and perhaps at greater depth, was not investigated.

Due to the proximity of Crystal Clear to the City of Yerington, consolidation of the systems appears to be a viable, non-treatment alternative for Crystal Clear. It must be recognized that the City is currently pilot testing centralized arsenic treatment for its water system and will have treatment in place by January 2009. A potential transmission main from the City to Crystal Clear would be approximately 6 miles long and would be located along the south side of Highway 95A. The majority of the property along this route is privately owned and has not, yet, been developed.

The City of Yerington and Lyon County Utilities Department have had discussions on the supply of water to and ownership/operation of Crystal Clear; however, a formal agreement is not, yet, in place. The inter-tie would give the City the opportunity to have a more efficient cost because the efficiency of utilization is spread over a wider population base. The Board advocates cooperation and planning between water purveyors so that the per customer cost of constructing infrastructure and the water rates that the customers are paying remain affordable.

Lyon County Utilities updated their water conservation plan in 2005, and it is on file with the Division of Water Resources. This plan applies to all systems in the Lyon County Utilities Department.

Financial Analysis

The water rates for Crystal Clear are $19.85 for 5,000 gallons and above 5,000 gallons, the cost is $1.00 per 1,000 gallons. In addition, all customers pay a monthly surcharge of $25.71. This surcharge was imposed by the Public Utilities Commission for future infrastructure for arsenic removal. A customer using 15,000 gallons per month would pay a total of $55.56 per month. The maximum water rate based on a median household income of $32,216 is $40.27 per month for residential users. The connection fee for a ¾-inch meter is currently $653.00. There are 90 active residential connections on the Crystal Clear system today. 18 additional lots have a connection and meter but no house exists on the lot. 42 other lots pay only a system obligation fee or stand-by fee of $6.25 per month.

The planned water rate for Crystal Clear is a base rate of $50.00 per month for 5,000 gallons with a charge of $1.00 per 1,000 gallons in excess of the 5,000 gallons producing a monthly water rate of $65.00 for a usage rate of 15,000 gallons. The stand-by fee would increase to $20.00 per month.

When Lyon County Utilities obtained ownership of the system, the system had about $5,000 cash. The County has repaired the booster station twice and made other system repairs amounting to a total of approximately $11,900 spent on the system to date. The system is essentially broke at this time; however, based on the capital improvements recommended in the PER, rates will be established to assure the viability of the system. Crystal Clear has no outstanding loans or known debt.

In March 2007, the CDBG provided a grant in the amount of $170,000 to Lyon County Utilities for Crystal Clear for the replacement of service lines, meter pits and meters within the Crystal Clear. Lyon County Utilities plans to pursue a low interest loan through the USDA to match any AB 198 grant funding obtained.

No documentation of inability to finance pursuant to NAC 349.475 was submitted with the letter of intent and PER. According to the financial analysis attached as a part of this staff report, the proposed debt (USDA loan for $585,000 @ 4.75% over 40 years) related to this project will add $32,700 to their annual costs, and the reserve account will require $14,000 per year. Scant financial information is available for Crystal Clear, which just became an enterprise fund of Lyon County in 2006. This consolidation has provided the small utility with substantial financial backing which makes the system viable. The water rates are sufficient to satisfy cash expenses related to the operation and maintenance of the water system, but will not cover the $65,000 in depreciation that would provide for the periodic replacement of system components that are functionally obsolete or worn out. Negotiations regarding ownership of the transmission pipeline and funding of the reserve are being discussed among the various entities involved; these decisions will determine the eventual rate structure needed to cover costs. Since the depreciation cost will run with ownership of the asset, current rates are sufficient if ownership is transferred to another entity.

Recommendation

Staff supports the plan to connect the Crystal Clear to the City of Yerington water system. According to the engineers, the minimum line size necessary to make the inter-tie is 12-inch. As growth is likely along the new length of pipeline, the recommendation is to install a 14-inch transmission main; however, in keeping with similar inter-tie situations, the AB 198 program should pay the cost to accommodate the existing connections in the system only. With 90 active connections in Crystal Clear today, the storage tank size necessary for those existing customers is approximately 200,000 gallons - this is based on the calculations used in the PER. It has been proposed that the City will keep any connection fees from new connections to the transmission main and Lyon County Utilities will keep all connection fees from those connecting within the Crystal Clear boundaries. These two purveyors and any potential developers should contribute funding for the upsizing of the transmission main and larger storage tank to accommodate the planned growth in the region.

Due to the pending capital improvement project that will install centralized arsenic treatment for Yerington's water supply and bring it into compliance with the arsenic standard, staff recommends that this project be completed in phases with the work within Crystal Clear completed in conjunction with the CDBG grant as a first phase and a transmission main from Yerington following up as a second phase.

Based on the requirements for safe drinking water, this Letter of Intent to submit a grant for the proposed construction project(s) is recommended for approval. The grant amount for all possible phases should not exceed a total of $2,851,083, or 74.9% of the eligible project costs estimated to be $3,806,520.

Each project phase would be eligible for a 2-year grant and would be subject to the conditions given below.

Conditions

- The Lyon County Utilities Department is subject to the provisions of NAC 349.554 through 349.574 regarding the administration of this grant.
- All assets that are funded by the AB 198 grant program are subject to the Board's policy on funding a restricted capital replacement account. If any of the assets installed with grant funding are transferred to the City of Yerington, those assets are subject to the same requirements imposed on the Lyon County Utilities Department including, but not limited to, the funding of a restricted capital replacement account.

- Documentation of inability to finance pursuant to NAC 349.475 must be submitted with the grant application.

- An agreement on the supply of water to and ownership/operation of Crystal Clear needs to be formalized between Lyon County Utilities Department and the City of Yerington prior to submission of a grant application to the AB 198 program.

- It is the intent of the Board for Financing Water Projects to be the last funding source from which a water utility receives funding. Regardless of any other grants a water utility may have received, the water utility must attempt to obtain a loan from the Drinking Water State Revolving Fund, the U.S. Department of Agriculture, Rural Development and/or other loan sources for the maximum amount possible that will not cause an increase in water rates to exceed 1.5% of the median household income. Lyon County Utilities and/or the City of Yerington must be approved for the maximum loan amount that meets or exceeds the Board's expectations prior to submitting a grant application to the AB 198 program.

- Before a grant application is submitted for a transmission pipeline between Yerington and Crystal Clear, all permits and easements from public and/or private entities must be secured and documented. As required by NAC 349.500(d) and 349.515, the applicant must demonstrate the receipt of all permits, easements and rights-of-way necessary to complete the project, or the authority to proceed, prior to the execution of the Funding Agreement, to assure that there are no foreseeable conditions threatening the feasibility of the proposed capital improvement. Note that staff reviewed this condition with the applicant and there is a concern that permits – particularly those from NDOT – cannot be obtained prior to submission of the final design. Per NAC 349.515 subsection 3, the board may approve an application if there are no foreseeable conditions threatening the feasibility of the proposed capital improvement.

Mike Workman from Lyon County Utilities Department and Kate Nelson from Farr West Engineering are here to provide further project information and answer any questions you may have about this project.

(End of Prepared Remarks)

Mr. Kramer commented that if the letter of intent was approved he wished that applicant be strongly encouraged to oversize the pipe, due to anticipated future development.

Mr. Firth initiated a technical discussion of water pressures and fire fighting capabilities in Yerington and the Crystal Clear system if they were connected — would Yerington possibly be adversely affected? It was concluded that firefighting would not be affected.

With regard to the upgrade to 14-inch pipe for the connection, Brent Farr of Farr West Engineering discussed how cost-sharing with property owners and developers might help pay for it. Mike Workman of Lyon County spoke about how after the system construction was complete the plan would be to submit to the County Water Board and City of Yerington that the City would assume ownership of the Crystal Clear system.

