The Honorable Board of Lyon County Commissioners met this day in special session with the following present: Chairman Phyllis Hunewill, Comm. Bob Milz, Comm. Larry McPherson, and Comm. Leroy Goodman. Absent: Comm. Don Tibbals. Also present: County Manager Dennis Stark, Comptroller Josh Foli, District Attorney Bob Auer, Utilities Director Mike Workman and Deputy Clerk Shawna Halverson.

1. Review and adoption of agenda

There was consensus to accept the agenda as presented.

2. Public participation

There was no public participation.

3. PUBLIC HEARING: to review and consider the proposed increase and/or change in the connection fees for the users and customers of the Dayton Water Utility, Mound House Water Utility, and Dayton Sewer Utility, Lyon County, Nevada

Utilities Director Mike Workman began by giving a brief history/background relative to the issue. He described how over the last 3-4 years water and wastewater facilities master plans had been implemented, which were adopted in 2005. Both plans included components to meet the needs of projected growth, and members of the development community had helped with the process of putting them together. At the time the master plans were approved, it was agreed they would periodically need to be reviewed and adjustments would sometimes need to be made.

Mr. Workman went on to explain how current conditions had affected the situation. Since the building of homes in the area had slowed down, they took a look at the impact to their financial model as well as to the water distribution/pumping system and sewer collection/treatment processes. They made some significant adjustments accordingly. The Rolling A Wastewater Treatment Plant had been built with a treatment capacity of 1,000,000 gallons. Since it came online they discontinued using the South Plant and basically "put it in mothballs" for now, deferring its expansion to the future. They also deferred a number of capital improvements on both the water and wastewater sides.

However, based on projected needs identified through a series of meetings this last year with the development community and their engineers, some key components were found in both the water and wastewater master plans that will be required in order to meet the needs of projected growth. Those types of things include distribution mains, monitoring wells, and some production wells on the water side as well as storage tanks, addition of forced mains and upsizing of some lift stations on the wastewater side.

Mr. Workman indicated updated projections for the number of homes developers will be bringing in for the next year gathered from the previously mentioned series of meetings were put into a spreadsheet by Comptroller Josh Foli. Then they again met with the developers and went over the numbers. He explained what would be presented tonight would be a greatly scaled back facilities master plan based on what the updated projected needs would be.

According to Mr. Workman, they had also tried to reduce staffing levels and not fill some open positions in the utilities department; so, on the operating side, they are also trying to save.

Mr. Workman pointed out the master plans are very comprehensive with over $130,000,000 of improvements overall, which had been scaled back significantly, and it would be very difficult to go over the whole thing line by line in a meeting like this. He invited anyone who was interested to contact him and make an appointment and he would be happy to go over the numbers in more detail with them.

Comptroller Josh Foli then presented the new proposed connection fees for sewer and water service. He immediately made clear they were not talking about any increase to the rates for current users, only increases to the fees for new connections.

Based on the number of available connections that they can make to the system and the actual

dollar amount associated with connecting those people to the system the sewer connection fees were proposed to go up by $433 per connection over the current amount. He also went over some of the related details leading to that result. The new total fee for each sewer connection would be $9,616.

The Mound House and Dayton water systems are virtually one as far as operability at this point and they are working more towards that. The current connection fee is $2,021 and the reason the increase will be so much is there hasn't been an increase in a number of years; also, part of the cause is cost of infrastructure. The numbers calculated for the two water systems came out to within $1 of each other, so it was recommended to the Board the connection fees go up to the same amount of $4,303 each.

Mike Workman offered to go through more detail regarding the kinds of infrastructure they would be doing on the water side and Chairman Phyllis Hunewill thought that would be helpful. Mr. Workman then referenced the time period of 2008-2015, and among the topics he covered were supply wells, observation wells, storage tanks, booster pumps and pressure regulating valves. The Copper Canyon development infrastructure was mentioned as a large network of 14" distribution mains. A central administration building would also be included and there would be a State-required ground water flow model, which alone would take $500,000.

Mr. Workman reminded everyone that it wasn't too long ago when Lyon County Utilities was "behind the curve" on capacity and it was difficult to get connections to the wastewater treatment and/or water systems. The whole point of the master plans was to get them out of that cycle. They are trying to be forward thinking to avoid getting into a similar situation again; they are trying to find a balance between adding new facilities and having them online just in time for new development. However, it is very hard to do not knowing exactly what the market is going to do so there is going to be some additional capacity. He said additional capacity also helps protect us if we should get into some sort of an emergency, and he gave a few examples of those potentials.

