Meeting Minutes

WORKSHOP OF THE

STATE BOARD FOR FINANCING WATER PROJECTS

Wednesday, April 11, 2018

1:30 PM

Tahoe Hearing Room

901 South Stewart Street, 2nd Floor

Carson City, NV 89701

Members Present:

Bruce Scott, Chairman

Andrew Belanger, Vice Chairman

Lori Williams

Carl Ruschmeyer

My-Linh Nguyen, ex-officio member

Members Absent:

Mike Workman

Staff Attending:

Jason Cooper

Rachel McFarland

Michelle Stamates

Kyle Casci

Valerie King

Jennifer Carr

Public Present:

Bob Foerster

Ron Roman

Larry Grant

Bert Bellows

Cheryl Couch

Lisa Goodfellow

Max Sosa

Maria Murillo

Sharon Goodwin

Kathy Flanagan

1) Call to Order and Introduction (Discussion):

Chair Bruce Scott opened the meeting and invited introductions from board members and those present in person and on the phone.

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2) Policy Review and Fiscal Sustainability Plan (Discussion):

Mr. Jason Cooper presented a proposed policy change for the Capital Improvement Grant Program that would require water systems to keep a fiscal sustainability plan (FSP)—a plan that covers asset planning, management, maintenance, and repair. Currently, projects funded through the Clean Water State Revolving Fund (CWSRF) must keep an FSP. Furthermore, most large water systems already keep a FSP. It is not a requirement through the Drinking Water State Revolving Fund (DWSRF). Mr. Cooper explained that Nevada Division of Environmental Protection (NDEP) staff wants to be more consistent across programs by keeping an equivalent policy for the

Capital Improvement Grant Program. Technical advisors would be able to help utilities prepare a FSP at no cost.

Member Carl Ruschmeyer asked if the change would apply to all funding sources or just the program in question. Mr. Cooper clarified that the policy only applies to the Capital Improvement Grant Program, but said that staff was looking into extending it to the DWSRF program.

Chair Scott asked how often staff review a recipient's financial statement of replacement reserves. Mr. Cooper responded that staff review such statements annually.

Chair Scott proposed adding language about operating costs to the policy's purpose. The purpose states that "[a] FSP should help the grantee maintain an acceptable level of service at the lowest life cycle cost." Chair Scott recommended that it read "at the lowest life cycle *and operational* cost."

Chair Scott also asked when staff would certify a system's FSP. Mr. Cooper responded that every system is certified at the close of funding.

Mr. Bert Bellows of NDEP, Bureau of Safe Drinking Water asked why DWSRF does not require a FSP like CWSRF. Mr. Cooper responded that Congress has yet to address drinking water like it already addressed clean water in 2014 with the Clean Water Act. He added that staff working on the Drinking Water Intended Use Plan are considering requiring a FSP for projects that seek principal forgiveness funds.

Mr. Bellows commented that large water systems appear more capable of keeping track of assets than small systems.

Chair Scott stated that it makes sense to align all the funding requirements together and match them with federal policies and requirements. He suggested that the policy be amended to state that the FSP must be submitted to staff for review. Member Lori Williams agreed with Chair Scott and stated that staff review would help small water companies stay sustainable. Mr. Cooper acknowledged the Board's guidance to include a statement on submitting FSPs to staff.

Chair Scott stated that he has noticed that small systems have issues with staff turnover; FSP documentation might help with this problem. Mr. Cooper agreed that the revised policy would help small systems with issues caused by turnover.

Ms. My-Linh Nguyen asked if funding is available to send technical advisors to help small systems create FSPs. Mr. Cooper responded that the Nevada Rural Water Association (NRWA) has funding set aside for technical assistance.

Chair Scott asked Mr. Bob Foerster if NRWA offers technical services for creating FSPs. Mr. Foerster affirmed that NRWA can provide FSP assistance to small systems.

Mr. Ruschmeyer noted that a clear list of definitions on short term assets and their useful life would build consistency between policies.

Chair Scott praised NRWA for its technical assistance to small systems and communities. He said that a policy with a combination of carrots and sticks—an idiom referring to the benefit of leveraging both reward and penalty when crafting policy—ensures that the best service is given to rate payers of small systems.

Mr. Cooper explained that the revisions to capital improvement grant policies represent an effort to streamline requirements between CWSRF, DWSRF, and the Capital Improvement Grant Program.

Ms. Williams asked if there are any concerns about adding requirements to the SRF program.

Mr. Cooper answered that the biggest concern is that smaller borrowers will become reticent to seek funding. NDEP staff doesn't want to discourage or burden borrowers, but it is important that requirements are consistent and foster sustainability regardless of the funding source or program. Mr. Cooper noted that staff are reaching out to the public to gather different perspectives on adding new DWSRF requirements.