In response to questions from Ms. Zimmerman about cost comparison, Brent Farr confirmed that treatment systems at the home would be less expensive, but that some individuals did not want anyone to come into their home for servicing even if their bills were higher.

Mr. Goetsch commented that the structure of the funding sources could be acting as an incentive for the homeowners to want the pipeline and decline the point-of-use filtration — the cost is $40,000 - 50,000 per customer but water bills are only to increase $7 per month. He asked about waiting to see if some developers along the pipeline apply for permits so that other funding sources would also be available. Brent Farr responded that because of the time limit for arsenic remediation (Jan 23, 2009) and extra expense of a phased approach they did not favor that alternative; however, they would support doing the engineering first to give time for involving other parties and come up with more refined cost estimates. Since the USDA is the other funding partner, they may be able to supply more money in support of the consolidation approach. Mr. Goetsch expressed his ultimate concern, that actual costs would come in above the amount in the letter of intent, and that funding within the grant program could run low before other, larger systems had a chance to receive it.

Mike Workman described how the Crystal Clear system had not been maintained properly and had been about to be shut down by the former owner. He said that if a better water supply was available there could be more future

customers, both in the Crystal Clear area and on the road to it. He stated that the pipeline was more than just a convenience versus point-of-use; it represented a stable water supply and would stimulate development and property sales. He stated that they would be raising fees in the future, especially the connection fees.

There was further discussion among Board members about fees in other areas of the county. Mr. Firth brought up the possibility of the large pipeline having a very low flow, and there was further technical discussion of pipeline sizes appropriate to current and future use along the project. He summarized what he felt was the entire Board's concern with this project — the highest cost per customer they've ever considered, using 10 - 20 percent of available statewide grant funds for one project with 90 customers.

Ms. Zimmerman pointed out a concern that the letter of intent did not contain a record of seeking financing from alternative sources. She said that she didn't know when they might start "kicking them back" but that every letter of intent needed to have this, but neither of the ones being considered today had them. Brent Farr noted that these projects also were going to have SRF and/or USDA funding, but that it wasn't completely clear how to fulfill this requirement when the applications were not actually filed. Ms. Zimmerman expressed a desire for clear numbers on fee increases, debt loads and especially other alternative revenue sources.

Chairman Scott said that a lot of the concern that the Board had was that they were a grant program only. If there was some way to eventually reimburse the incremental cost differential that was of concern here, it might be different. He did think the right thing to do for the long term is to extend the line and connect these systems. The Board, county and engineers must figure out a way to do it right for the future, but at the same time can't subsidize people at $40-50,000 per lot. His hope would be that there will be more loans involved and more developer contribution, to make it more equitable.

At the invitation of Chairman Scott, Doug Zimmerman of NDEP now spoke to the Board about the arsenic exemption and extension process and guidelines. EPA guidance is that systems with high (35-50 ppb) arsenic levels are not to receive extensions to the Jan. 23, 2009 date for compliance, but Mr. Zimmerman said it is NDEP's position that the law allows for them. However, they would have to be approved by the State Environmental Commission, which has expressed concerns about these higher-level systems being more of a risk to people, and thus the SEC expects more progress by these systems in the 35-50 range.

Chairman Scott came back to the applicants with the question of whether, given the Board's expressed concerns, connection fees could be used to offset some of the capital costs for Yerington's arsenic treatment, or some other way

to bring about more equity. He said he'd hate to see the project held up. Mr. Farr said that his thought would be to come back in September with a grant request for engineering and design only, given time to adjust costs and look at alternatives. The trouble is that USDA doesn't work that way, they like to do it all at once. But given time he felt they could come back with a more feasible proposal. Also, he felt that basing these numbers on 90 customers wasn't the real number, as there were about 150 paying into the system whether full rate or standby fee, so if that number was used it would cut the cost per customer almost in half.

Mr. Goetsch summed up the desire of the Board for more participation by developers and current customers in financing before coming to the Board, perhaps having customers temporarily on individual filtration for a few years while developments get in place.

Mr. Pennington pointed out that City of Yerington also has a problem with arsenic, and that includes several thousand customers, so we're talking about spending several million dollars on a regional system to provide safe water in Mason Valley.

Chairman Scott asked Counsel Nguyen about "contributions" back to the program if future developers paid substantial fees to use the new line. Counsel stated that the Board was not set up to receive funds in this fashion. She also wanted to get back to Ms. Zimmerman's inquiry about documentation of seeking alternative funding. This is existing policy and also in the NAC, so it's up to the Board to apply that, to make it a requirement and not an option. Thus, technically the letter of intent before the Board now is incomplete.

There was discussion of combining this project with City of Yerington improvements in the future, including arsenic reduction.

Chairman Scott asked for any suggestions. Mr. Farr said money for preliminary design and possible emergency repairs would be a good and more palatable step. There was discussion of a special Board meeting to allow for this, since only a letter of intent was agendized today. There was discussion of coordination of loans, CDBG money and USDA, and possibly technically approving this letter of intent subject to meeting "Phase I" goals in design and coordination. Chairman Scott summarized the discussion stating that it sounded like the simplest thing would be to schedule a special meeting on the revised Preliminary Engineering Report and let them come back with a revised letter and proposal. Ms. Stamates noted that this would not be a revised letter of intent or grant but an amended grant. It would be an increase in the PER grant. There was discussion of whether an emergency repair grant could be included, and it was noted that this had been done at least once before.

Motion—It was moved by Mr. Goetsch and seconded by Mr. Firth that the Letter of Intent from Lyon County Utilities be tabled for action at a future Board meeting. Chairman Scott restated that that meant in a revised form. Mr. Kramer stated that he would be voting "aye" but stated that if there were required materials not available in a letter of intent he would vote "no" in the future if the information was not in the packet. Counsel noted that staff was responsible for placing the letters on the agenda, but with the note that information was not complete, and that it was up to the Board to take the action. And so the final result of the vote was unanimous in favor.

Mr. Goetsch asked about a motion to have a special meeting, but it was decided that staff could work out the details of this and no motion would be necessary.

E. 3. b. Letter of Intent, Lovelock Meadows Water District—summary by Michelle Stamates.

(Begin Prepared Remarks by Michelle Stamates)

Applicant: Lovelock Meadows Water District

Project: Letter of Intent for Rehabilitation of a Community Water System – Lovelock Meadows Water District Phase 2 Improvements

Lovelock is located along U.S. Interstate 80 in south central Pershing County approximately 95 miles northeast of Reno. The Lovelock Meadows Water District serves both the city and valley areas and was formed as a result of a merger between the City of Lovelock, Big Meadow Water Association, and Valley Water Association. The Lovelock Meadows Water District became a publicly owned water system on April 24, 1979, and is an eligible grant recipient per NRS 349.983.

NRS 349.981 states that the Board can award grants to "pay for the costs of capital improvements to publicly owned community water systems and publicly owned non-transient water systems required or made necessary by the State Board of Health pursuant to NRS 445A.800– NRS 445A.995." The District is currently ranked 27 of 36 eligible water system projects on the SRF priority list and as a Class III – Rehabilitation project per NAC 445A.67569 subsection 1 part b3. Class III water projects are intended to address deteriorated, substandard, or inadequate conditions in a public water system.

Serving over 115 square miles, the District service area is very large by rural Nevada standards. Groundwater in the Lovelock area is generally not suitable for domestic use, irrigation, or stock watering because of high concentrations of sulfate, chloride, nitrate, fluoride, and dissolved salts. For this reason, irrigation water is obtained from the Humboldt River system and the District

supplies drinking water from two groundwater wells located at Oreana, approximately 15 miles northeast of Lovelock. Storage consists of two elevated tanks: a 1.5 million-gallon tank and a 2.5 million-gallon tank. The District currently meets all storage requirements under NAC 445A.6674 – 445A.66755.