Comm. Milz suggested Mr. Workman explain the pressure regulating valves to everybody. Mr. Workman described the pressure regulating valve as a key component on the south side of the river which enables them to tie the North and South parts of their distribution system together. About eighteen months or two years ago they installed water and sewer lines 25 feet under the Carson River over near Sutro Road and that allows them take water from their Six Mile Canyon Storage Tank at the far north end of the service area and bring it over to this area. That pressure regulating valve reduces the pressure so it gets it down into the normal operating range of the distribution system, and it is an automatic operating valve.

Mr. Workman then proceeded to share more particulars about the planned storage tanks and well sites. He also explained how their current network of pipes allows them to move water all around in their distribution system, even on both sides of the river, which helps avoid getting into a situation where, for example, one supply line breaks and 2200 customers are instantly out of water, whereas the way the system was as recently as a year ago that could have happened. He said these are the types of things they are trying to improve as they go along.

Chairman Hunewill invited any questions and there were none.

Mr. Workman then went into more detail about the wastewater system. Originally the master plan called for almost immediate expansion of the South Plant. Once the Rolling A project was complete they were going to move right into the expansion of the South Plant. When that plant was originally built, the ponds were built without liners so there was some nitrate migration from those ponds and there was also some grit removal processes that were included so the plant was out of compliance. They had a compliance order from the Nevada Division of Environmental Protection to get that plant cleaned up and to get it into compliance. At the same time they were going to expand the plant to probably double or triple its capacity, based on projected growth, they were going to take care of those issues as well. With the building slowdown, they didn't need to do that right away after all so they just closed it down, instead deferring that project into the future, possibly 8 to 10 years. What will be required, though, are additional sewage collection mains to accommodate flows from new development along Highway 50 and to eliminate the need for an existing old shallow undersized line that runs under the river near Quilici Road. Also, there will be lift stations on both sides of the river so

during high flood events and that type of thing the systems won't be overrun with flow.

Mr. Workman further explained about effluent storage being a significant need. They are reusing as much as possible, such as at the golf course, but sometimes they can't, like when it is real cold, so there could be times when they need to store it for as much as 140 days. NDEP requires an effluent program and this is a part of that. They do eventually hope to put some of the treated effluent into rapid infiltration basins which others have done all over this State and in other states for a long time. One thing they plan to do which is a little different is to actually apply for some water rights credits on that, but it is a ways down the road; they need to perfect their treatment process more first. Right now they need to focus on reuse. He also explained when you are all done with the treatment process what comes out is black sludge and there may be some uses for that such as for fertilizer on non-consumptive crops, but that would require some processing equipment, so it has been kicked out to 2015.

He indicated the big ticket items here are forced mains, collection mains, and lift stations. He explained about the differences between the two kinds of mains.

Mr. Workman added what Comptroller Josh Foli does is take a very close look at what percentage of these capital projects should be funded out of operating. Some of the facilities are replacing existing infrastructure; it wouldn't be right to have new development pay for full replacement. On the other hand, it also wouldn't be fair to have rate payers pay for all new infrastructure. So, Mr. Foli looks at and analyzes many factors, then determines how to allocate the costs.

Mr. Workman then brought up a pressurized effluent system which had previously been considered and which he thought some people may have heard about before. This would have enabled them to send effluent to multiple points in their service area for reuse. However, it turned out to be prohibitive in terms of the amount of rebuilding that would be required and the related expenses, so one big change is they won't be doing that after all. It is going to be a lot cheaper on the operating side as well as on the capital improvement side to reuse the water at the golf course and not have to put in a whole other distribution system.

Comm. Goodman asked if there were any EDUs which had already been paid for but not used yet. Mr. Workman responded they have probably about a couple of hundred in their service area that were pre-bought through developer agreements; pretty much all the rest have been used up. Comm. Goodman wanted to know if the EDUs he was looking at represented what was available now and Mr. Workman confirmed that. There was a little further discussion regarding EDUs.

Area developer Dwight Millard wanted to know if they were planning to do additional bonding to fund improvements. Comptroller Josh Foli explained they do not plan on bonding any more because with the instability of the housing market they can't guarantee lenders a revenue stream to cover it. Mr. Millard had further questions regarding the bonding process and related items. Some explanations followed.

