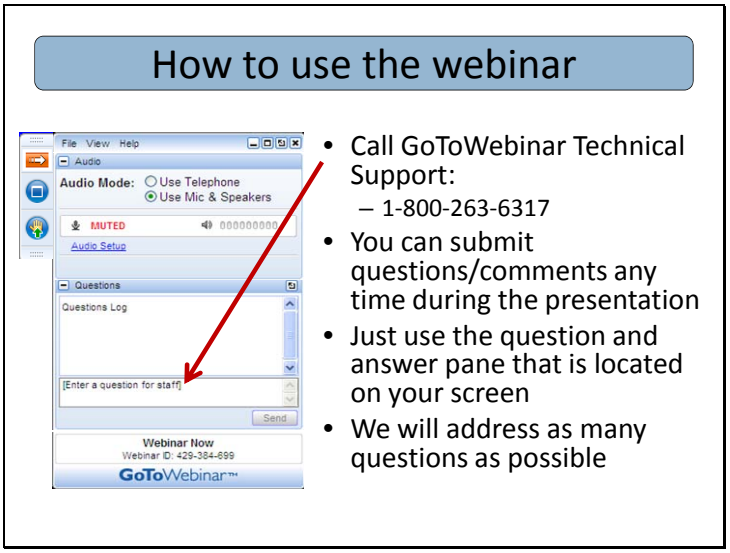
Slide 1

Allison – Hi everyone my name is Allison Watanabe and I'm with the Environmental Protection Agency's Office of Ground Water and Drinking Water. And I will be your host for today. I want to welcome you to today's webinar on Water System Partnerships. Today's webinar is called Facilitating Partnerships: State and funder perspectives. And this is the third installment in our webinar series on water system partnerships.

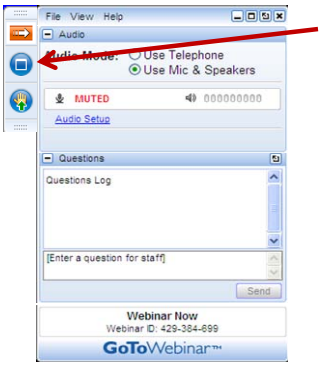
Slide 2



Allison - But before we get started, we're going to go over a few housekeeping items.
First, if you are having any technical issues, please call the GoToWebinar Technical Support number at: 1-800-263-6317.
Second, we have a Q&A period reserved for the end of the webinar but you can submit questions at any time during the presentation.
Just use the question and answer pane that is located on your screen.
We will try to address as many questions as possible at the end of the webinar.

Slide 3

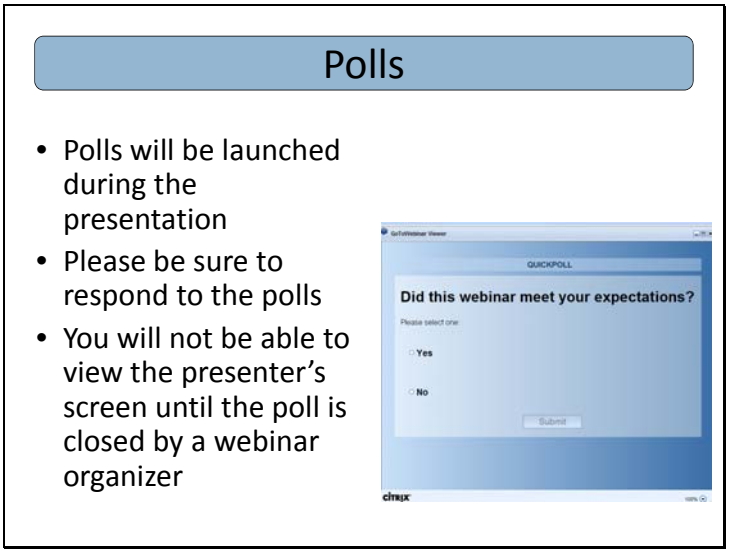
Maximize Your Screen



- For a full screen view hit F5 or full screen icon on your console
- To return to the regular view, hit F5 again or regular screen icon
  - You need to be in "regular" view to submit text questions
- Hitting Control + H will also give you a larger view