LMWD obtained a $400,000 loan in June 1999 from the USDA so that it could build the 2.5 million-gallon storage tank, construct a disinfection building, and install a gas chlorination station.

In June 2003, the Board approved a grant for a Preliminary Engineering Report for the Lovelock Meadows Water District in the amount of $40,950 (63% of the total eligible project cost of $65,000). The PER was finalized in the fall of 2004. The PER identified the most critical problem for the water system as the undersized cast iron pipe that existed within the city and Lower Valley. Other problems identified included: dead end lines, partially buried or inoperable fire hydrants, negative system pressures, and numerous customers on one meter.

The Letter of Intent for a construction project was approved by the Board in July 2004, for a total eligible project cost of $3,995,875. The original construction grant for Phase I of the project was given to the District in October 2004 in the amount of $2,400,322.11 (~60% of the total eligible project cost of $3,995,875). The grant scale was not used in this project as the District had secured both loan and grant funding from the USDA for 40% of the total project cost. The original scope of the project was the replacement of the old 4-inch ductile iron pipe in downtown Lovelock and undersized pipe to the farms and ranches west of town, commonly known as the "Lower Valley."

An increase in construction grant funding for Phase I was approved by the Board in November 2006. That increase in construction grant amount was $405,962.88 bringing the total grant to $2,806,284.99 (~60% of the total eligible project cost of $4,989,837.88). Phase I of the project is currently under construction with anticipated substantial completion by July 2007.

Preliminary Engineering Report - Updated

The District provided a revised preliminary engineering report with this Letter of Intent for future phases of the Lovelock construction project. Even with the completion of a large Phase I project, many problems still exist within the District. The most critical problem reported is the undersized cast iron pipe that exists in Upper Valley and Lower Valley and some parts of the City. Some of this pipe may be over 80 years old and experiences significant leaks. Although data are limited, the computed average water loss appears to be approximately 15.5% of the total water produced. Other problems include dead end lines, inoperable fire hydrants, negative system pressures, and multiple customers on a single meter. Due to the apparent water loss experienced in the distribution system, it is the opinion of the Bureau of Safe

Drinking Water that the proposed distribution pipeline replacement is made necessary by regulation (NAC 445A.800 to 445A.995, inclusive) and the Safe Drinking Water Act.

The District is currently served by two wells – Well 5 and Well 7 – located northeast of Lovelock in Oreana. With the increase in connections and subsequent water use, both wells apparently run more than 50% of an average day. According to information provided in the PER, the combined capacity of the existing wells is 1,850 gallons per minute, while the peak hour demand of the system is 1,750 gallons per minute and maximum day demand is 1,400 gallons per minute. According to the Bureau of Safe Drinking Water memorandum, construction of a new well is not made necessary by NAC 445A.6672 subsection 1 or the Safe Drinking Water Act. It is not clear why a new well was not shown in the original PER as a critical system need. The contribution to the water system revenue from the additional service connections over the years and how it might be used to assist in providing for additional system assets such as a well was not addressed in the application or PER. Possible refurbishment of either or both wells was not addressed in the PER.

The District does not have a Supervisory Control and Data Acquisition system commonly referred to as SCADA. The system currently operates using simple telemetry via phone lines which are prone to service interruptions. The wells that provide water to the system are located approximately 15 miles away from the City and adjustments must currently be done manually at the well sites. The District's backup generator, which is located at the well site, must be turned on manually in the event of a power outage. Data recording is not automated. These are just some of the issues that could be resolved with a SCADA system.

The District plans to seek funding for a Phase II project as described in the PER. Phase II will provide the following benefits:

- reduce costly repairs due to leaks allowing more staff time for preventative maintenance
- increase system pressures
- eliminate additional dead-end lines
- reduce the risk of negative pressures in the Lower Valley
- increase fire flows and fire protection coverage in both the Upper and Lower Valley

The District is still in the process of developing a capital improvement plan; however, a first draft was provided to staff on June 11. An estimate of costs was prepared for the Phase II project addressed in this Letter of Intent. The PER noted a general outline for a Phase III project and indicated that other

future construction projects may be necessary in order for the system to comply with the requirements for safe drinking water.

Financial Analysis

As a condition of the grant increase approved by the Board in November 2006, the District was required to increase their monthly water rates from $39.50 to $45.91 per month which is 1.5% of the composite median household income before submitting their last request for payment for the Phase I project. The rate increase was approved and should be implemented in July. With the implementation of the new water rates, the District will charge a metered water rate of $30.00 per month for the first 7,000 gallons and $2.00 per 1,000 gallons after 7,000 gallons. A residential connection using 15,000 gallons per month would pay $46.00 per month which is in accordance with the Board's policy. There are 185 connections on a stand-by status that are charged a flat fee of $15.00 per month. Water rates are being increased to accommodate new debt as well as funding the required capital replacement for the new system components.

The population and number of total service connections have increased since the Phase I project grant. Residential connections increased from 980 to 1306. The number of active connections in Lower Valley is approximately 111, Upper Valley has approximately 380, and the City of Lovelock has approximately 775. Some connections do not appear to be accounted for as the distribution between the Lower Valley, Upper Valley and City do not sum to 1306. This needs to be reconciled prior to applying for a grant for a Phase II project.

Recommendation

It is not clear whether the need for an additional well is due to leaks experienced in the older pipelines of the distribution system, to growth, or to other factors. At this time, the additional well is not made necessary by the Bureau of Safe Drinking Water regulations or the Safe Drinking Water Act. Given the unrestricted assets of the District, it appears that they have the financial capacity to either pay or obtain a loan to drill and construct a new production well. Until the leaking distribution system is upgraded, the District may continue to loose significant quantities of water. The engineering estimate from the PER and staff's suggested eligible project cost worksheet is attached to this summary.

Based on the requirements for safe drinking water, this Letter of Intent to submit a grant for the construction of a Phase II water project is recommended for approval subject to the conditions given. Note that the audited financial reports and budget information submitted show that the District could afford to fund at least 50% of the total Phase II project cost - this includes a new well.

According to Board policy, the grant scale is calculated based on a set of criteria that assumes that the applicant has obtained a loan or other funding for the maximum amount possible that will not cause an increase in water rates to exceed 1.5% of the median household income. The District submitted a Letter of Intent to the Drinking Water State Revolving Fund requesting a 30-year loan to cover a portion of the Phase II project. According to the financial analysis attached as a part of the staff report, if the new rate structure is applied to a historical usage of less than 15,000 gallons, the District has the capacity for debt of $3,650,000 on this project, which would require a grant of 50%. The 2006 audited financial report shows that the District has unrestricted current assets of approximately $742,000. No documentation of inability to finance this project per NAC 349.475 was submitted with the application; however, it appears that both the USDA and SRF will consider loan and/or grant financing for this phase of the project. The Board should note that NRS 349.983 subsection 3 does not restrict a recipient from requesting consideration of a grant amount that is actually lower than the Board's grant scale.

A grant scale was calculated using the current information on the District. Given that the District's financial assessment at the grant application shows that the District has obtained loans or other funding that meet or exceed the Board's expectations prior to submitting a grant application, the grant amount should not exceed $4,159,464, or 63.4% of the eligible project costs estimated to be $6,560,668.

Conditions

- The District is subject to the provisions of NAC 349.554 through 349.574 regarding the administration of this grant.

- The District must have an updated Water Conservation Plan in accordance with NRS 540.131, 540.141, and 540.151 approved by the Division of Water Resources prior to submitting a grant application.