Ms. Williams affirmed that it isn't too forward to ask systems to create an FSP when seeking a principal forgiveness loan.

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3) Capital Replacement Reserves (Discussion):

Mr. Cooper explained that water systems are currently following two different board policies and a separate United States Department of Agriculture (USDA) policy on capital replacement reserves. The current capital improvement grant policy revolves around each asset that is funded by the grant agreement. In particular, it is based on the present net worth of an asset using 1% inflation and 5% interest earnings. It is then amortized over the asset funded in the grant agreement. Mr. Cooper stated that the policy change would be based upon all of a system's short-lived assets—assets lasting 15 years or less—and amortized over the life of these assets. The idea for these changes is based on USDA requirements for capital replacement reserves. NDEP staff is considering a similar requirement for principal forgiveness loans in drinking water and clean water.

Mr. Ruschmeyer asked if the cost of an asset would be calculated by the historical or adjusted cost. Mr. Cooper answered that it would be calculated to cover the cost of replacing the asset today, nothing else. Since FSP's are living documents, costs would be re-evaluated and adjusted to reflect new financial information.

Chair Scott asked if the crux of the proposal is to use a funding reserve to cover short term replacement costs across the system. Mr. Cooper affirmed that the reserve would cover the funding needs of the system looking forward.

Ms. Cheryl Couch of USDA Rural Development stated that the policy change would keep systems from funding more than one reserve account during a co-funded project. She maintained that systems should hold reserves for smaller issues like routine maintenance rather than looking for funding from USDA or SRF. In short, the goal isn't to replace funders, but to encourage sustainability by saving for smaller assets.

Chair Scott stated that the fundamental goal is that people have safe drinking water and water systems are financially responsible and sustainable.

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4) Reasonable Water Rates (Discussion):

Mr. Cooper stated that the reasonable water rate policy has been reviewed four times previously. Old policies focused on a project's economic justification and its effect on the reasonable water rate for the use of 15,000 gallons—a rate calculated by comparing the median household income (MHI) of the state to that of the community. Mr. Cooper explained that it has been difficult to accurately define MHI, a number that regularly fluctuates. The proposed change would diversify and refine how staff calculate a reasonable water rate, working on a system-by-system basis for actual and projected costs of operations, maintenance, debt service, capital reserves, and other reserve requirements. Also, the system's governing board would review rates every three years.

Mr. Ruschmeyer asked if MHI could be adjusted by looking at poverty level and actual consumption. Mr. Cooper responded that MHI is calculated using questionable data from the American Community Survey. To remedy this, NDEP staff has encouraged systems to survey the incomes of their constituents; however, such surveys are costly and time consuming.

Mr. Ruschmeyer observed that California has a new assistance program that might be successfully replicated in Nevada.

Chair Scott commented that a system's water rate must be high enough to cover all the needs of the system. Mr. Cooper concurred that a system's rates must reflect the new system being put into place and not just the cost of the current system.

Vice Chair Andrew Belanger asked if wording in the policy could be changed from "*reasonable* rate" to "*sufficient* rate." Mr. Cooper responded that the wording would be changed from "reasonable" to "sufficient."

Ms. Williams stated that the change shifts the focus away from the community's needs and financial limitations and towards the system's needs. She maintained that people need to be able to afford the water system that they are supporting in spite its cost.

Chair Scott asked that the term "reasonable rate" be changed throughout the policy as it appears several times. He also asked that the last paragraph of the policy be edited to mention the total revenue available for operating.

Ms. Couch asked if rates would be evaluated to make sure each system is capturing all revenue possible including its own structure. Mr. Cooper responded that the policy's focus is on sufficient rates, but he remarked that every system should work with technical advisors on structure.

5) Construction, Engineering, and Contingency (Discussion):

Ms. Michelle Stamates suggested that USDA Rural Utilities Service bulletin 1780-2—which is about preliminary engineering reports (PER)—become the Board's policy for defining projects, analyzing alternatives, calculating costs, and estimating construction and engineering expenses. The bulletin is already followed by USDA and the SRF program.

Ms. Williams asked if many PERs are funded by the Capital Improvement Grant Program. Ms. Stamates answered that they are funded by principal forgiveness loans in the SRF program, *not* by capital improvement grants.

Mr. Ruschmeyer mentioned that he likes the bulletin because it provides a great guide on what a PER should cover.

Chair Scott asked if using the bulletin would provide consistency on PERs between the SRF program and other funding agencies. Ms. Stamates affirmed that it would provide consistency.

Chair Scott praised the rational for the policy since it unifies PER guidance for all programs and funders.

6) Board Comments (Discussion):

There were no board comments.

7) Public Comments (Discussion)

Mr. Cooper proposed June 20, 2018 as the date for the next board meeting. All members present agreed.

8) Adjournment

The board workshop adjourned at 3:26 PM.