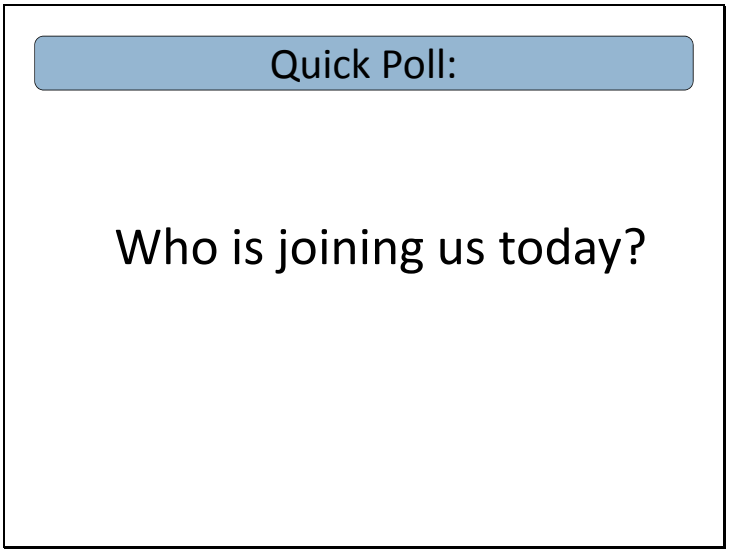
Allison - If you want to maximize your screen you can either click on the blue circular button with a square on your console or you can hit F5 on your keyboard.

Slide 4



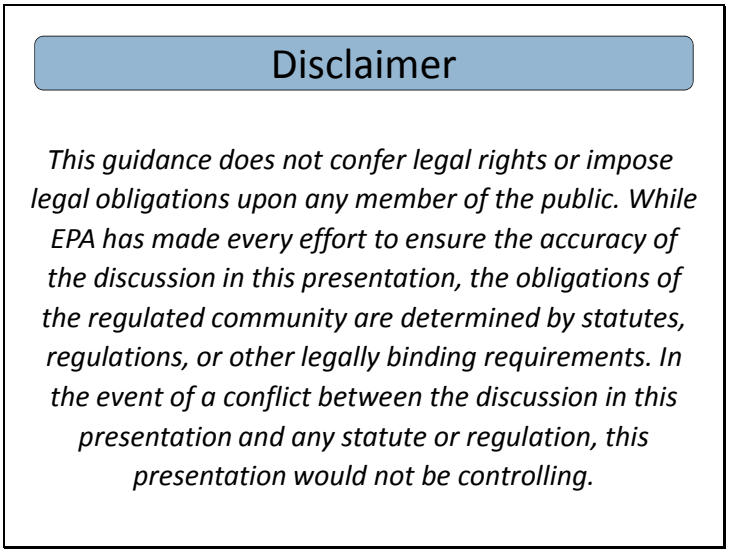
Allison - Finally, Polls will be given during this presentation.
Please be sure to respond to the polls by clicking on one of the radio buttons.
Once you have answered the poll, you will not be able to view the presenter's screen until after the poll is closed by the presenter.
Until then, you will just see a blue background.

Slide 5



Allison - Now let's try our first poll. We'd like to know who is joining us today. If you answered other, can you please use your question and answer pane that we just highlighted to tell us what your organization is?
Keep in mind that you will not be able to view the presenter's screen until after the poll is closed by the presenter.
Until then, you will just see a blue background.

Slide 6



Allison - Here is a disclaimer just basically saying that this presentation does not supersede any regulations or legally binding agreements.

Slide 7

Allison – Here is the agenda for today's webinar.
First, we're going to take a brief moment to discuss what water system partnerships are.