- It is the intent of the Board for Financing Water Projects to be the last funding source from which a water utility receives funding. Regardless of any other grants a water utility may have received, the water utility must attempt to obtain a loan from the Drinking Water State Revolving Fund, the U.S. Department of Agriculture, Rural Development and/or other loan sources for the maximum amount possible that will not cause an increase in water rates to exceed 1.5% of the median household income. The District must be approved for a loan or other funding for the maximum amount that meets or exceeds the Board's expectations prior to submitting a grant application.

- The District must have a 5-year capital improvement plan prepared and adopted before applying for a grant from the Board for Financing Water Projects per NAC 349.500.

- As a condition of the Phase I grant increase approved by the Board at the November 2006 Board meeting, the District must implement the planned increase in their monthly water rates from $39.50 to at least $45.91 (1.5% of MHI) before submitting their last request for payment for Phase I and submitting an application for future grants.

- The District must provide a schedule for carrying out the planned Phase II project.

- The population and number of total number of active service connections in Lower Valley, Upper Valley, and the City of Lovelock needs to be reconciled by LMWD prior to applying for a grant for a Phase II project.

Ryan Collins and Kristy Berge of the Lovelock Meadows Water District and Susan Jorgensen from Farr West Engineering are here to provide further information on this project and answer your questions.

(End of Prepared Remarks)

In response to a question from Mr. Goetsch there was discussion of the percentage of project cost covered by the grant request — Ms. Stamates said there was "lot of disconnect" in the percentage calculated by different agencies — but the grant scale would not exceed 63.4 percent of eligible project costs. Mr. Kramer inquired about the accuracy of cost predictions, and based on extensive work already ongoing in Lovelock, they should be close.

Ms. Zimmerman stated that she had trouble figuring out how funding sources would work together because of lack of documentation. Brent Farr explained that various financing applications were in process. Mr. Kramer said that since the letter of intent was incomplete he expected to vote "no" as he had talked about in reference to the previous letter of intent for Crystal Clear. Mr. Farr explained that they were unclear on how to meet that requirement while working with SRF, USDA, etc., which are not finalized. Mr. Kramer said he understood but that Board rules would have to be met. Chairman Scott said that the Board needed to give clarity to staff on dealing with the applications.

Kristy Berge clarified the number of active vs. standby accounts in the numbers in the letter of intent. Dana Tuttle of NDEP explained the she had tied the revenue numbers to connections to come up with a realistic number.

In response to a question from Mr. Firth about the wells and why they weren't included in the application Mr. Farr explained that they would like to work with the Bureau of Safe Drinking Water to add well improvements in the grant application. Both wells are working approximately 23 hours per day in July.

Motion—Mr. Goetsch moved that the Letter of Intent be approved, with the proviso that there would be further discussion of the well, and the assumption that the system would obtain the maximum loan that would not cause rates to rise above 1.5 percent of the median household income, the grant amount is not to exceed $4,159,464 or 63.4 percent of the eligible project cost proposed, and subject to conditions outlined by staff. Chairman Scott summed the motion up saying there's a good chance the total grant amount may be less, and we're going to listen to recommendations, if any, on the well. When there was no further discussion, a vote was taken, with Chairman Scott, Ms. Zimmerman, Mr. Goetsch and Mr. Firth voting "aye" and Mr. Kramer voting "no." So the motion carried, 4-1.

Mr. Goetsch was due to depart, and thanked the Lovelock applicants for not just asking for the maximum amount. He said he did support the new policies proposed in agenda Item G.

(**Mr. Goetsch now departed and was not included in remaining votes on action items).**

E. 4. Progress Report for Funded AB198/AB 237 Projects

Ms. Stamates noted that in addition to the items in her report, the Pershing County Water Conservation District project, noted originally as "emergency repairs" was now expected to include the Rogers Dam. They are looking at possibly asking for a special meeting to request funding to complete construction before the next water season. Chairman Scott noted it might be added to other subjects at a special meeting.

(The Progress Report document is attached as Appendix A)

E. 5. Progress and Financial Reports for Funded SB62 Projects

(This Report document is attached as Appendix B)

Chairman Scott noted that at the next meeting he would like to have a discussion item on "SB 62" projects that were not moving to use their grant funds. They might be asked for a progress report and defend why the Board shouldn't withdraw the funds.

Because Agenda Item F was scheduled for 1:30 pm and it was not yet that time, the Chairman moved down the agenda to Board Comments.

H. Board Comments. Ms. Zimmerman asked about changes to workshop minutes, and Ms. Stamates said please submit them to her. Ms. Stamates said she had not been able to address a grant scale specifically for the irrigation districts due to a lack of information. Mr. Kramer wondered about other nearby states, but Ms. Stamates said that she knew of none with grant programs.

Mr. Kramer reiterated his position that if a letter was incomplete the Board ought not to consider it. After further discussion it was clarified that staff attempt to get information that is missing from submittals.

F. Drinking Water State Revolving Loan Fund (DWSRF) Program

1. Discussion and possible approval of increase in loan commitment to Three T Water.

Adele Basham of NDEP presented the following prepared remarks:

(Begin Prepared Remarks by Adele Basham)

Three T Water Company
Loan Commitment

Board for Financing Water Projects Summary
Drinking Water State Revolving Fund
June 2007

Applicant: Three T Water Company
Project: Storage tank and filtration system
Existing Loan Amount: $231,000
Additional Amount Requested: $37,600

GENERAL
The Nevada Division of Environmental Protection (NDEP) administers the DWSRF under the Nevada Revised Statutes (NRS) 445A.200 to 445A.295, inclusive. One of the requirements of the NRS pertaining to the DWSRF is that the Division shall not "commit any money in the account for the revolving fund for expenditure…without obtaining the prior approval of the board for financing water projects" (NRS 445A.265, subsection 3).

BACKGROUND
The Three T Water Company is a small, private water system located along US 395 in Washoe County, 12 miles northwest of downtown Reno, off the Red Rock exit. The Three T Water Company currently serves 41 water service connections with year round occupancy in 25 structures (some of the structures

are duplexes with two water service connections) and a population of approximately 92 people. These residences are rented from Elsie Timko (owner of the Three T Water Company). The water use fee is included in the rent payment.

In January 2006, Washoe County District Health determined that the spring sources are directly influenced by surface water and issued a Boil Water Order. The Boil Water Order is in affect until the Three T Water Company provides filtration to all water sources or provides water from another source.

In August 2006, the Board approved a loan commitment of $231,000 to Three T Water Company. At the time of the loan application, the Division recommended and Board approved Three T Water Company for a zero percent loan since they qualified as a disadvantaged community.

PROJECT
Description
The project includes the following:
Replace existing storage tanks with one new 25,000 gallon steel storage tank
Addition of back-up power at the pump house
Improvements to the collection sump
Site investigation which includes location of the pipelines and springs
Addition of a new building with a membrane filtration treatment system for microbiological treatment

Additional Funds Requested
Due to higher than anticipated construction bid amount and some additional costs determined to be necessary during construction, the Three T Water Company has requested additional funds. The additional costs were not anticipated and were not included in the original budget. Washoe County District Health regulatory requirements require that each filter be monitored individually by a turbidity meter equipped with an alarm device that notifies a designated person of a problem and the capability to shut off the filter. Daily monitoring and recording of pH, temperature, and residual chlorine is also required. Additional funds requested are summarized in the table below.

