

MINUTES

WATER PROVIDER LEGISLATIVE TASK FORCE

JANUARY 3, 2018

The Water Provider Legislative Task Force met Wednesday, January 3, 2018 at 1:30 p.m. in Room 151, State Capitol Building, Little Rock, Arkansas.

Legislative Task Force members present: Senators Alan Clark, Co-Chair, Ronald Caldwell and Scott Flippo. Representatives Justin Boyd and Fredrick Love.

Non-Legislative Task Force members present: Mark Bennett, Dr. Bob Blanz, Jack Critcher, County Judge Rick Davis, Jennifer Enos, Alan Fortenberry, Tom Fox, Barry Haas, Alexandra Johnston, Dale Kimbrow, Dennis Sternberg and Jeffery Stone.

Other members present: Senators Bryan King and Trent Garner. Representatives Fred Allen, Jim Dotson, Charlotte Douglas, Trevor Drown, Kenneth Ferguson, Josh Miller, Aaron Pilkington, and Johnny Rye.

Call to Order

Senator Clark called the meeting to order.

Opening Remarks by Co-chairs

Senator Clark advised that Representative Lemons was unable to attend the meeting.

Motion for Consideration of Approval of Minutes – November 8, 2017 [Exhibit C]

A motion to approve the minutes of the November 8, 2017 Task Force meeting was made by Senator Flippo and seconded by Representative Love. The motion carried.

Discussion of Cities and Towns Experiencing Rapid Growth, Resulting in Difficulties with Operational Problems Such As Infrastructure Expansion and Replacement, Water Shortages, Jurisdictional Complications, Funding, Licensing, and Other Issues

Larry Oelrich, Director of Public Works, City of Prairie Grove, Washington County, Frank Holzkamper, Water Superintendent and Wastewater Utility Superintendent, City of Centerton, Benton County, and Tim Nyander, Utilities Director, City of Fayetteville, Washington County were sworn in under oath by Senator Clark.

Mr. Oelrich gave highlights of the water and sewer system in Prairie Grove and the impact their substantial growth in population has had on their water and sewer systems:

- The population has grown by 50% during the last few years
- The water system customer base has increased by 35%
- Annexation by Farmington in 2006 added an additional service area and an increase in customers
- The growth in population and number of customers has caused capacity problems for the water system, which was built in 1933, and for the sewer system, which was built in 1938
- 75% of the water system infrastructure and 50% of the sewer system infrastructure have had to be replaced during the last fifteen years

Mr. Oelrich told Task Force members that the city lacks the millions of dollars in revenue needed to replace all the original water and sewer lines. Prairie Grove buys its water from the Benton/Washington Regional Public Water Authority. Prairie Grove built a water/sewer treatment plant in 2010 and upgraded its capacity. A \$4 million bond issue was passed in 2012 to pay for improvements in the water and sewer systems. The city performs a rate analysis every two years and includes revenue setbacks for future projects. Implementing infrastructure improvements continues to be the primary issue for the community.

Mr. Holzkamper gave an overview of Centerton's water and sewer systems and its population growth:

- The city's population in 1990 was 349 compared to the current population of 17,000
- A Water Commission was created in 1970 because the city had no tax revenue source to manage a water system. The water system is funded solely through rate payments by customers
- The average household pays a total of \$100.00 per month for water and sewer service

Mr. Holzkamper explained that the recent development of new subdivisions is the major reason for the need of additional water and sewer system infrastructure. Centerton buys its water from the Benton/Washington Regional Water Authority and currently there is an adequate supply of water. The issue Centerton is experiencing is developing additional storage capacity. Centerton is partnering with the city of Decatur at a cost of \$10 million to establish a regional system to provide wastewater treatment services.

Task Force members asked about reserve accounts. Mr. Holzkamper said that Centerton completed a rate study two years ago and has been able to increase its rates to maintain a reserve account, which they hope will be sufficient to build a water tower without borrowing money. Mr. Oelrich said that Prairie Grove establishes reserves on an annual basis. Development fees, which residents pay to get access to water and sewer services when new homes are built, are deposited into the reserve accounts. Tim Nyander described Fayetteville's reserve account. Their account was originally established to pay for regulatory obligations, but due to the city's rapid population growth it has been necessary to use some of the reserves for infrastructure expansion.

Tim Nyander gave an overview of Fayetteville's water and sewer systems:

- Fayetteville receives its water from the Beaver Water District, which provides a sufficient amount of water for the city's consumption
- Fayetteville provides water services to Farmington, Greenland, Goshen, Elkins, and West Fork
- Fayetteville has an issue with being able to provide enough water capacity to meet fire flow protection requirements
- Capital funds are deposited into a reserve account to be used for the replacement of infrastructure
- Fayetteville tries to cost share with developers whenever possible to increase the number of water and sewer lines needed to provide an adequately equipped treatment system and fire flow protection
- In 2010, Fayetteville passed an ordinance which automatically increases water and sewer fees by 3% annually, with a rate study required to be conducted every four years

Mr. Nyander explained that their projections for the amount of reserve funds needed is based on a formula for the amount of money generated annually, which is approximately \$33 million. This is compared to expenditures of \$27 million spent on operations and debt service, resulting in \$6 million available annually for capital projects.

Task Force members and presenters discussed asset management plans. Mr. Nyander said that Fayetteville utilizes an asset management plan for its systems to determine the age of pipes and soil conditions. Mr. Oelrich said that Prairie Grove does not have a formal asset management plan, but they do have a detailed pipe and utility inventory system, which lists the age and condition of all pipe. Mr. Holzkamper said that Centerton does not have an official asset management plan, but they do have information on all their pipes, including the size and age of the pipes.