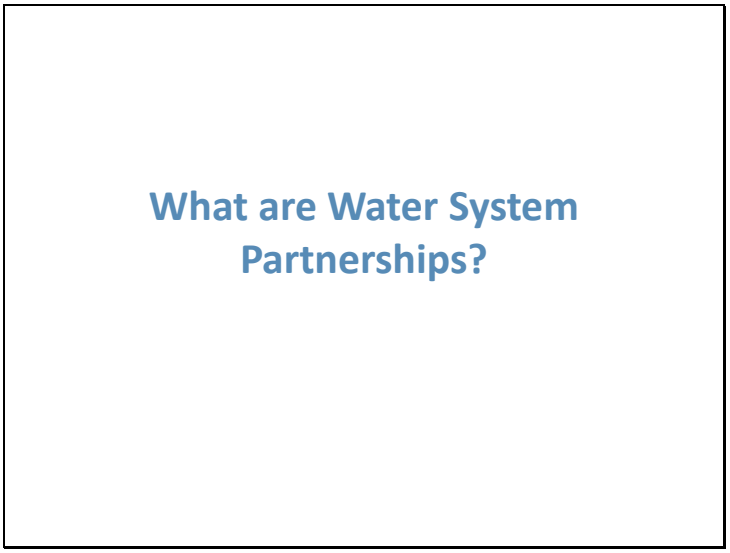
Then we're going to hear from our three panelists. And each of these panelists are going to highlight their tools, policies and approaches or strategies that they employ to encourage partnerships.

First, the Vermont Department of Environmental Conservation will present about how their policies, and the way they work to improve access to funding, encourages partnerships.

Next, we'll hear from Mississippi USDA about how they work with other funders, planning agencies, and TA providers. And they will talk about an example of partnering over state lines.

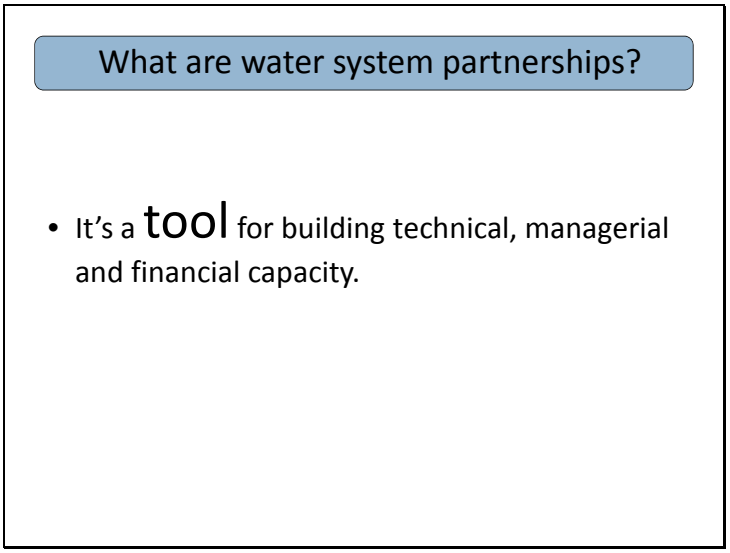
Last, Washington Department of Health will talk about their state program and the proactive and reactive tools they employ for encouraging partnerships.

Slide 8



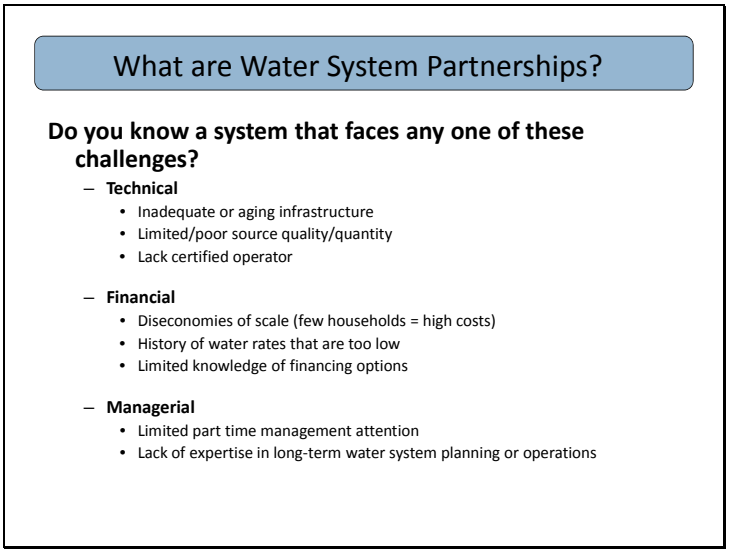
Allison – So first, what are water system partnerships?