	Existing Loan	Actual Cost	Additional Loan Amount Requested
Construction (including contingency)	$193,745	$197,390	$3,645
Engineering	$37,000	$58,936	$21,936
Monitoring Equipment	$0	$12,018	$12,018
TOTAL	$230,745	$268,344	$37,599

Engineering fees exceeded the amount budgeted for the following reasons:

Several obstacles were encountered during the permitting process with the City of Reno. The City required annexation since the project was within their sphere of influence. As a part of the permitting process, the City required additional unanticipated landscaping.

Washoe County District Health required the location of the springs be determined. Locating the springs was more difficult than initially anticipated. Requirements of Washoe County District Health to approve the design were not anticipated.

Construction testing/inspection contract was twice as much as initially estimated.

The engineering fees include initial engineering work to respond to Washoe County District Health Department April 2005 Sanitary Survey and January 2006 Boil Water Order. The initial engineering also included the preparation of a Preliminary Engineering Report (PER). Of the total engineering fees identified in the above table, about 50% is for initial engineering and PER phase and about 50% for the design engineering, inspection and construction engineering.

NDEP RECOMMENDATION
NDEP recommends that the Board for Financing Water Projects approve a $37,600 increase to the Three T Water Company DWSRF loan commitment bringing the total loan commitment to $268,000. The resolution approving the increase in loan funds is included in Attachment 1. The Division and the Three T Water Company will negotiate the terms and conditions of the amended loan agreement.

(End prepared remarks)

Mr. Firth had some technical questions about the system. Carla Duncan and Dora Wren of Shaw Engineering came forward to answer his questions about the monitoring equipment — it will be computer monitored with cell phone notification. He further asked about loan contract terms, and Ms. Basham said that minimum security requirements included one year's debt service in a CD. Some contracts require additional security. This contract has just the CD. There was discussion of monitoring and tests currently underway at the system and when the boil-water order might be lifted.

Motion—was made by Ms. Zimmerman to approve the resolution designated:

"6-2007 THREE T WATER COMPANY WATER PROJECT LOAN COMMITMENT RESOLUTION"; PERTAINING TO THE DETERMINATION BY THE BOARD FOR

FINANCING WATER PROJECTS OF THE STATE OF NEVADA TO APPROVE AN INCREASE TO THE LOAN COMMITMENT FOR THE PURPOSE OF FINANCING CERTAIN PROJECTS; MAKING CERTAIN FINDINGS AND PROVIDING OTHER DETAILS IN CONNECTION THEREWITH

For a total increase of $37,600 to a total loan commitment of $268,000.

It was seconded by Mr. Firth. When there was no further discussion a vote was taken, which was unanimous in favor.

G. Adoption of New Board Policies

Counsel noted in response to a question from Chairman Scott that though it was not yet 2:00 pm, the time noted on the agenda, the Board could discuss the policies and take action after the scheduled time.

Following are Ms. Stamates prepared remarks on the new policies.

(Begin Prepared Remarks)

Board Policies

As a result of the discussions held at the Board's workshop on March 13, 2007, staff has drafted both new policies and updates to existing Board policies for consideration for adoption by the Board at the June 20, 2007, Board meeting. A brief summary of each of the policies included in the binder is given below.

New Policies

G. 2. NEVADA WATER & WASTE WATER PRE-APPLICATION

(Begin Prepared Remarks)

The State grant program was created with the intent to be a source of project funding sought after all other funding mechanisms (e.g., applicant savings, loans, other grants) have been exhausted. The US Department of Agriculture Rural Development (USDA-RD), Community Development Block Grant Program (CDBG), and NDEP are now working together to help future water and waste water loan and grant applicants determine the best approach to funding their projects. It is the Board's policy that, unless there are exceptional circumstances, prospective applicants must submit a pre-application to the NWWRC. Ms. Stamates added that it might take applicants longer to get their project to the Board, but it would have the required financial coordination. Ms. Basham outlined the multi-agency committee that meets monthly to review and comment on the application.

(End prepared remarks)

Board members expressed overall approval of the concept and the anticipated results. Mr. Kramer suggested striking the "exceptional circumstances" since it could be catchall for applicants to avoid meeting requirements. Chairman Scott said the Board does have flexibility to determine whether to accept that.

As it was now after 2:00 p.m. the Chairman stated that he would begin action on the Board policies starting with the pre-application being discussed.

Motion—Mr. Firth moved that the Nevada Water and Wastewater Pre-Application Policy be adopted as written. After a brief discussion of "exceptional circumstances," Ms. Zimmerman seconded, and the vote was unanimous in favor.

Updates to Existing Board Policies

G. 1. REASONABLE WATER RATES

(Begin Prepared Remarks)

The purpose of this Board policy is to establish a policy / procedure for reasonable water rates for eligible public water systems. Some communities have a MHI equal to or above the state average but have not funded a restricted capital reserve account to provide for necessary water system component replacements. It is suggested that in order for those communities to qualify for state grant funding, they must already have water rates at or above 2% of the MHI for the community.

The existing text of the policy is:
"It is the Board's policy that unless there are exceptional circumstances, customers in a community receiving a grant must pay no less than 1 ½ % of the median household income for the community based on the 2000 census (e.g., 1 ½ % x $24,000 = $360 per year or $30 per month) for an average calendar year monthly water usage rate of 15,000 gallons. This water rate is in keeping with the expectations of other funding institutions (e.g., the USDA). The Board may determine that higher rates are reasonable. The Board may also consider other factors impacting the financial strength of the community when making its determination (e.g., property tax rates) as to a 'reasonable rate.'"

The suggested change to the text of the policy is:
"It is the Board's policy that unless there are exceptional circumstances:

Customers in a community where the median household income (MHI) is at or above the State MHI based on the current US census must pay no less than 2% of the MHI for an average calendar year monthly water usage rate of 15,000

gallons (i.e., 2% x $50,000 = $1,000 per year or $83.33 per month) in order to be eligible to receive grant funding on a water project.

Customers in a community where the MHI is below the State MHI based on the current US census must pay no less than 1 ½ % of the MHI for an average calendar year monthly water usage rate of 15,000 gallons (i.e., 1 ½ % x $24,000 = $360 per year or $30 per month) in order to be eligible to receive grant funding on a water project.

These water rates are in keeping with the expectations of other states and funding institutions. The Board may determine that higher or lower rates are reasonable. The Board may also consider other factors impacting the financial strength of the community when making its determination (e.g., property tax rates) as to a 'reasonable rate.' These water rates must be in effect at the time of a construction grant application."

(End prepared remarks)

Chairman Scott asked if in the context of today's Crystal Clear Water Company example, when we talk about a group that does not want the most cost-effective solution, do we want in that context to say you're going to have to pay more than the 1.5 percent. Does this policy prevent us from saying that? Ms. Zimmerman wondered if in this situation the grant amount could be enough to pay for the less expensive alternative and the company/customers figure out how to take care of the rest? Mr. Firth said that this was almost the same situation with pipe oversizing — if they want to put in above the minimum they're going to have to pay the additional cost. Ms. Stamates noted that this policy does not address which option chosen, only the water rates in relation to median household income. Chairman Scott said he was interested in not precluding customers paying a surcharge on a voluntary basis. Ms. Zimmerman said that might be an "exceptional circumstance." She continued that at the workshop it was concluded that these rate should be in place at the first draw, rather than at the construction grant application. Mr. Firth noted that original cost estimates have often been too low. Ms. Zimmerman noted that "the first draw" gives time to figure out what the rates should be. Chairman Scott noted the problem of rate increases not going into effect immediately. He thought that aspect might be addressed, as well. Further discussion led to Ms. Stamates noting that the proposed policy could lead to delays in payment to systems if new rates were not in effect — she needs clarification on how to write this into an agreement. It was clarified that the "first draw" meant the first draw on the construction portion, not the PER. Suggested language: "No money will be disbursed from the grant program until approved water rates are implemented/in effect." Ms. Stamates noted that this would be a policy, not a statute or regulation.

