

# **PUBLIC WATER AND WASTEWATER SYSTEM INFRASTRUCTURE TASK FORCE**

## **Minutes of the 1st Meeting of the 2019 Interim**

**July 24, 2019**

### **Call to Order and Roll Call**

The 1st meeting of the Public Water and Wastewater System Infrastructure Task Force was held on Wednesday, July 24, 2019, at 1:00 PM, in Room 154 of the Capitol Annex. Representative Jim Gooch Jr., Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Senator Phillip Wheeler, Co-Chair; Representative Jim Gooch Jr., Co-Chair; Senator Robin L. Webb; Representatives Derek Lewis and Ashley Tackett Laferty; Michael Burress, David Farrar, Mike Gardner, Peter Goodmann, Gary Larimore, Donna McNeil, and Brian Traugott.

Guests: Charles Snavelly, Secretary, Energy and Environment Cabinet, R. Bruce Scott, Deputy Secretary, Energy and Environment Cabinet and Peter Goodmann, Director, Division of Water, Energy and Environment Cabinet.

LRC Staff: Stefan Kasacavage, Janine Coy-Geeslin, Tanya Monsanto, and Susan Spoonamore, Committee Assistant.

### **Kentucky's Water Infrastructure Needs**

R. Bruce Scott, Deputy Secretary, Energy and Environment Cabinet (EEC) and Peter Goodmann, Director, Division of Water, EEC explained Kentucky's Water Infrastructure – Status and Needs. Mr. Goodmann stated that the focus of the information would include infrastructure for wastewater and drinking water. About 95 percent of Kentuckians receive public water. The regional consolidation of systems is ongoing in order to relieve unsustainable situations. The consolidations come with old infrastructure where maintenance and investment has been deferred and sufficient planning for the future has not been done. Since 1996, more than 145 small wastewater treatment plants (WWTPs) have been taken off-line. There are 800 wastewater systems across the state that are in operation today and approximately 180 of those have been identified as priority candidates for regionalization. Most are located in small communities that are remote to regional facilities. Mr. Scott explained that HB 513 was in response to a privately owned system in Bullitt County that collapsed. The bill allowed better regulatory oversight of small private WWTPs and allowed sanitation districts, water districts, etc. to own and operate systems

outside their jurisdictions with voluntary agreement. Mr. Goodman stated that Kentucky had been successful at regionalization, but it was important to invest and maintain the assets that had been built. The average age of wastewater plants is thirty-six years old, with 18,000 miles of sewer lines, and more than 4000 sewage lift stations. Mr. Goodman said that according to the United States Environmental Protection Agency (USEPA) 2014 Clean Watershed Needs Survey, Kentucky would need to invest \$6.343 billion for its wastewater infrastructure.

Mr. Goodman stated that Kentucky uses an estimated 136 billion gallons of potable water each year, about 75 percent of which is used by residential households. The average per capita usage is typically less than 75 gallons per day or 27,000 gallons per year. More than 95 percent of households and businesses are served by a public water system. The vast majority of entities and individuals are paying something for their water usage via an existing billing system and using a variety of usage fee rate structures. There are 213 water treatment plants with an average age of 38 years, approximately 64,000 miles of distribution lines (average age of 40 plus years), approximately 1,800 water storage tanks (average age of 28 years), and more than 1,000 pumping stations, which are old. Terrain, depths, and stream crossings present a challenge for distribution lines. According to USEPA's 2015 Needs Survey, Kentucky will need \$8.232 billion for drinking water infrastructure through 2035. The American Society of Civil Engineers' (ASCE) 2017 Infrastructure Report Card gave Kentucky a Grade D.

Mr. Scott said that, without investment, Kentucky would experience failure of systems, which would be detrimental to the environment and quality of life in addition to losing economic growth opportunities. There are funding options through the federal government, and state, local, and private entities. As an example, he said that the Kentucky Infrastructure Agency (KIA) has money for loans.

Mr. Scott said that not all systems were taking advantage of the available funding options. The smaller, more vulnerable systems had insufficient borrowing capacity to obtain low or even zero interest loans; inadequate technical capacity to sufficiently operate the system(s), difficulty finding entities willing to assume the responsibility of managing a substandard or poorly operating system, and inadequate fee rate structures in place to be sustainable. A lot of utility models were constructed under the presumption that there would be more usage and fee rates. With more efficient use of water, consumption has declined. Previously, communities relied upon coal severance dollars and other federal dollars that have since gone away.