Slide 9



Allison - First, water system partnerships are a tool for building technical, managerial and financial capacity.

Slide 10



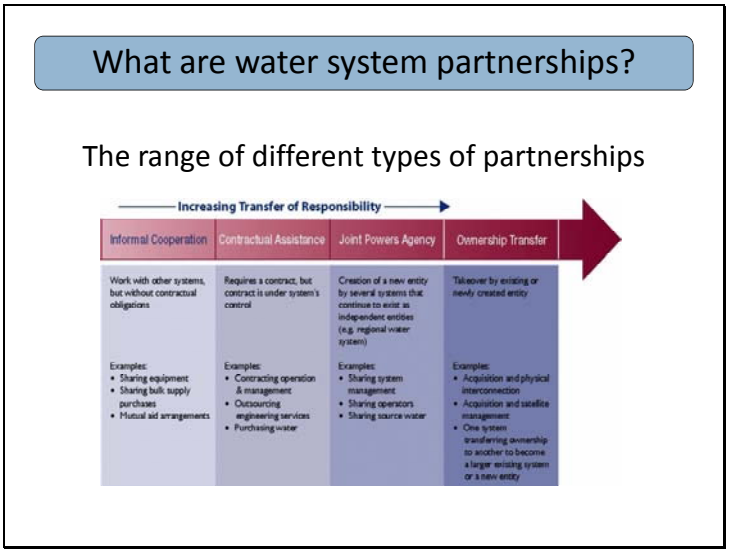
Allison - But what do we mean by technical, financial and managerial capacity?
Well let's ask this question - Do you know a water system that faces any one of these challenges – that maybe lacks capacity in one of these areas?

For example, under technical - Do you know a system that has aging infrastructure or lacks a certified operator?

Under financial - Do you know a water system that has a history of low water rates?

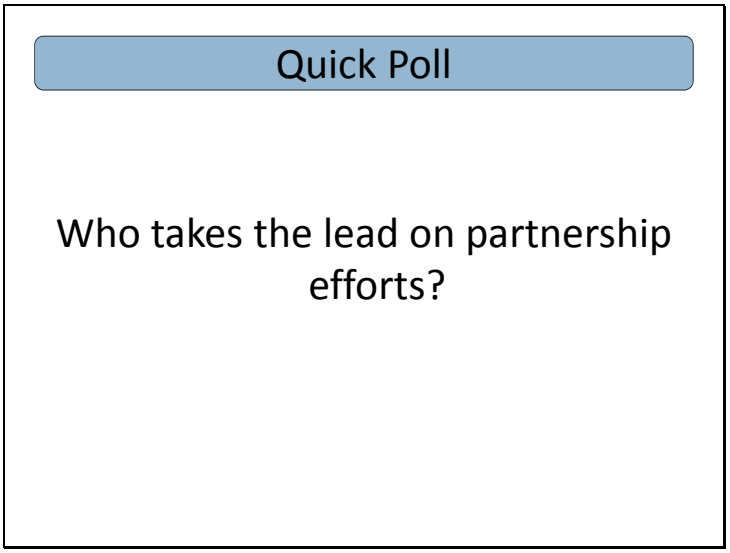
Under managerial - Do you know a water system that has only part-time management attention or where there is a lack of expertise in planning or operations?

Slide 11



Allison - Again, one tool for building capacity and addressing these challenges is system partnership solutions. It's simply 2 or more systems working together to overcome challenges and build capacity - to create a win-win situation for all systems.
This graphic illustrates that there are a range of water system partnership solutions. A range of different ways systems can work together. You can see that the range of responsibility increases from left to right.
If you were part of our previous webinars, we highlighted case studies that illustrated partnerships spanning the range of this spectrum.