Motion—it was moved by Ms. Zimmerman that this policy be adopted, with a change to the last line of the proposed text so that "These water rates must be in effect at the time of a construction grant application." will be "These water rates must be in effect at the time of the first construction draw." Mr. Firth seconded. Chairman Scott suggested that discussion had shown that the Board desires to interpret "in effect" to mean it is being implemented or actually in the water bills, not "in effect" at some future date. Or, if staff could say that they understood the Board's interpretation to be such, that interpretation can be implemented in writing in conditions of future grants. After further discussion, Ms. Zimmerman clarified her motion to adopt the policy, with a change to the last sentence to read "These water rates must be in effect and being charged at the time of the first construction draw." When there was no further discussion and no public comment, Chairman Scott called for a vote, which was unanimous in favor.

Chairman Scot now moved to the policy on water meters.

G. 3. WATER METERS

(Begin Prepared Remarks)

The existing text of the policy is:
"It is the policy of this Board that each Public Water System that applies for AB 198 Grant Funding will be evaluated for the appropriateness of installing water meters. If the Board determines that water meters are appropriate for the water system, then the installation of water meters must be a condition of receiving the grant. A Public Water System that receives grant funding from this program to install water meters must provide a plan and schedule to implement a metered water rate."

The suggested change to the text of the policy is:
"It is the policy of this Board that each public water system that applies for AB 198 grant funding will be evaluated for the appropriateness of installing water meters if they do not already exist. If the Board determines that water meters are appropriate for the water system, then the installation of water meters must be a condition of receiving the grant. If a system, applying to the Board for grant funding has water meters, it must provide the Board with a metering program before grant funding is considered.

A public water system that receives grant funding from this program to install water meters must provide a plan and schedule to implement a metered water rate as a condition of receiving the grant. If a project is phased, meters installed on each phase of the project must be read and a metered rate must be charged. Should a study of the metered system and usage be necessary, a tentative metered water rate must be put in place while the study is conducted."

(End prepared remarks)

Chairman Scott said that the policy change before the Board was exactly what they talked about at the workshop. There was discussion by all members about whether it should just be a flat requirement, or change the language to say "unless it was inappropriate." Systems have not executed metering plans, or only partially. It was clarified that the phasing requirements are thought to be in line with USDA policies. Ms. Zimmerman suggested that meters should be required to be in effect (in place) before the last construction draw in order to have any leverage on implementation. Language on timing of implementation would need to be inserted. Mr. Kramer wondered if existing non-operable water meters could be slipped in under this language, but Chairman Scott said though he was not averse to it, but thought that staff would catch this in the grant agreement phase. There was further discussion of the non-functional meter situation in previous applications and the possibility of having meters but not charging on the metered use. It was clarified that in the past grant money has been used for funding meters. Mr. Firth noted that the Board would simply not fund a system with half of the meters working and half not. Ms. Stamates pointed out that the typical situation was more like Lovelock, where one section funded by Board money now had meters, but the rest of the system did not. Ms. Zimmerman noted that in the second paragraph of the proposed policy the phrase "by the last construction draw of that phase" should be added after the word "charged."

Motion—Mr. Firth moved that the revised policy on water meters be approved as follows:

"It is the policy of this Board that the installation of water meters must be a condition of receiving the grant. If a system, applying to the Board for grant funding has water meters, it must provide the Board with a metering program before grant funding is considered.

A public water system that receives grant funding from this program to install water meters must provide a plan and schedule to implement a metered water rate as a condition of receiving the grant. If a project is phased, meters installed on each phase of the project must be read and a metered rate must be charged by the last construction draw of that phase. Should a study of the metered system and usage be necessary, a tentative metered water rate must be put in place while the study is conducted."

Mr. Kramer seconded the motion. There was a comment from Shwetta Bhatnagar, Las Vegas Water District, that it might be useful to define "metering program." Chairman Scott said that this was a good comment, and he thought this information would be defined in the grant conditions, which would make requirements clear. When there was no further comment, he

called for a vote to approve the revised policy as stated in the motion, and the vote was unanimous in favor.

The Chairman now moved down the agenda to the policy on the grant scale.

G. 4. SCALE TO DETERMINE GRANT AMOUNT

(Begin Prepared Remarks)

The purpose of this Board policy is to establish a scale to determine the grant amount the Board for Financing Water Projects can award to each grantee. At the March 13, 2007, workshop, the Board discussed possible changes to the criteria and weighting of the criteria in the determination of a grant percentage for eligible project costs. The relative weighting of most of the categories was changed and the criteria in the "Other Factor(s) that the Board Determines to be Relevant" has been enhanced. Please see the existing and updated policies attached for reference.

(End prepared remarks)

Ms. Stamates summed up by saying that the purpose of the scale is essentially to make sure systems are doing the things they ought to do. The scale should not apply until they have already gotten the maximum loans elsewhere.

All the members of the Board had input on the projected changes. Here is a summary of suggestions from the Board:

Section II, Part B – Reduce the total number of points considered for monthly residential water rates

Section II, Part D – Increase the number of points for communities of fewer than 500

Section III, Part C – Increase the number of points for projects that will reduce water leakage and other water losses by at least 25%

Section III, Part O – Increase the number of points for projects that have local or regional cooperative efforts for an inter-tie

Section III, Part R – Change the item to include not only financial but other compliance items

Section III, Part T – Increase the number of points for applicants that obtain alternate funding up to the maximum financial extent possible

Section III, New Part – Give negative points (-50) for communities that are doing well financially but have put nothing into a restricted capital replacement account to help themselves

Section III, New Part – Give positive points for communities that are doing well financially and have put funding into a restricted capital replacement account to help themselves

Section III, New Part – Give negative points if the MHI is at or above the State MHI and they haven't been charging water rates that allow them to fund some capital reserve.

Without objection the Chairman said that this agenda item would be tabled for these changes to be integrated into the document, and would come up for approval at the next meeting.

There was now some additional discussion of Mr. Kramer's point on whether applications should have an attached "check list" and whether applications that don't meet all points should ever be on the agenda. Counsel interpreted the regulations as saying that Letters of Intent should be placed before the Board, but with any deficiencies highlighted, and then the Board can decide whether or not to accept the Letter of Intent. Ms. Stamates said that she felt that the Board was directing her to bring only complete applications before the Board, and that pre-application process was going to be a tool to make sure that all requirements were met before an application was final. Counsel pointed to NAC 349.490 – Disapproval of Letter of Intent. She interpreted this regulation as saying that even if a Letter of Intent is incomplete it still needs to go before the Board for a determination of whether it meets regulatory requirements. If the Board determines it does not meet requirements the decision is final and it will give the reasons for the decision in writing. Then the applicant would have to wait six months to reapply. So the discretion to bring the Letter of Intent before the Board cannot be delegated. Board members agreed that they must make the decision under the regulation. Ms. Stamates said she would counsel the applicants that their Letter of Intent was deficient, and that it may fail before the Board causing a further six month delay. So that could be expected to stop incomplete Letters of Intent from being presented.

H. Board Comments

The Chairman now moved back to Agenda Item H in order to hear information about an investment in a water treatment plant in Churchill County that was not working. Ms. Stamates summarized that the plant did not work during an attempted startup, and outlined chemical and pump problems experienced.

The arsenic removal was not successful, but she pointed out this Board had not funded the arsenic treatment, only iron and manganese removal.

