

**Minutes  
Indian Hills General Improvement District  
District Office  
3394 James Lee Park Rd. #A  
Carson City, NV 89705  
April 14, 2007  
Special Training Meeting  
9:00 A.M. to 4:00 P.M.**

**Trustees Present:** Chairman Brian Patrick, Vice Chairwoman Laura Lau, Secretary/Treasurer Denise Pierini, Trustee William Eisele, Trustee Kathryn Clark-Ross

**Trustees Absent:** (none)

**Staff Present:** General Manager Dennis Longhofer, Executive Assistant Vicki Reifer, Administrative Manager Nancy Fredrickson

**Others Present:** Farr West Engineering President Brent Farr, Farr West Engineering Representative Kim Borgzinner

1. **Call to Order:** Chairman Patrick called the meeting to order at 9:10 A.M.
2. **Pledge of Allegiance:** Led by Chairman Patrick.
3. **Public Interest Comment:** (none) No members of the public attended the special training meeting.
4. **Financial Planning Training Session: (Presented by Farr West Engineering)**  
Farr West Engineering President Brent Farr requested that each Board member and District employee introduce themselves and to discuss his or her goals and future plans for the District.

**Goals & Future Plans**

General Manager Longhofer (Improve financial stability and improve capital improvement planning)

Administrative Manager Fredrickson (Understand all aspects of financial fundamentals)

Executive Assistant Reifer (Understand past historical activities of the District due to lack of past records organization and lack of previous records management plan)

Trustee Clark-Ross (Improve community involvement with District activities)

Vice Chairwoman Lau (Improve street conditions and for the District to follow its five year street maintenance program)

Trustee Eisele (Improve overall goals and plans in all departments including capital improvement plans)

Secretary/Treasurer Pierini (Keep District on track with daily operations, maintenance and improvements in all departments; Improve communications with residents)

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Chairman Patrick (Containment of utilities and payroll expenses; Implement other alternative energy sources such as solar and wind power; Improve condition of District streets)

The training agenda included the following topics.

- **Board Roles and Responsibilities**
- **Effective Budgeting**
- **Review and Discussion of the District's 2008 Budget and Other Financial Statements**
- **Capital Improvements**
- **Asset Management and Depreciation**
- **Rates**
- **Recommendations and Goals**

Kim Borgzinner distributed a compact disc titled "Small Utility Board Training" to members of the Board. The small utility board training compact disc is designed to assist members of the Board to understand basic principles of public water system regulation, operation, planning, budgeting and communication.

Brent Farr discussed the Boards responsibilities which includes both a vision and direction on financial decisions and to ensure safe drinking water.

### **Board Responsibilities**

1. "Fiduciary" responsibility to protect the assets and interests of the water system when making financial decisions or when addressing operations and maintenance issues.
2. To consider how financial and/or operations and maintenance discussions will affect customers.
3. To ensure that the water system will supply adequate and safe drinking water.
4. Strategic planning

The Board can be held liable if the water does not meet State and Federal water standards.

Brent Farr recommended the following items for Board members to fulfill their responsibilities.

- Take the time to tour the facilities early in your term.
- Be familiar with technical, managerial and financial operations of the system.
- Make sure that the water system complies with State and Federal laws designed to protect public health.
- Employ staff that is knowledgeable, experienced and highly motivated.
- Communicate with staff on a regular basis.
- Review maintenance logs and financial records on a regular basis.

An informed Board can make decisions that are in the best interest of the water system, customers and the community.

Brent Farr explained the term financial capacity in relation to the Nevada City of Gerlach's lack of financial capacity to comply with State mandated uranium and arsenic standards by

2001 because their water rates were not raised since 1970. He clarified that capacity is the District's ability to function and meet its goals.

The Board discussed micro-managing by some past Board members and the need to establish and follow the chain of command. There was discussion on issues with the Silver Springs General Improvement District regarding the possibility that Board members were becoming too involved with daily activities.

Brent Farr explained individual duties that Board members could do to fulfill their responsibilities.