Slide 12

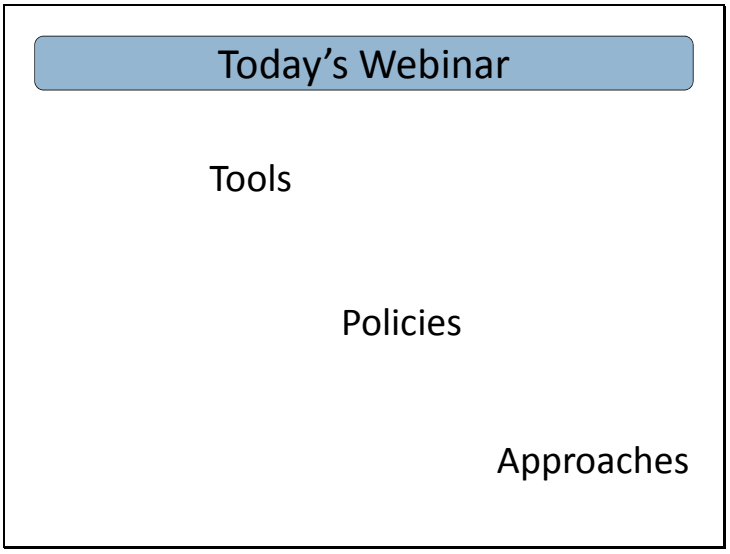


Allison - But today's webinar is a little bit different because instead of focusing on an individual case study, we are focusing on how states and funders can take a leading role in making sure that partnerships happen.

So let's take our first poll to understand who takes the lead on partnership efforts in your state. And when we're asking about taking the lead, we're talking about who identifies that a partnership should happen, or who shepherds the partnership through the process.

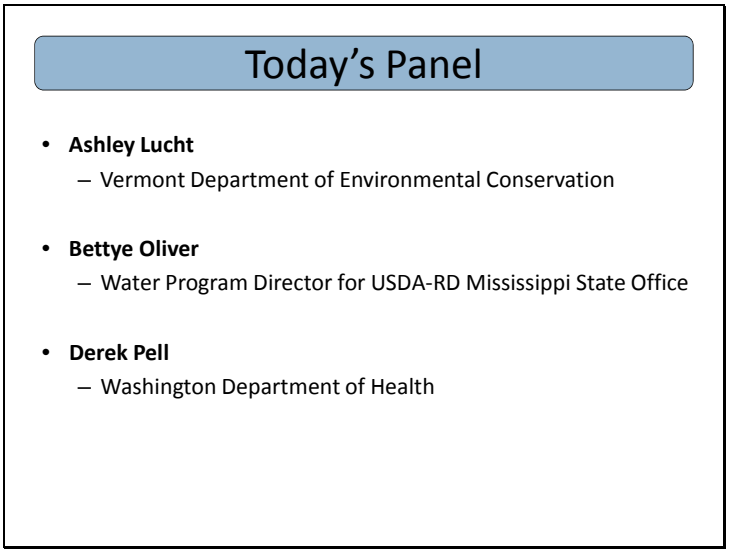
Is it the:
-State drinking water program
-Funding agency
-County government or Multi-county planning district or regional district
-TA provider
- Other?

Slide 13



Allison - So we just talked about who takes on the lead in facilitating partnerships in your state. And now we're going to hear from some of those people that take that lead role in their states and learn what they are doing to make these partnerships happen.
So with each of our presenters, listen for the tools, policies and approaches or strategies that they use to encourage partnerships.

Slide 14



Allison – Here is a quick look at our panelists for today. And now I'll let them each say a little bit about themselves.

Slide 15

Ashley – Hi, I'm Ashley Lucht. I graduated from Hartwick College in Oneonta, NY in 2000 with degrees in Anthropology and Geology hoping to become the next Indiana Jones, but ended up with internships in GIS which led to a career with the state. I am the sole employee in the capacity development program. I have spent countless evening hours meeting with local governing boards helping them to navigate funding programs, establish equitable and sustainable user rates and opening their eyes to the amount of unaccounted-for water in their systems. I'm a graduate of the Vermont Public Manager Program, the resident toilet expert and chair of Vermont's Drinking Water Week committee. Recently, I was elected to my local Selectboard and Water and Sewer commission where I was quickly nominated as chair person. Somehow I also find time between my day job, night job and weekend job to fit in a little ice hockey.