I. Public Comments

Under Public Comment, Chairman Scott asked Tom Porta, Deputy Administrator of NDEP, to give some informational remarks to the Board. He said that the Nevada Association of Counties had contacted him about monies for arsenic treatment in the Farm Bill pending in Congress. The problem is that they need to be in the queue with USDA already, and with the Nevada requirement for pilot testing, this precludes them from submitting an application before they know what they're actually doing. So NDEP will write to the Nevada delegation asking that a provision be inserted in the Farm Bill that won't preclude Nevada communities from applying for funding due to the pilot testing requirement.

He also handed out an NDEP organizational chart for the information of the Board and said that Dave Emme, Chief of Administrative Services, will be attending more these Board meetings and offering financial advice and Division updates. He noted that Dana Pennington was retiring in September and thanked Dana for his service on the Board, and said that Jennifer Carr, the new Chief of the Bureau of Safe Drinking Water, would be serving as the ex-officio member in the future.

When there were no additional public comments, the Chairman declared the meeting **adjourned** at 3:20 p.m.

APPENDIX A

PROGRESS REPORT FOR FUNDED AB198/AB237 PROJECTS

PROGRESS REPORT ON OPEN PROJECTS

MARCH 2007

GRANTEE	DATE APPROVED	GRANT AMOUNT	ENGINEER	OWNER'S REPRESENTATIVE	LAST STAFF SITE VISIT	PROGRESS
Walker Lake	12/10/97	$1,143,447.00	Farr West	Mark Nixon	Apr-07	Land was not secured from the military as expected. The engineers and hydrogeologists are planning a new well on GID property but away from the influence of Walker Lake. The GID will update the Board at the June 20 Board meeting.
Storey Co for Virginia City	8/29/01	$1,503,096.00	CSA	Marilou Waling	Sep-06	The cultural survey revealed artifacts that have limited the potential area that the BLM approved for construction. The project is now installing only one raw water tank instead of the two tanks that were previously planned. Excavation for the new tank revealed additional artifacts that were appropriately addressed by the archeologist on site. The earthwork and retaining wall for the tank site are complete. The tank is due by June 1 with project completion estimated to be mid-July 2007.
City of Caliente	3/14/02	$2,021,314.72	Amec	Bryan Elkins	May-07	The additional grant funds approved by the Board in May 2005 were deobligated in the August 2006 Board meeting. Caliente provided a project update at the November 2006 Board meeting. Staff made a site visit to Caliente with a representative from Master Meter. A summary of the findings was forwarded to the Board. Caliente has retained the services of Sunrise Engineering to assist in getting the meters on-line. The current schedule shows July 2007 as the target for having the meters on-line.
Walker River Irrigation District	3/13/02 1/22/07	$6,685,163.19	Farr West Lumos RO Anderson Black Eagle	Ken Spooner	Apr-07	The project was initially bid; however, the low bidder could not get bonded. WRID is acting as the general contractor for this job. The District will do some of the work themselves and bid the earthwork and concrete as separate jobs. The Board held a special meeting in January to address a request for increase in grant amount. The WRID Board awarded the construction contract to V&C Construction in February 2007. The low bidder, MKD sued the District in the Supreme Court. The WRID Board has withdrawn the contract award from V&C and awarded the work to MKD. Construction will begin when the litigation against WRID is settled, with work on work on both the diversion structure and levee structure running concurrently. Completion is expected in 4 to 5 months.

PROGRESS REPORT ON OPEN PROJECTS

MARCH 2007

GRANTEE	DATE APPROVED	GRANT AMOUNT	ENGINEER	OWNER'S REPRESENTATIVE	LAST STAFF SITE VISIT	PROGRESS
Kingsbury GID	6/26/02 8/23/06	$9,505,311.39	Amec	Jack Jacobs	Aug-06	KGID was awarded additional grant funding at the August 2006 Board meeting to complete Phase 1 of the project. A large portion of the waterline replacement work scheduled for construction in 2007 is designed, permitted, and Rapid Construction was awarded the contract. KGID will have a full-time inspector on the project. Construction is started May 22, 2007. Due to private party easements needed in the Palady-Perkins Tract, waterline replacements in this area will be bid separately to avoid delays in bidding on the larger project. KGID is focusing its energy on obtaining a new tank site for Tank 10B. A likely site has been identified and approval will be sought from the USFS and Heavenly Ski Resort, which share control of the property. If approval does not appear promising, the district will pursue replacement of existing Tank 10A. The district's preferred alternative is to construct a new Tank 10B while Tank 10A is still on line.
Wells	12/5/02	$1,102,310.09	TRW Engineering	Jolene Supp	Jul-06	The installation of the well, well house, chlorination system, and SCADA are now complete. Design and bid documents are complete for the new tank and water line; however, the City is concerned that they can no longer afford the new tank. They are looking into the possibility of connecting the industrial park well and tank (owned by the City) to the main system and provide looping. Early cost estimates indicate that this alternative may cost approximately $500,000. It is not clear why this alternative was not reviewed at the PER stage. The City was advised to do appropriate hydraulic modeling and have this alternative plan reviewed and approved by BSDW before approaching the Board with a change of scope request.
Hawthorne PER	12/16/04	$42,500.00	Farr West	Steve Gustafson		The water audit is complete. The master plan has been completed, including the background, existing conditions, proposed improvements, mapping, water rate analysis, and environmental information. A water model is also apparently complete. The County is asking for additional information to be addressed regarding the old Babbitt area, as a large development may be relocating to the area and may put a strain on existing infrastructure. The post-PER work has yet to be accomplished, such as the environmental report and applications for funding.
Elko Co for Jarbidge	12/16/03	$1,287,700.70	Stantec	Lynn Forsberg		The treatment plant is complete and in operation. Certification of the plant is currently in progress. Particle counts are on-going with some fine tuning of the system as necessary.

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Washoe Co for Heppner Subdivision	3/31/04	$1,280,300.00	Washoe County	John Nelson	May-07	Heppner Waterline Extensions Phase 1-3 and 5a are complete. The County acquired the Grant of Right-of-Way for the new storage tank site from the BLM. The improvements to Lemmon Valley Well #8 are on hold until the tank is on line. Washoe Co has the facility plan that accounts for future water from Fish Springs Ranch. Contri construction is currently installing the 38-mile pipeline with booster pump system and wells. The new storage tank at the Heppner subdivision may increase from 0.6 to 1.5 Mgal. New development must fund the increase in the tank size. Negotiations are still in progress.
Churchill County	7/20/04 4/05 8/23/06 11/9/06	$3,667,667.54	Brown & Caldwell/ V-Point	Brad Goetsch	May-07	The Sand Creek Well, new storage tank, distribution system, operations center/treatment plant, and well house are complete. Punchlist items are currently in progress as is the tie-in of Jetway Chevrolet and the mobile home parks as well as a pipeline from the Pine Creek subdivision well and tank to the Sand Creek operations center.
Lovelock Meadows	10/19/04 11/9/06	$2,806,284.99	Farr West	Ryan Collins	Mar-07	The project is in progress with substantial completion of Phase I due in July 2007.
Nye Co for Manhattan PER	10/19/04 11/3/05	$85,000.00	Day Engineering	Samson Yao		The drilling of the spring did not yield any water. Day Engineering is looking at options for other well sites and/or using existing wells.
Golconda GID	1/27/05	$956,478.75	Farr West	Becky Trigg	Jul-06	Design has been submitted to BSDW for approval.
Washoe Co for Spanish Springs	1/27/05	$4,000,000.00	Washoe County	John Nelson	May-07	The Phase 1A sewer project is complete and 171 homes have abandoned their septic systems and connected to the new sewer line to date.
Virgin Valley Water District	1/27/05	$2,000,137.00	Brown, Collins & Associates	Mike Winters	Mar-06	The Scenic reservoir construction is complete, connected to distribution system, disinfected and connected to VVWD Well No. 30. The new coagulation-filtration arsenic treatment facilities for the 2 Bunkerville were redesigned to include lined infiltration ponds to handle the backwash water. VVWD plans to bid all 5 of the treatment plants in March 2007 to assure uniformity of equipment and hopefully reduce overall costs. Construction should begin in May/June.
Douglas Co for Sheridan Acres	4/27/05 3/14/07	$1,632,119.63	Douglas County	Ron Roman	Mar-07	The well, well house, and CO2 stripper are complete. The new storage tank is currently being installed. Douglas Co received additional grant funding for the meters in March 2007.
Goldfield Arsenic PER	8/04/05	$29,750.00	Lumos	Lori Dunn		Treatment and non-treatment options were investigated. Three pilot tests, one bench test, and one computer simulation were completed. Staff has commented on the draft PER.
Metropolis Irrigation District	1/25/06	$489,467.40	Dyer Engineering	Vernon Dalton	Jul-06	Engineering design is currently in progress.