Randy Butler wanted clarifications and some discussion ensued, including Mr. Butler explaining he was connected with River Park Dunes, a 50 acre parcel he had purchased from Reynen & Bardis for development. His main observation was in some cases the cost of building is already exceeding the market value of homes. The developers can't as easily pass increased costs of things like higher connection fees on to the customers like they could in a stronger market. He wanted to know if the County could put off the increases for a while and just let the builders get back on their feet. One of the points Mr. Workman brought up in response was there had been tremendous pressure from the development community because four years ago Lyon County couldn't issue "will serves" because of lack of capacity, and the master plan had been implemented to solve that. He was concerned if they stop building infrastructure they could be behind on being able to take care of needs when the market comes back. Lyon County Comptroller Josh Foli added that on the sewer side, based on developers' projections, they already have some $24,000,000 in bonds which they have to pay on. They can't afford not to raise the rates. Mr. Butler objected to the burden being placed so heavily on the developers and he felt the users should bear more of it. Comm. Milz echoed Mr. Foli's previous point that part of the reason the County needed to raise the rates was to fund the bills already incurred trying to accommodate the needs of the developers. Mr. Butler thought

considering the situation with the weak market the timing of raising the fees was bad and it could result in even fewer homes being built so Lyon County wouldn't get the fees because of that and, bottom line, the plan may fail.

Comm. Goodman asked if any written comments had been received and Mr. Workman indicated there had not been.

Chairman Hunewill reminded everyone this was just the first hearing on the subject and it would be discussed further at another meeting in the future; the decision would be made then. She asked if anyone else wished to speak and nobody did.

4. Discussion and possible action related to a request by the Utilities Director for the board to approve a Water Rights Banking Agreement and a Development Agreement with the Vidler Water Company, Inc. and authorize the chairman to sign the agreements on behalf of the county.

Utilities Director Mike Workman began by explaining they have been working with Vidler Water Company over a period of about a year, but even preceding that, for many years they have been considering making a water connection between Carson City and Lyon County. This is for a variety of reasons, and it would enhance the water supply to the Mound House area while also putting in place a regional emergency water supply. The Board of Carson City and the Board of Lyon County entered into an inter-local agreement a couple of years ago which opened the door for that. Since then, they have been working with Carson City on a program to build a 10" main between the two systems.

Mr. Workman continued, saying Vidler then came in and suggested a much bigger and better project which would move large volumes of water between the two communities in both directions. He indicated the project which would be discussed at this meeting involves the 3,000,000 gallon tank in Mound House, owned by Carson City, becoming the metered connection point between the two counties. A 16" water main would come down through the south side of Carson Highlands to Newman Lane, come up Newman Lane, across Highway 50 and then head east, past their Comstock Booster, across Highway 341, all the way over to Dayton, following an existing 10" pipeline over to the upper tank that is lit up and says "Dayton" on it. He mentioned there are also booster pumps which would be installed. This would allow them to send high volumes of water either direction, whether for the normal operations of moving water to Mound House/Dayton or, in the case of an emergency in Carson City, such as a fire or system failure, moving water back to Carson City. He added Vidler bought some surface water rights in Carson City in segment 7A of the Carson River, and we are also in segment 7A of the Carson River, so the use of those rights can be transferred to our area and will enhance our system, also providing for future development. This is a huge upgrade they have been looking at doing.

Mr. Workman indicated there were two parts to what was being considered at this meeting. The first part is a water banking agreement involving approximately 75 acre feet of water which had been approved by attorney George Benesch, who does all their water rights work for them, and it has an associated Quit Claim Deed. The second part is a developer agreement that describes the agreement between Lyon County and Vidler Water Company. In summary, that agreement provides for Vidler to build the infrastructure, and then turn it over to Lyon County for operation and reserve capacity as well as for future development. Mr. Workman went on to describe some of the details that have been worked on.

He also mentioned the Water Facilities Master Plan had originally called for building a 16" water main from Dayton through Mound House, building another storage tank, putting in a booster pump and other associated lines that would cost around $20,000,000-$30,000,000. Early on it became clear there would be no way they could do this due to the growth in Mound House, the cash reserves, and all those types of things. Therefore, they thought they'd do the next best thing and make a connection with Carson City so they could at least help each other out with emergencies. Then this project came along, and it is going to provide a main artery for a 2500 gallon per minute fire force through Mound House, plus it will provide pumping capacity so they can send water back to Carson City. They are hopeful it will reduce operating costs in Mound House by allowing gravity feed to a significant portion of the system. Not only that, it will replace some existing under-sized piping and make a lot of current problems with

the system in the Mound House area go away. Of particular note, the extra water will allow for growth in the whole area, including in the industrial area of Mound House and in the upcoming Traditions development east of Smith's in the Dayton area.

Chairman Hunewill wanted to know whether attorney George Benesch had also reviewed the agreement with the developer. District Attorney Bob Auer clarified that he had reviewed the agreement with the developer and Mr. Benesch had reviewed the water banking agreement.