- Serious commitment
- Regularly attend Board meetings
- Stay informed of proposed water system improvements, current system operations, and community matters
- Review Board meeting minutes
- Comment on reports
- Attend community events and prepare for each meeting
- Accept assignments and complete tasks on time
- Get to know other Board members and staff
- Build respectful working relationships that contribute to consensus
- Participate in meetings and activities promoting the water system
- Ask questions

Brent Farr recommended that Board members take the time to understand State and Federal regulations as they apply to Chapter 318 "General Improvement Districts" and Chapter 354 "Local Financial Administration" of the Nevada Revised Statutes. Kim Borgzinner suggested that Board members take a look at the District's website to view policies, ordinances and resolutions. Kim Borgzinner referred to the District's creation ordinance number I-H-I. She commented on page 3 and page 4 of the ordinance which states, "The general purposes for which the District is formed are the acquisition, construction, re-construction, improvement, extension, betterment, operation, maintenance and repair of the sanitary sewer system, streets, supply of water, lighting and garbage and all other powers in NRS Chapter 318." Kim Borgzinner referred to Nevada Revised Statutes Chapter 318.116 which lists basic powers which may be granted to the District.

There was discussion on possible legal conflicts if the Indian Hills General Improvement District were to establish other services which are provided by other Districts. An example discussed was a financial and managerial conflict with the Douglas County Pool District if the District constructed and provided a pool for members of the community.

Kim Borgzinner referred to Nevada Revised Statutes Chapter 318.140 "Sanitary sewer improvements, 318.141 "Lighting of streets", 318.143 "Recreational facilities" and 318.144, "Supply, storage and distribution of water" which designates the Boards powers to provide those services.

There was discussion on the District's water use restriction ordinance number 001 and lack of enforcement of that ordinance. It was clarified that per the water use restriction ordinance, the District enforces penalties for those in violation of the ordinance which includes discontinued

water service and a fine of \$50.00. Brent Farr informed the Board that Farr West Engineering provides services related to water conservation planning.

Kim Borgzinner referred to Nevada Revised Statutes Chapter 318.199 “Rates, tolls and charges for sewerage or water services or products: Schedules; public hearings, adoption or resolution; action to set aside resolution.” Brent Farr mentioned that Chapter 318.199 designates specific requirements and the process to implement rate changes. Farr West Engineering provides assistance to local government agencies that hold water rate increase public hearings. Kim Borgzinner commented on rate comparisons. She stated that the District should not compare its water rates to other Districts because each water system is different. Brent Farr commented that an affordable water rate is 1.5% of the median household income. He clarified that in order for the District to obtain a grant through the State of Nevada Board for Financing Water Projects, the District’s water rate would need to be 1.5% of the median household income. Kim Borgzinner informed the Board that per the 2000 census, the District’s median income is \$56,109 which would establish a reasonable rate of \$70.14 per customer, based on an average of 15,000 gallons per month. ( $\$56,109 \times 1.5\% \div 12 = \$70.14$ )

Kim Borgzinner referred to Nevada Revised Statutes Chapter 318.515 “Procedure for corrective action by Board of County Commissioners: Notification or petition; hearing; adoption and challenge of ordinance or resolution.” Chapter 318.155 explains the process if the District is determined by the Nevada Department of Taxation to be in non-compliance.

Kim Borgzinner referred to Nevada Revised Statutes Chapter 354.5945 “Capital improvement plan: Preparation and submission; filing for public inspection; limitation on amount of expenditures; required contents; reconciliation of capital outlay; exemption.” Chapter 354.5945 states that each local government shall annually prepare on a form prescribed by the Nevada Department of Taxation, a capital improvement plan for the fiscal year ending June 30 of that year and the ensuing five fiscal years. Kim Borgzinner referred to Nevada Revised Statutes Chapter 354.5947 “Annual report concerning capital improvements owned, leased or operated by local government: Compilation; requirements; submission.” Chapter 354.5947 states that the governing board of each local government shall, for each fiscal year, compile an indebtedness report concerning the capital improvements owned, leased or operated by the local government.