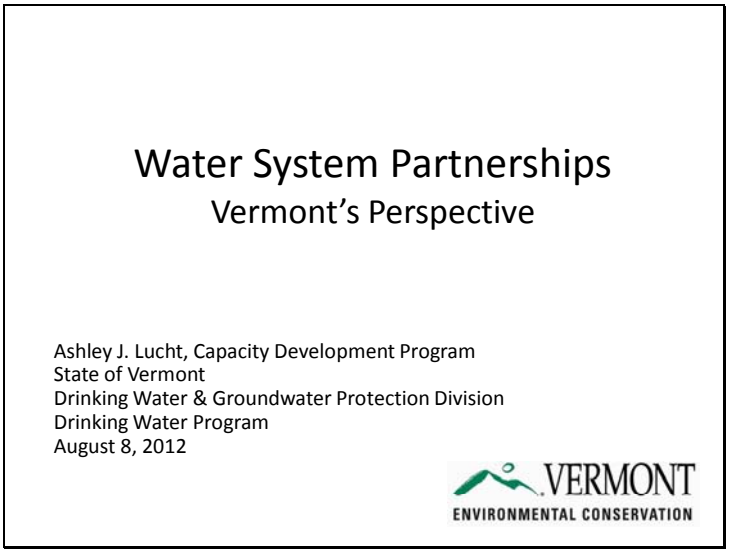
Slide 16

Bettye - I am Bettye Oliver, Water Programs Director for USDA Rural Development in Mississippi and an alumnus of Alcorn State University. I started my career with USDA in 1993, and I've been the Water Program Director since July 2001. I am responsible for managing approximately $30 million annually in loan and grant assistance awards to local rural communities for essential infrastructure. I also have the responsibility for loan servicing of 552 borrowers who have 1,259 loans with a total outstanding principal of approximately $373 million. I am actively involved with the Water and Wastewater Technical Assistance Providers in our state and served on the Governors' Task Force on Water and Sewer. In May of this year, I received a certificate of appreciation from the Secretary of State for my contributions to Mississippi's Rural Water Study Group.

Slide 17

Derek – I'm Derek Pell with the Washington State Department of Health, Office of Drinking Water. I've been with the Office of Drinking Water for 20 years, 10 as a Field Engineer and 10 as a Planning & Engineering Manager. I'm a public servant with a passion for helping people. I've reviewed hundreds of planning and engineering documents and conducted hundreds of sanitary surveys. I've been involved in more than a dozen active restructuring projects - working with utilities, consumers, and other partners to enhance Technical, Managerial, and Financial Capacity and evaluate strategies for governance changes to overcome Capacity challenges. I have a Geotechnical Engineering degree from the University of Toronto and I served in the Peace Corps.

Slide 18



Allison - Great, thank you everyone. Now we will launch into our first presentation by Ashley Lucht.

Slide 19

Vermont's Demographics

State population ~625,000 (2010 census)

- Largest city: Burlington ~42,000 (2010 census)

Total regulated public water systems: 1362

- Community water systems (CWS) (as of 12/2011): total 440
  - Population 25- 500: 321
  - 501 – 3300: 85
  - 3301- 10,000: 27
  - >10,000: 7
- Non-Transient Non-Community (NTNC): total 242
- Transient Non-Community (TNC): total 680

DWGPD Drinking Water Program- 30 employees

- Only regulate sources that serve 25 or more people, at least 60 days of the year
- Regional offices have more but only manage non-public water and wastewater systems

