

PUBLIC WATER AND WASTEWATER SYSTEM INFRASTRUCTURE TASK FORCE

Minutes of the 4th Meeting of the 2019 Interim

October 23, 2019

Call to Order and Roll Call

The 4th meeting of the Public Water and Wastewater System Infrastructure Task Force was held on Wednesday, October 23, 2019, at 1:00 PM, in Room 131 of the Capitol Annex. Senator Phillip Wheeler, 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, John Holiday, Gary Larimore, Donna McNeil, and Brian Traugott.

Guests: Greg Heitzman, PE, MBA, BlueWater Kentucky, Mike Gardner, Water/Wastewater Systems Manager, Bowling Green Municipal Utilities, Annette Dupont-Ewing, Executive Director, Kentucky Municipal Utilities Association, Michael J. Schmitt, Chairman, Kentucky Public Service Commission, and Gary Larimore, Executive Director, Kentucky Rural Water Association.

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

The September 18, 2019, minutes were approved by voice vote, upon motion made by Representative Gooch and seconded by Representative Tackett Laferty.

Kentucky Water Infrastructure Challenges and Solutions

Mr. Greg Heitzman, PE, MBA, BlueWater Kentucky, stated that he is expressing his own opinion. Kentucky is ranked “mediocre” for drinking water and wastewater infrastructure. There are 435 public water systems, 213 water treatment plants, 1,842 water storage tanks, 58,783 miles of water mains, and an estimated 25,000 lead pipe service lines. However, the approximately 300 small water systems account for most of the present challenges. Roughly, 60 percent of Kentucky’s population has access to wastewater treatment, but the rest are private wastewater systems or illegal straight pipes. Most Kentuckians have affordability issues when water and wastewater rates rise.

The top challenges for water and wastewater systems are: compliance with regulations, aging infrastructure, infrastructure funding, consumption and rates, water loss, retiring workforce, and lack of business planning and best practices. Recommendations for improving Kentucky's water systems include: continuing the Kentucky Drinking Water and Clean Water Advisory Councils; enhancing water planning; leveraging federal funds with state funding; establishing an annual \$50 million Kentucky Water Infrastructure Fund; developing Kentucky uniform water/wastewater performance criteria and rating system; creating financial incentives; adopting full cost pricing of water using industry standards; adopting industry standards for water audits and loss control programs; establishing Centers for Excellence in Water; conducting state-wide studies on water loss; addressing lead service; examining system interconnections and affordability for low/fixed income households; revise administrative regulations; and requiring systems to prepare a 10 year capital improvement plan for asset management and infrastructure renewal.

In response to Senator Wheeler, Mr. Heitzman stated he has been working with Martin County for three years. There are limited resources to help with infrastructure. Drinking water is in compliance with regulations, but out of compliance for disinfection by-products. Affordability is a huge issue. Even with \$8.5 million in grants, there is still much to be done, and water projects will take several years to complete. Current water board members are resolved to make a positive difference.

Kentucky Municipal Utilities Association (KMUA)

Mike Gardner, Water/Wastewater Systems Manager, Bowling Green Municipal Utilities agrees that affordability is a very important issue. Even though Kentucky has been successful in providing good drinking water and extending water across the state, \$14.5 billion is needed over the next 20 years to fix infrastructure. KMUA recommends establishing a Utility Taskforce to support sustainability of Kentucky's water and wastewater infrastructure. There should be annual audits, best management practices, and rate making practices for all systems. A Board of Public Utility experts should be created to conduct formal reviews of distressed systems, and a Revitalization Fund should be established as part of an allocation of \$25 million per year for four years from the General Fund. Also, a sustainability program should be established that can be funded by new operating permit fees for water/wastewater systems.

In response to Mr. Traugott, Mr. Gardner said it is important to maintain local control.

In response to Ms. McNeil, Mr. Gardner stated the overlap between agencies should be streamlined so they can work more efficiently. The Area Development Districts (ADDs) have a role, but not all ADDs function equally. All utilities should review inventories and manage the operation and maintenance of their infrastructure.

Ms. McNeil said that KIA has loan dollars for planning initiatives, capital improvement plans, and asset management plans. KIA also offers grant assistance for completing applications.

In response to Mr. Farrar, Mr. Gardner said that privatization was not listed as a recommendation.

In response to Representative Tackett Lafferty, Mr. Gardner said that grant training is hard to mandate. Most council members represent rural districts and have limited time to devote, but on-line training may be a possibility.

Ms. Dupont-Ewing said that if a work group is established, it would take at least one year to put all the information together and develop a plan to help systems with best management practices.

Mr. Burress stated that ADDs provide assistance for loan and grant programs by working with KIA and other agencies. In addition, there are several experts who sit on the Utilization Management Planning Councils that provide assistance to communities. All ADDs have a certified grant administrator who offers writing assistance.