Chairman Hunewill invited questions from anyone.

Previous Utilities Director Don Allen wanted to know if surface water rights would be taken out in infiltration wells. Mr. Workman confirmed that would be the case and clarified a few more details. Mr. Allen expressed he thought it would be a great idea. Mr. Allen also wanted to know if the water coming out of the tank in Mound House would be master metered. Mr. Workman confirmed that, and explained it would be a 2-way meter.

Area developer Dwight Millard said it sounded like a great idea and this is a good time for it; however, he had some concerns about some of the particulars of the agreement with Vidler Water Company; he expressed a few thoughts and also needed some clarifications, especially regarding some of the language.

Dorothy Timian-Palmer of Vidler Water Company explained a little more about how the arrangement would work. They are a water resource development company and they plan to build the infrastructure so they can move water rights they have purchased. They hope to move close to 4,000 acre feet, eventually maybe even 5,000 acre feet. All of that water would be banked for Lyon County or Carson City and it would carry their name on that water. An example of how it would work would be a developer who wants to build a subdivision would come to Vidler and purchase those water rights. Then those water rights would be assigned to that project and Lyon County could provide the water service. She further explained that much like a subdivision developer builds a system of mains for whatever project they are building and then turns it over to the county, Vidler is building the infrastructure to move this water around the area and then is turning it over to the county; it is essentially the same concept.

More discussion followed, chiefly regarding the scope of the area that would be involved. It was clarified that the "Lyon County Service Area" referenced extends from the Carson City line at Mound House through the Dayton area to approximately the Copper Canyon Development east of Dayton.

Mr. Millard was also interested to know whether there would be a fee for the transmission of the water through the system and what the cost would be to the users. In response, Mr. Workman indicated that preliminary calculations showed there could actually be lower cost to the users, since it will be pumped less and largely gravity fed. In fact, as it is now, they are paying around a $60,000 per year power bill on the upper booster station in Dayton.

Mr. Workman also clarified anything beyond the geographical area they had been talking about would require additional infrastructure and amendment of the agreement.

Steve Hartman of Vidler Water Company offered assurances that Vidler has no desire to ever be a water purveyor; it would never happen; that is a function of Lyon County Utilities. Regarding the language of enforceability which Mr. Millard had also questioned, he indicated the reason for that language is all this water will go into a banking agreement, but if there was some challenge and the agreement was set aside, they need to still work together because there is all this infrastructure; the language provides for them to do that.

Comm. Goodman explained Lyon County Utilities stops at the top of 10-mile hill; the areas to the East of that, Stagecoach and Silver Springs, have their own water systems. He stated Lyon County Utilities has no authority over those areas.

Randy Butler was curious about how much water they planned to bring to the Dayton area and where would it come from. He also wanted to know about certain aspects of cost. Mr. Hartman responded he didn't know what the numbers will be, but they are trying to aggregate as much water as they believe our Master Plan requires. He indicated this arrangement will be good for

the region, including Carson. He thought a lot has been accomplished so far with them all working together. He expressed confidence that growth in the area would come back, and when it does, it is important to be in front of it.

Joe Sbragia said he realizes these are surface water rights which are coming from the Anderson Ranch or something, but he wanted to know if there should be a drought and they don't have enough water to serve all these predictions, would that put a shortage on the present system we have now, and would there be enough water for the "old timers." Mr. Workman responded yes; Lyon County Utilities has a pretty substantial buffer both in owned water rights and water rights that have been allocated so they have a pumping reserve. In the case of an extended heavy drought in any region they may have to take measures to reduce usage, but for a couple of back to back dry years he didn't anticipate a problem.

Chairman Hunewill asked for a motion.

Comm. Milz wanted to point out a few things first. He thought this would be a win/win situation for both Carson City and the Dayton area; water is hard to come by. It would pay for infrastructure the Utilities Department simply can't afford and it would do it on somebody else's dollar. He expressed pleasure in seeing the partnership that had developed between the parties involved and anticipated great value in being able to move water all around the area as needed. He also thought it would position the County well for the growth that would be coming.

Comm. Milz moved to approve both the Water Rights Banking Agreement and the Development Agreement as presented with the Vidler Water Company, Inc., and to authorize the Chairman to sign both agreements on behalf of the County. Comm. Goodman seconded and the motion passed, 4-0, with 1 absent (Comm. Tibbals).

The meeting was adjourned.

LYON COUNTY BOARD OF COMMISSIONERS

_____

PHYLLIS HUNEWILL, Chairman

ATTEST:

_____

NIKKI BRYAN, Lyon County Clerk/Treasurer