Slide 20

Vermont's Role in Water System Partnerships

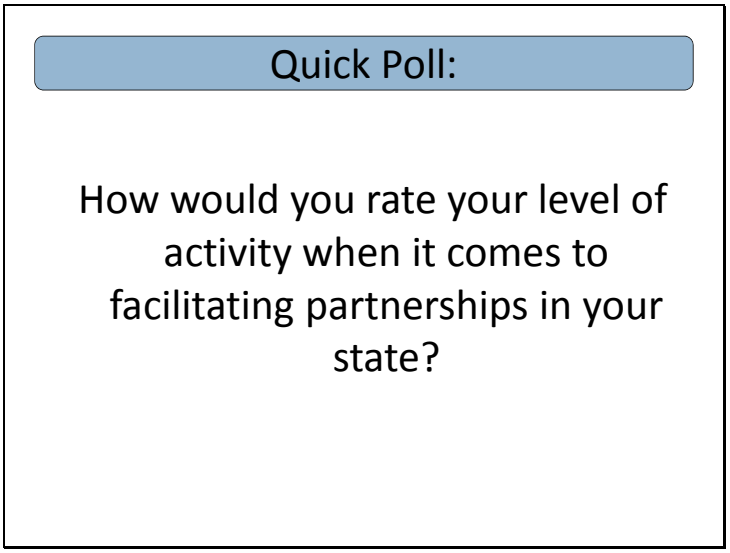
Capacity review

- Encourages TMF-lacking systems to connect
- Deny construction or operating permit to new systems that may lack TMF

Funding (SRF)

- VT gives priority points for consolidation
- Gives more favorable financing to municipalities
- Through planning loan, explores other options → connection/consolidation

Slide 21



Allison - Now let's try another poll. How would you rate your level of activity when it comes to facilitating partnerships in your state?
High, medium or low?

High level - identifying partnership opportunities; promoting partnerships within your state; facilitating meetings between systems to help them understand their options; walking a system through the funding process (maybe with multiple funders).

Medium level - identifying opportunities for partnerships and then contracting with a 3rd party to facilitate partnership agreements and walk systems through the funding process.

Low level - not actively promoting partnerships in your state.

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Vermont plays an active role in water system partnerships through the use of funding programs and incentives.

Here is the tale of two small, low-income, rural, capacity-lacking systems…

Slide 23

Four Seasons of Early Learning and Greensboro Bend FD#2

Four Seasons of Early Learning (Daycare)

- 'Newly discovered'
- Failed water source → ran out of water; can't find source
- Was on a 'do not use', then 'boil water' notice
- NTNC = requires capability for continuous disinfection
- Small daycare in a very rural, low-income area
- 54 kids, teachers, aides

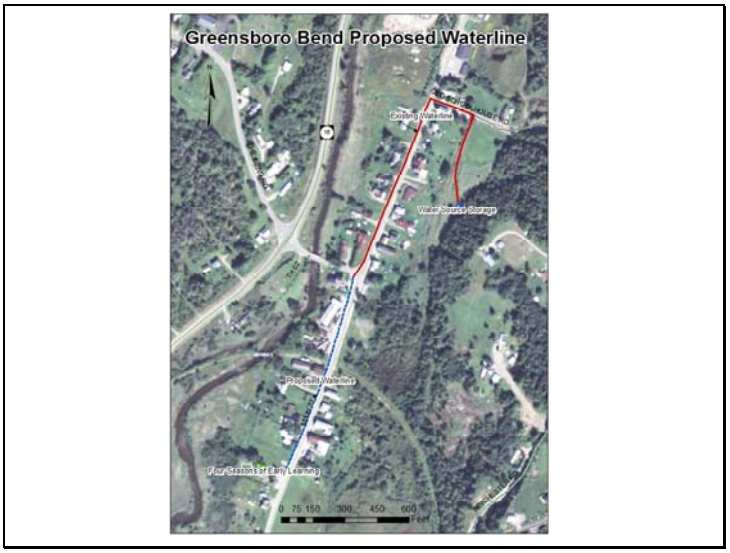
Slide 24

Four Seasons of Early Learning and Greensboro Bend FD#2

Greensboro Bend FD#2 (GBFD)

- Originally organized as a co-op
- Reformed as a fire district (municipality)
- 23 connections (currently)
- MHI is $30,000 (2012 income survey)
- Lacking adequate chlorine contact time before first connection; stand-by power

Slide 25


Greensboro Bend Proposed Waterline
Existing Waterline
Water Source/ Storage
Proposed Waterline
For Seasons at Early Learning
0 75 150 300 450 600
Feet

Slide 26

Putting it Together

Four Seasons of Learning

- Daycare submitted source permit
- Daycare applied to SRF for new source, stand-by disinfection
- Daycare would only be eligible for base loan program (20 yr/3%)