Mr. Goodman said that targeted investment was needed for critical water infrastructure where funding options are limited in challenged communities. Developing community partnerships and public and private partnerships to help make financing infrastructure more available, and affordable, and leveraging of existing sources of funding are both key. One area of concern is receivership. The court recently rejected a request for

receivership to take over a system while raw sewage was running down homeowners' backyards. He suggested targeted investment in counties that are struggling.

Mr. Scott said that approximately \$6 million had been given to Martin County but they are still not prepared to spend it. The EEC offered Martin County \$7.5 million in loans with nearly zero interest, but the loans were rejected because they could not afford the loan.

Mr. Scott explained that there was a lack of technical, managerial and financial capacity for some systems. Some systems are understaffed with certified operators. Some systems need better cost accounting and financial oversight. He stated that investing in infrastructure would provide better economic growth and protect Kentucky's public health. He said that for every \$3 million invested in water infrastructure, 15 jobs were created.

Senator Webb requested that the list of the 180 entities which have been identified as priority candidates for regionalization be provided to the committee along with their priority and status. She said it would also be good to talk about the dual jurisdiction between federal and state entities.

In response to Senator Webb, Mr. Scott stated that EEC's staffing for inspections was good, but the cabinet was still not able to inspect every system annually.

In response to Representative Lewis, Mr. Scott stated that the EEC had no money to help the water systems. There are federal funding options available through several federal agencies such as the Kentucky Infrastructure Authority (KIA) and sometimes through state, local and private funds. Mr. Goodmann said changes are being made to the qualifications for a certified operator in order to speed up the process.

Mr. Gary Larimore, Executive Director, Kentucky Rural Water Association (KRWA), stated that the association can do rate studies, at no charge, to help systems find the best option for raising rates. Mr. Larimore announced that KRWA had just started an apprenticeship program, certified by the Education and Workforce Development Cabinet. The program would be available to existing employees, graduating high school students, and college students. It is a two-year program requiring 4,000 hours.

In response to Senator Wheeler, Mr. Scott stated that Martin County received a grant from the Abandoned Mine Land Grant Program. Ms. McNeil said there were more loan funds available other than grant funds. Rural Development has a loan grant program. Most grants required a match that could be matched with other grants or loans. KIA has four different loan programs, two of them are state and the other two are federal. She said she would provide the committee with information on funding sources and the availability of the grants or loans for the different infrastructures purposes.

Mr. Goodmann said that there is a lot of money available for disasters through the Federal Emergency Management Agency (FEMA). He state that Kentucky leaves millions of dollars on the table each year.

In response to Senator Wheeler, Ms. McNeil explained that KIA has a Fund B program for drinking water, wastewater, and infrastructure funding. She explained that KIA also had several other financing options to help challenged communities with infrastructure.

In response to Representative Tackett Lafferty, Mr. Larimore said that the KRWA reviews what the revenue needs are for a community and then makes a rate structuring recommendation. If a case is before the Public Service Commission (PSC), then the PSC can make an interim rate based on the information provided at that time. It could be a flat rate in order to generate revenue quickly until new meters are installed for accurate reading for commercial users. The PSC could then phase-in new rates based on recommendations.

Charles Snavely, Secretary, Energy and Environment Cabinet suggested that in addition to addressing funding issues, the committee should also address oversight and management of the systems.

Ms. McNeil said that most of the utilities who do a good job have properly funded replacement reserve accounts. She said that KIA requires a replacement reserve account to be in place for the life of a loan. One reason utilities do not want loans is the requirement of audits. She said she thought EEC had authority to regulate against improper operation and maintenance of utilities.

Mr. Goodmann stated that there is some language in the construction permit. He said that Kentucky was in the minority of states that did not have drinking water operational permits, which might be the topic of future discussions.

Mike Gardner, Water/Sewer Systems Manager, Bowling Green Municipal Utilities, said that a lot of problems for the systems was lack of local leadership and working on measures to fill the funding gap.

There being no further business, the meeting was adjourned.