Mayor Terry Robinson, City of Wooster, Faulkner County, Greg Dell, COO, Conway Corporation, Faulkner County, were sworn in under oath by Senator Clark.

Mayor Robinson gave an overview of the City of Wooster:

- Thirty-seven new subdivisions have been added to the city's water system
- Continued growth in and around Wooster is creating infrastructure demand issues
- Wooster receives its water from Greers Ferry Lake
- Wooster secured a bond through the Arkansas Natural Resources Commission (ANRC) to build a new water tank and install additional water lines. This will enable the city to increase access to water from Greers Ferry Lake

Mayor Robinson believes the additional lines and new water storage tank will resolve the city's water issues. But, there is no infrastructure for a sewer system. Wooster is working to join with Greenbrier for wastewater service. Greenbrier's sewer plant is four miles east of Wooster.

Greg Dell gave an overview of Conway Corporation, a private corporation, which leases the operations of Conway's city-owned utilities. Along with Conway's water and wastewater systems, the Corporation operates cable television, electric service, internet service, telephone service, and home security services. Conway Corporation's billing office manages billing service for all the operations in addition to the city's trash collection. The only service the corporation does not provide billing for is natural gas. The rapid population growth in Conway has caused issues with a lack of sufficient revenue, similar to what other systems in the state are experiencing. Mr. Dell explained that a \$70 million loan was obtained through the ANRC to build a new wastewater treatment plant several years ago, which caused in a substantial increase in rates for wastewater service. Wastewater rates in Conway are the second highest in the region, but were necessary to provide adequate capacity. Conway has a sufficient water supply with Brewer Lake as its water source. Current issues for Conway concern economic development projects as the city continues to grow. Providing an adequate water supply for both commercial and residential growth is a challenge for city leaders.

Task Force members and presenters discussed factors cities and water systems use when considering a request for service from outside of their city limits. Mr. Oelrich explained that Prairie Grove considers customer density when requests for new service areas are made. The city has extended service to areas when there were enough customers to enable the city to pay for the bonds secured for the project. The most recent project was accomplished through a Rural Development Administration (RDA) loan, which has since been repaid.

Task Force members and presenters discussed ideas to help provide assistance to communities with declining populations and those with rapidly expanding populations. The systems have similar issues with aging infrastructure, obstacles in establishing an adequate rate structure, and providing adequate water resources in rural areas. Key areas discussed:

- Improved consumer education is needed
- Better education of elected officials
- Encourage regionalization
- Conduct regular Rate Structure analyses

Mr. Jerry Kopke and Mr. Dennis Sternberg were sworn in under oath by Senator Clark. Mr. Kopke described the Rural Communities Assistance Program, a non-profit organization now known as the Rural Communities Assistance Partnership (RCAP). The organization provides technical assistance, training, and financing to small towns and rural communities. The organization has worked on a number of regionalization projects. Mr. Kopke gave the following examples of projects:

- The Fulton County Public Water Authority is working to expand its existing water lines
- A rate analysis, conducted by the city of Bryant, was established by city ordinance and now requires that a rate study be performed every three years

Mr. Sternberg described services provided by the Arkansas Rural Water Association (ARWA), which includes training and technical assistance to all utilities in the state. He believes the industry can do a better job in educating the public and elected officials, particularly regarding infrastructure needs. Mr. Sternberg said the ARWA recommends that cities pass an ordinance requiring a 3% rate increase annually, plus annual rate reviews. Another service ARWA provides is rate reviews.

Task Force members and presenters discussed recommendations to improve water systems throughout the state:

- Mr. Sternberg recommends all city council members, mayors, and board members attend either an Arkansas Rural Water Association meeting or an American Water Works Association (AWWA) meeting on a regular basis
- Mr. Kopke suggested the possibility of requiring mandatory training for board members of city water and wastewater systems

Mr. Kopke responded to a question concerning systems that neglect funding and ignore depreciation for long periods of time until they reach a point of crisis. How can the state provide guidance or monitor those systems? Mr. Kopke explained that the United States Department of Agriculture (USDA) Division of Rural Development requires borrowers to submit annual financial statements. The statements include balance sheets that identify all of the systems' fund accounts, enabling the Division to track management reports. The USDA is also able to review sustainability ratios. The reports include current assets compared to current liabilities, operating costs ratios, debt coverage ratio, and debt service cost per customer. Annual audits are also submitted to the ANRC. Mr. Bennett noted that the financial statements are only submitted by systems who obtain loans.

Mr. Kopke further stated that all systems in the state have a requirement to prepare an annual financial report. When RCAP is called in by the ANRC or the Division of Rural Development to conduct a financial analysis or a rate study, they review a system's reserves and follow the AWWA standards and Arkansas Code that require that rates are sufficient to cover debt service, operation and maintenance, and to determine the sufficiency of reserves and rates.

Mr. Kopke was asked if this type of review should be required of all systems statewide. He believes it should be required. The requirement would require personnel to review all of the reports to ensure that all systems have complied.

Mr. Sternberg was asked his opinion requiring systems to provide annual reports. Mr. Sternberg believes that a mandatory requirement would have to be directed to an agency, such as the Arkansas Department of Health or the ANRC, and should include sufficient funding and staff to review and process the reports. Mr. Sternberg responded to a question concerning long-term solutions. He said that rather than regionalizing systems, combining systems could be considered. But, he also noted that similar to school consolidation, no entity wants to give up control of their own system. He believes it would work best if it were possible to bring entities together to enter into contracted operations through their own decision-making process.

Due to lack of time remaining, Mark Bennett, Manager, Water Development Division, ANRC, suggested that Agenda Item E, with his presentation be delayed and taken up at a future meeting.

Senator Clark provided a draft vision statement to be taken up at a future meeting.

There being no further business, the meeting adjourned at 3:30 p.m.

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