Kim Borgzinner referred to Nevada Revised Statutes Chapter 354.598 “Final budget: Adoption; budget by default; certification; appropriations; limitations; changes.” Chapter 354.598 designates specific guidelines such as public hearings and dates to adopt the tentative and final budget. Kim Borgzinner referred to Nevada Revised Statutes Chapter 354.600 “Contents of budget.” Chapter 354.600 states that each budget must include detailed estimates of revenues, balances and expenses. Kim Borgzinner referred to Nevada Revised Statutes Chapter 354.601 “Construction of capital improvement without funding for operation and maintenance included in approved budget prohibited.” Chapter 354.601 states that a local government shall not begin the construction of a capital improvement unless the funding for the operation and maintenance of the improvement during the current fiscal year, including personnel, is included in an approved budget. Kim Borgzinner explained the difference between depreciation and capital improvements. Depreciation is rehabilitation or replacement of existing facilities whereas capital improvements could be new facilities.

Kim Borgzinner referred to Nevada Revised Statutes Chapter 354.6245 “Review of annual audits for Nevada Department of Taxation; plan of correction of violations.” Chapter 354.6245 states that the Nevada Department will identify all violations of the annual audit. The Minutes of the April 14, 2007 Board of Trustees Meeting (Special Training Meeting)

governing body of the local government shall advise the Nevada Department of Taxation what action has been taken to prevent recurrence of each violation of law or regulation or to correct each continuing violation. The Nevada Department shall evaluate the local government's proposed plan of correction and, if the plan is satisfactory, shall advise the governing body.

Kim Borgzinner clarified that the intent of Nevada Revised Statutes Chapter 354.625 "Records relating to property and equipment; control of inventory" is that the District maintain an asset inventory plan in order to replace depreciated equipment and infrastructure.

**Break at:** 10:32 P.M.

**Reconvened at:** 10:50 P.M.

Brent Farr commented on the State Department that is responsible to regulate the District's water system.

- The Nevada Department of Environmental Protection (NDEP) Bureau of Safe Drinking Water (BSDW) has the primary authority to enforce regulations.
- Regulations must be at least as stringent as those set forth by the Environmental Protection Agency (EPA)
- A combination of permitting, monitoring and reporting ensures compliance.

Kim Borgzinner discussed the various elements of an effective budget.

#### **What is the Purpose of a Budget?**

A budget is a tool. If constructed and maintained properly, it will be your guide when making responsible financial decisions for your utility.

#### **What is a Budget Used For?**

- Tracking revenues
- Tracking expenses
- Preparing for capital improvements
- Asset management
- Funding reserves
- Rate setting
- Financial audits and taxes

#### **What are the Main Elements of a Budget?**

- Sources of revenue
- Operation and maintenance expenses
- Capital related costs
- Reserve funding
- Debt service

#### **Sources of Revenue - Operating**

- Water sales
- Connection and capacity fees
- Late payment fees
- Penalties

- Re-connection fees

### **Sources of Revenue – Non-Operating**

- Property sales
- Property rentals
- Interest income

### **Operation and Maintenance Expenses – Fixed Costs**

Fixed costs do not typically fluctuate.

- Meter reading
- Billing
- Accounting
- Salaries and insurance
- Reserve funding
- Debt service payments

### **Operation and Maintenance Expenses – Variable Costs**

Variable costs are un-expected or fluctuating.

- Utilities
- Miscellaneous maintenance
- Emergencies
- Water use above base allotment

### **Capital Improvement Costs**

- Facility expansion
- New treatment technology
- Replace or repair aging infrastructure

Kim Borgzinner explained that the budget should contain reserve funding which includes debt service reserves, capital reserves and depreciation reserves.

### **Debt Service Reserves**

A debt service reserve fund may be required if the utility system intends on borrowing money.

- This is in addition to your loan repayment.
- Debt service reserves can be used only for debt payment when the utility has no other means to otherwise pay the debt payment.

### **Capital Reserves**

- Facility expansion
- Additional facilities (Storage, new treatment, meter installations)

### **Depreciation Reserves**

- Replacement of aging infrastructure

Kim Borgzinner explained that developing a budget includes the estimate of revenues, estimate of expenses and balancing of the budget. Budgeting for expenses includes future capital improvement project plans, debt service and reserve funds. Expense budget categories include the following items.

- Annual debt service and debt service reserve
- Services and supplies
- Operations and maintenance
- Salaries, insurance and/or personnel costs
- System repairs
- Professional services
- Capital improvements (5 year plan)
- Depreciation reserves
- Expense line items should be easy to understand. A clear definition of each expense line item should be readily available and understood.