Kentucky Public Service Commission

Mr. Michael Schmitt, Chairman, Kentucky Public Service Commission (PSC), explained that the mission of the PSC is to foster the provision of safe and reliable service at a reasonable price to the customers of jurisdictional utilities, while providing for the financial stability of those utilities. The PSC also supports their operational competence by overseeing regulated utilities.

There were a number of water districts experiencing excessive water loss, but the problem had not been seriously addressed. A loss of 15 percent or more cannot be recovered in rates or be applied to replace infrastructure. The PSC began redirecting money through surcharges to be used for infrastructure replacement. However, many systems in eastern Kentucky will still have insufficient revenue to solve the infrastructure problem. Much of the unaccounted water loss is because the meters are not operating properly, theft, or old pipelines that leak.

The PSC opened an investigation into 11 water utilities with consistent water loss of over 35 percent. The PSC already had an open investigation involving Martin County whose water loss rose to 71 percent. Investigations revealed that local politicians refused to consider unpopular rate increases, and there are no training or best management practices in place.

Water loss can result in the loss of large sums of money. The study showed water loss for Big Sandy Water District and Rattlesnake Ridge Water District were \$519,569 and

\$904,677 respectively. For the most part, the list of water districts with high total risk factors are located in eastern Kentucky. The highest water utility customer rates are North Hopkins at \$65.52, Rattlesnake Ridge at \$62.52, and Breathitt County at \$58.91.

In response to Representative Tackett Laferty, Mr. Schmitt said that Southern Water District came to the PSC asking for a rate increase, but Southern had no records on which to base the rate. Upon investigation, the PSC found 750 water meters that read zero. Other meters were not being read at all, and there were at least 40 households who got water but were not customers. Southern is doing a good job trying to get their system back into compliance, and water rates should go back down in about a year.

Mr. Schmitt said that the characteristics common among struggling water utilities include: inadequate or inconsistent oversight and management, poor financial and accounting practices, and detrimental extraneous influences/local pressure. Potential solutions include: new or enhanced statutory or regulatory requirements; augmented regulatory oversight; improved oversight and management of water utilities; and enhanced collaboration and communication between the PSC, and the Division of Water, and other funding agencies.

Senator Wheeler expressed concerns with the tone of one of the PSC commission meetings with water board officials.

In response, Mr. Schmitt stated that it was debatable if Martin's County's water quality was improving or that the district had made great improvements. New water commissioners are doing the best under a bad situation. During seven months of 2019, the district lost \$292,000, and expenses were \$40,000 more a month than revenues. Martin County's water loss was 67 percent in May 2019, and Martin County needs a manager who is capable of doing the job.

In response to Senator Wheeler, Mr. Schmitt said that Martin County had been permitted funds to hire a manager, but the position remains open and they have not performed requested audits. Their wastewater system has never had an audit.

In response to Senator Wheeler, Mr. Schmitt said that the Martin County Water District had a debt of over \$1 million under previous water commission boards.

In response to Representative Tackett Laferty, Mr. Schmitt said that a surcharge would pay for the new meters installed for the Southern Water District. Once the new meters are paid for, the surcharge would go away.

Kentucky Rural Water Association

Mr. Gary Larimore, Executive Director, Kentucky Rural Water Association (KRWA), said that their recommendations are: extend the work of the Task Force; establish

a uniform evaluation process to identify public water and wastewater utilities that lack technical, managerial and financial expertise; identify the needs of marginal utilities; provide resources for implementation of action plans; require annual reports; explore a hybrid regulatory oversight process that is a mix between Tennessee and Kentucky; encourage training for all board/commissioner/decision makers including county and city appointing officials; develop a loan fund; and enhance the water resource information system (WRIS).

Mr. Larimore said one problem with requiring annual reports for all utilities is the fact that there is no regulatory accountability and follow-up. Other recommendations included implementing regular rate reviews, rate indexing non-revenue water cost indexing, and exploring emergency intervention methods.

Representative Gooch said it would be hard to find money for all the projects in Kentucky. It is important for all the stakeholders and the Energy and Environment Cabinet to establish a workgroup to continue collaboration on issues and recommendations instead of continuing with the Public Water and Wastewater System Infrastructure Task Force.

Mr. Bruce Scott, Deputy Secretary, Energy and Environment Cabinet (EEC) stated the cabinet would welcome a workgroup setting with the intent of bringing needed legislation. The workgroup will not be able to solve everything in one year; it will take several years to develop plans.

Secretary Snavelly, EEC, stated that the information from the task force had set the basic framework. For the future, the workgroup will need to look at funding, maintenance of the systems, and accountability.

Senator Webb stated that a cabinet-led workgroup should have already been meeting. This Public Water and Wastewater Systems Infrastructure Task Force was created to identify problems in a public setting, not in a back room, and should be continued as long as needed.

Mr. Scott said that all workgroup meetings are open public meetings and are advertised.

Representative Gooch said that the Public Water and Wastewater System Infrastructure Task Force was only authorized to meet through November.

Meeting adjourned.