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GRANTEE	DATE APPROVED	GRANT AMOUNT	ENGINEER	OWNER'S REPRESENTATIVE	LAST STAFF SITE VISIT	PROGRESS
Douglas Co for Cave Rock	1/25/06	$476,089.25	Douglas Co	Ed Mason		Engineering design is complete. The project was bid in March.
Moundhouse PER	5/3/06	$12,750.00	Farr West	Mike Workman		A draft of the PER is complete and in review.
Beatty Arsenic PER	5/3/06	$51,850.00	Farr West	Jim Weeks		Water samples have been taken to get additional data on water quality. Arsenic treatment system vendors have been contacted in order to determine the feasibility of pilot testing. A bench test was run on the water and results are pending. Well EW4 is down for pump replacement and pilot testing must wait until the well is back on line. It is estimated that EW4 will be back on line in June 2007.
Yerington Arsenic PER	5/3/06	$47,600.00	Farr West	Dan Newell		Sampling of 4 city wells is complete. Pilot testing began in April 2007. It is anticipated that phase 1 of the pilot testing will be completed in the next 3 months. A second phase to the pilot test is anticipated to begin in August 2007 and will consist of pH adjustments and a media switch to determine effects on arsenic removal.
Pershing Co Water Conservation District	5/3/06	$3,956,282.50	Farr West & Dyer Engineering	Bennie Hodges	May-07	The failure of the Rogers Dam in late July 2006 created an emergency need to reallocate grant funds to a cofferdam and design of a replacement for the Rogers Dam. The cofferdam was completed in August 2006 and the by-pass around the Rogers Dam/cofferdam was completed prior to the start of the irrigation season in March 2007. The only other construction element of this project that was released for grant funding at this time was the replacement of the diversion structures for the Old Channel/Union Canals as they had match funding from the BOR for only the next year. The diversion structure was also completed in March 2007. Design is currently underway for the new Rogers Dam and for the Pitt Taylor diversion.
Kingston GID	5/3/06	$2,726,309.70	Day Engineering	Dean Day		Design is complete. Project bids came in more than $900,000 under the engineering estimate. Pacific Rim out of Renton, WA, was the low bidder. Work should begin in June 2007.
Pershing Co for the Town of Imlay	8/23/06	$563,993.96	Farr West		Jul-06	Pershing Co has submitted a planned rate structure for Imlay. The project is awaiting a Notice to Proceed from CDBG (match funding agency) prior to starting surveying and design.
Stagecoach GID	8/23/06	$2,210,089.19	Nichols Consulting	Lynn Arndell	May-07	Design is complete. Project bids came in under the engineering estimate. A&K was the low bidder. Work officially began at the end of May 2007. The pipeline will be installed from the west (the Ranchos) to the east with the boring under US Hwy 50 occurring at Leegard Ave.

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GRANTEE	DATE APPROVED	GRANT AMOUNT	ENGINEER	OWNER'S REPRESENTATIVE	LAST STAFF SITE VISIT	PROGRESS
LVVWD for Searchlight	8/23/06	$2,536,522.34	LVVWD	Shweta Bhatnagar		LVVWD completed a Biological Assessment (BA) in June 2006 and an EA in August 2006. The BA was submitted to the U.S. Fish & Wildlife Service (FWS) and described potential effects to the federally-listed desert tortoise. The FWS responded by issuing a Biological Opinion (BO) in September 2006 which outlined measures required to minimize those potential effects. The EA was submitted to the BLM and described potential environmental impacts of the proposed project. In December 2006 the BLM issued the Finding of No Significant Impact (FONSI) for the completed EA and issued a Right-of-Way Grant/Temporary Use Permit to conduct the groundwater exploration study. This project is also being funded by a grant from the U.S. Environmental Protection Agency (EPA). As part of its grant award process, the EPA is currently conducting a 30-day public review to adopt the EA and FONSI. The LVVWD completed design and contract preparation for the Piute Valley Test Wells and bids opened in January 2007. Bids came in under the engineering estimate. The LVVWD awarded the construction contract on March 20, 2007, to Layne Christensen, Inc. in the amount of $420,000. On April 3, 2007, Searchlight's primary production well, S2, failed. The LVVWD immediately dispatched crews and started Searchlight's backup well, S1. The LVVWD contacted Searchlight customers, asking them to curtail their water use, as S1 produces significantly less water than S2. Construction water was also discontinued until was well was repaired. LVVWD crews replaced the pump, motor, cable, and other required equipment and were able to get S2 back online by April 10, 2007. The Searchlight Water System accrued unanticipated costs as a result of this well failure. The LVVWD loaned the water system funds to make necessary emergency repairs and hopes to recuperate costs through water rates and connection fees. The well failure also demonstrated the need for new infrastructure for the Searchlight Water System.
Lyon Co Utilities for Crystal Clear	8/23/06	$43,350.00	Farr West	Mike Workman		Staff provided comments on the draft PER. A final PER was submitted with a Letter of Intent to pursue a construction grant on May 10, 2007.
Gabbs PER	3/14/07	$25,925.00	Day Engineering	Samson Yao		
Topaz Ranch Estates	3/14/07	$1,471,452.01	TEC	Bill Maher		The funding agreement has not, yet, been signed.

APPENDIX B

Progress and Financial Reports for Funded SB 62 Projects

BOARD FOR FINANCING WATER PROJECTS
SB62 FINANCIAL SUMMARY

PROJECT NAME	GRANT AMOUNT	GRANT USED	GRANT REMAINING
Central NV Regional Water Auth.	$150,000.00	$30,000.00	$120,000.00
Churchill County	$36,500.00	$36,500.00	
Esmeralda County	$16,245.85	$13,450.00	$2,795.85
Eureka County	$120,000.00	$60,000.00	$60,000.00
City of Fernley	$38,680.59		$38,680.59
Gerlach GID	$92,833.42	$29,191.19	$63,642.23
Humboldt River Basin Water Auth.	$120,000.00	$85,165.93	$34,834.07
LVVWD - Kyle Canyon	$27,184.72	$19,168.71	$8,016.01
LVVWD - Searchlight	$150,000.00	$8,195.00	$141,805.00
Topaz Ranch Estate GID	$5,221.88		$5,221.88
Town of Tonopah	$11,250.00	$3,798.70	$7,451.30
Virgin Valley Water District	$116,041.77	$67,013.35	$49,028.42
White Pine County	$116,041.77	$94,975.00	$21,066.77
TOTALS	$1,000,000.00	$447,457.88	$552,542.12

TOTAL GRANT FUNDS FOR SB62	$1,000,000.00
TOTAL OBLIGATED FUNDS	$1,000,000.00
TOTAL GRANT FUNDS USED	$447,457.88
TOTAL GRANT FUNDS REMAINING	$552,542.12