She explained that an expense budget worksheet should include last year's actual expenses, current year's expenses, changes in next year's budget and the next five years estimated expenses. Estimating system revenues would include review of the previous year revenues, changes in the customer base, and changes in water usage. Operating revenues rather than non-operating revenues should be included in the budget. Over estimation of revenues and under estimation of expenses is discouraged.

The following items were recommended to help balance the budget.

- Collect overdue accounts
- Make sure water meters work
- Update fees, deposits and service charges
- Improve customer billing
- Adjust water rates

Brent Farr discussed the importance of having a capital improvement plan and that an appropriate time frame to extend planning for capital improvements would be twenty years. He informed the Board that a capital improvement plan is a long-term plan of infrastructure improvement projects complete with cost estimates and schedules. He explained the reasons for replacement of infrastructure as listed below.

- Changing regulations
- Aging infrastructure
- Increase water demand and growth
- Reduce vulnerability
- Reduce odor and visual impacts
- Financial integrity
- Consumer confidence

Components of a water system capital improvement plan include the following.

- Summarize existing system
- Establish goals, time frame and priorities
- Supply, storage and distribution
- Include major rehabilitation projects (tank lining and well rehabilitation)
- Central office, technology and security
- Regulatory compliance
- Establish capital improvement planning projects and costs

- Prioritize projects
- Funding, financing and water rates

Brent Farr discussed the process of how to categorize, prioritize and finance projects which would include scheduling and costs to replace or rehabilitate infrastructure. He commented on the importance of reviewing water rates annually and to plan for water rate increases to cover expenses related to capital improvement projects. He reminded the Board of certain loan and grant requirements which might include funding for depreciation and that the minimum water rate would need to be 1.5% of the median household income. Kim Borgzinner commented on the District's option to set aside money in a separate bank account to fund for capital improvement projects which would earn interest rather than taking out a loan which would require payment of interest. Brent Farr advised the Board to review the District's capital improvement plan annually and to budget for replacement of infrastructure.

**Lunch break at: 12:00 P.M.**

**Reconvened at: 12:35 P.M.**

Kim Borgzinner discussed the components of asset management. She commented on avoidance of risk such as emergency repairs and that the District should be proactive with its asset management. Asset management balances expenditures to attain the desired level of service at the least cost. She explained that an asset management plan is not the same as a capital improvement plan. Capital and operating expenses should be reviewed to get the most value over the life of the asset while delivering high quality and reliable service. She explained what the District and Board should consider when developing an asset management program.

- Asset inventory (what are the District's assets?)
- What condition are the assets in?
- What is the required level of service for our utility?
- What are the District's critical versus non-critical assets?
- What is required to sustain management across successive generation?
- Balance capital and operating budgets with risk tolerance
- Help educate the public

Brent Farr stated that a water rate structure is a fee or schedule of fees designed to recover the utility's costs. As discussed earlier, the Nevada Board for financing Water Projects has established that a reasonable water rate is 1.5% of the median household income. He explained that a rate structure should be fair and should generate sufficient revenues to cover operating expenses. The water rate should sustain the enterprise fund. Every water system must receive sufficient revenue to ensure proper operation and maintenance, development and perpetuation of the system, and preservation of the utility's financial integrity. He commented on rate development which would include the following elements.

- Each water system is different and therefore rates cannot be compared
- The utility must operate according to State and Federal regulations
- The utility has a cost of operating, and the customers served by the system must support it equitably. (Enterprise Fund)
- While the utility personnel and elected officials are sympathetic to low-income or fixed-income families, other paying customers should not be expected to pay more to supplement them.

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- Rates should be set in a manner that provides a base rate to pay for cost of service and consumption fees which allow for conservation and savings.
- Use the annual budget and information from financials and planning
- The amount sold, and the number of new connections are always projections.
- Budgets and rates need regular review and revision annually.
- The rates should cover full, actual costs including contingencies and infrastructure replacement funding.

Brent Farr recommended that the District's rate structure be based on meter size because there are more service costs to provide water to a 2" meter versus a ¾" meter. He mentioned that Farr West Engineering is conducting a rate analysis for the District. There was discussion on having developers incur costs related to utility infrastructure rehabilitation and replacement. Brent Farr advised the Board that an agreement with the developer to contribute to future utility infrastructure replacement or rehabilitation is an option for the District if those costs are justified. He discussed the differences between rate schedule options that include blanket rate, single block or flat rate, declining block rate and increasing block rate.

