

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

## **Minutes of the 2nd Meeting of the 2020 Interim**

**August 10, 2020**

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

The 2nd meeting of the Public Water and Wastewater System Infrastructure Task Force was held on Monday, August 10, 2020, at 1:00 PM, in Room 171 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; Senators Brandon Smith and Robin L. Webb; Representatives Derek Lewis and Dean Schamore; and Jory Becker.

Guests: Linda Bridwell, Deputy Executive Director, Kentucky Infrastructure Authority, Bill Pauley, Staff Attorney, Department for Local Government, and Sandy Williams, Deputy Executive Director, Office of Financial Management, Finance and Administration Cabinet.

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

The July 13, 2020, minutes were approved by roll call vote upon motion made by Representative Derek Lewis and seconded by Representative Gooch.

### **Funding Options and Availability for Water and Wastewater Entities**

Linda Bridwell, Deputy Executive Director, Kentucky Infrastructure Authority (KIA), explained that KIA provides subsidized and low-interest loans to fund projects for public entities, which are primarily used for wastewater and drinking water infrastructure. Due to COVID, all document submissions are electronic, signature procedures are digital, board meetings are via Zoom and are available to view live or through YouTube. In addition, meetings with utilities or water management councils are via Zoom. Ms. Bridwell stated that there are some grants available through the Department of Local Government and the Appalachian Regional Commission. KIA is currently looking at a small and disadvantaged community water system grant through the Environmental Protection Agency (US EPA) for approximately \$698,000. There are also grants available from the Energy and Environment Cabinet, such as the waterline grant program through the Division

of Abandoned Mine Lands. Other grant sources include the Kentucky Economic Development Cabinet, Kentucky Department of Transportation, US Army Corps of Engineers, and the Delta Regional Authority. She stated that loans are available through KIA, USDA/Rural Development, US EPA, Water Infrastructure Finance and Innovation Act (WIFIA), Kentucky Brownfield Program, National Rural Water Association, Rural Community Assistance Partnership, and the Kentucky Association of Counties.

Ms. Bridwell said that for Fiscal Year 2021, current available funding through KIA includes \$98 million for wastewater and storm water, \$67 million for drinking water including \$18 million from an EPA grant, \$1 million for infrastructure, and a little under \$1 million for governmental agencies. She said loan repayments are made twice a year and sometimes there is additional available money in the infrastructure funds. She said that requests made to KIA for clean water projects and drinking water projects are ranked by the Division of Water using priority guidance and are weighted in favor of projects helping to bring systems into regulatory compliance. She said that priorities for subsidization of small and disadvantaged communities are established by the Division of Water. There are a few grant opportunities that allow for principal forgiveness. The standard interest rate is 2.5 percent and depending on market condition, nonstandard loans of 1.5 percent and 0.25 percent for disadvantaged systems.

Ms. Bridwell said that according to information received from Area Development Districts (ADDs), the short-term amount of infrastructure funds needed over the next two years is \$892 million for wastewater projects (1,001) and \$475 million for drinking water projects (475). She said that based on current KIA payments and future repayments projected for December, there are fewer than five borrowers, out of 490 outstanding loans, that have been struggling to meet their payments. Questions remain as to whether there will be any additional federal assistance, if there will be additional funding options available locally, and what kind of impact COVID will have on utility revenues and payments.

In response to Representative Lewis, Ms. Bridwell stated that KIA had not considered removing the 50 percent cap for funding compliance-related construction projects. The federal guidelines restrict how much KIA is able to use for subsidization out of the cap grant. Ms. Bridwell said that KIA would consider performance of financial compliance, especially if utilities are out-of-compliance. She stated that KIA is working with the Division of Water on managerial capacity standards for utilities. Jory Becker, Manager, Infrastructure Branch, Division of Water, Energy and Environment Cabinet, said that the division has expectation levels on debt-to-income ratio in order to help keep the utilities solvent when they borrow money. The challenge is making sure that utilities who are not borrowers from the fund are also solvent. The question remains on how to assist facilities that are currently lacking capacity or close to lacking capacity. Ms. Bridwell said that KIA would provide information to the task force regarding benchmarks that would be helpful.

In response to Representative Lewis, Ms. Bridwell said that KIA would be interested in looking at principal forgiveness for meeting proposed performance benchmarks.

Sandy Williams, Deputy Executive Director, Office of Financial Management, Finance Administration Cabinet, discussed financing water and wastewater projects with bonds. She said that some basic financing options for utilities were revenue bonds, general obligation bonds, and bond anticipation notes (BANs) through the United States Department of Agriculture (USDA). She stated that those options often provide the lowest cost of capital, but have limits on the amount of capital that is available. Municipal bonds could be used to fill in some of the funding gaps. She said that financing considerations for using bonds would be the availability of funding, the number and stringency of requirements, and the amount of time it takes to issue bonds.

In response to Senator Wheeler, Ms. Bridwell said that municipalities must have their audits up-to-date when they seek to obtain funding from any source. Municipalities and water systems should seek help from the Kentucky Rural Water Association, KIA, or USDA Rural Development to evaluate and identify possible funding sources.

Meeting adjourned.