### **Blanket Rate**

- One charge for all users and all amounts
- Meters not needed for billing
- Poor in terms of meeting income needs
- Encourages waste
- Unfair to small quantity users
- Bureau of Safe Drinking Water and various funding agencies discourage a blanket rate.

### **Uniform Block Rate**

This is the District's current water rate. (IHGID current rate: \$1.95 per 1,000 gallons and a \$6.39 base rate)

- Unit price is the same for all amounts
- Sometimes combined with a base charge
- System income increases with demand
- Customers have no incentive to waste
- Most fair of all the rates, but large users may be slightly penalized

### **Declining Block Rate**

- Each succeeding block is sold at a lower rate
- Income is linked to production
- Fairness: reflects realities of lower unit costs as production increases
- Encourages waste, not conservation

### **Increasing Block Rate**

- Succeeding blocks of increasing usage are sold at higher rates.
- Excellent in terms of income. May run contrary to actual costs of increased production (large users may pay more)
- Promotes conservation
- If not used for conservation, may be seen as unfair to large users
- If too progressive, may result in decreased revenues

Brent Farr stated that a base rate is a recurring service charge designed to cover fixed costs. He explained components of fixed costs as listed below.

- Infrastructure replacement funding
- Debt service
- Office supplies, equipment and postage
- Administration
- Billing cost
- Building rent or depreciation
- Reserve fund requirements
- Professional fees (Engineering, legal, auditing)
- Advertisement, association dues, journal subscriptions
- Continuing education
- Water rights extensions

He stated that variable costs should not be included in the base rate. Variable costs include operations labor, electricity, chemicals, equipment spares, equipment materials, operation reserve, sampling and analysis. Other fees can be charged to cover direct costs such as meter installation fees, capacity fees, late fees, return check fees, reinstatement or reconnection fees, refundable deposits and equipment rental fees. Brent Farr advised that fees charged to cover direct costs should not be included in the budget as a revenue source. He stated that revenues are difficult to predict when water usage rates are changed dramatically. He explained that increasing the base rate rather than increasing the usage rate allows for more predictable revenue estimations.

**Break at:** 1:50 P.M.

**Reconvened at:** 2:05 P.M.

Kim Borgzinner and the Board reviewed and discussed line items in the District's 2006 financial statements and the 2006 monthly budget status reports.

Two groups were formed to conduct a rate study exercise. The purpose of the rate study exercise was to determine a base amount of water use to be included with a new base rate. Revenues, expenses, total number of customer accounts and customer usage figures were taken from the District's 2007-2008 proposed enterprise fund budget. A representative from each group presented their recommended rates.

Vice Chairwoman Lau left the special training meeting at 3:00 P.M.

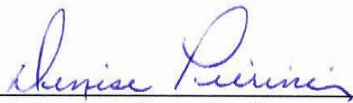
Brent Farr discussed possible Board goals and recommendations as listed below.

- Make an effort to focus on providing direction for the District and on strategic planning.
- The Board should continually evaluate how the District is performing and establish goals for improvement.
- Make it a priority to build technical, managerial and financial capacity.
- The Board should schedule a site visit and tour both the wastewater and water facilities. Get familiar with the technologies used and how the systems are operating.

- The Board should review all existing procedures, policies, ordinances and design standards to ensure they are up to date and reflect existing conditions. Where needed, revise and update them.
- The Board should continue to review the District's financial statements and budgets so the Board is prepared to make sound financial decisions and to address public concerns regarding rate adjustments and the District's financial obligations.
- The Board should support funding depreciation reserves for aging infrastructure.
- The Board should evaluate rates annually and plan for regular rate adjustments.
- The District should ensure that all required plans are up to date, approved by the State and are available and utilized by utility personnel.

5. **Adjournment:** *Trustee Clark-Ross moved to adjourn the meeting at 3:42 P.M. Seconded by Secretary/Treasurer Pierini. Motion carried unanimously.*

**FINAL APPROVED MINUTES AS PRESENTED**



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**Secretary/Treasurer  
Denise Pierini**