Greensboro Bend FD#2

- GBFD applied to SRF for chlorine contact time, generator
- Daycare is ~900' from a GBFD flushing hydrant (end of line)

Internal conversations between capacity, operations and funding developed idea for consolidation; approached systems

Slide 27

Facilitating the Partnership

- DWGPD facilitated monthly night meetings between Daycare and GBFD over two year period → interlocal agreement
- DWGPD facilitated coop transition to fire district
  - FD is an organizational structure that is recognized as a municipality; doesn't provide fire protection
  - More monthly night meetings (separate from interlocal meetings) over six to eight months to create FD application
  - Attended Selectbaord meetings to speak about FD process and responsibilities
  - Follow-up meetings to develop system by-laws, educate on open meeting law, etc.

GBFD, as a fire district, is eligible for non-base loan terms because of MHI and project costs

Slide 28

Using Incentives

Used funding incentives for both sides to move the conversation

- SRF Planning loan forgiveness for GBFD (used to hire engineer)
- Probable favorable funding terms to GBFD, but not the daycare, including negative interest
- Additional priority list points because of consolidation
- Higher priority points for GBFD; guaranteed fundable
- Capacity issue if didn't work out
- Legal assistance

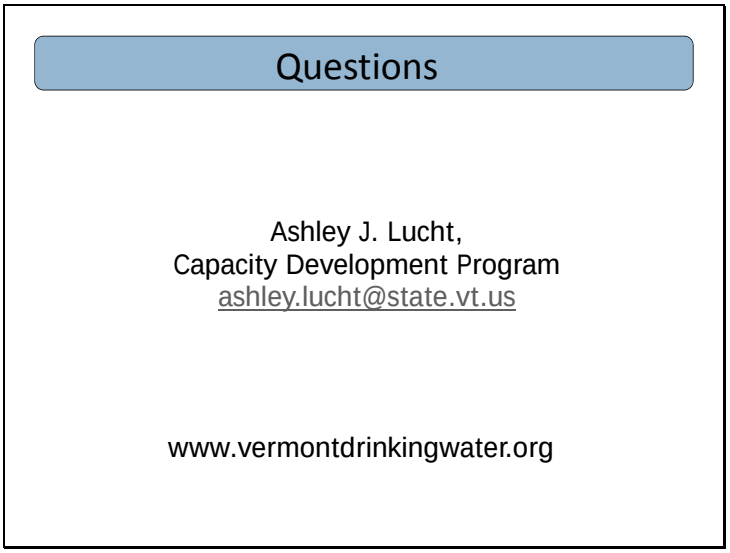
Slide 29

The Results

- Construction start August 2012
- Project will result in more ERU's for GBFD
- Additional residential connections will be added
- Daycare will pay GBFD their pro-rated portion of the loan to connect to the system
- More sustainable user base for GBFD

Solves two systems compliance issues; eliminates one marginally sustainable system

Slide 30



These questions were from the webinar audience during the Q&A period. Ashley's answers are below.

Q: What did the Daycare use as a source of water for the two years?
A: They continued to use their existing source; however, they were on a continual boil water notice. Their coliform test never came back positive, so the boil was precautionary because of the 'missing' source.

Q: Can DWSRF pay for growth?
A: Nope, but this project wasn't growth. The potential additional residential service connections were just an added bonus, the goal of the project was to connect to (consolidate) a failed public water system.

Q: What other state agencies were involved in this consolidation effort, if any?
A: there weren't really any other state agencies that were involved in this. The way our drinking water program is organized is we are all housed in the same division and physical area of a building—surveyors, funders, compliance folks, capacity program; we're a small state.

Q: How does the daycare pay their pro-rated share to connect? And how much money?
A: The daycare will most likely just pay a lump sum based on their prorated share (after loan terms are finalized); if they don't, it will be added to their annual user rate and they will be considered a special assessment district. The daycare received a large donation to

help pay for a well (when they thought they would be drilling one) but will be applying it to the cost to connect. The engineer's projected cost to connect the daycare is a little less than $40k—much less than drilling a well, installing treatment and any other requirement that was needed to meet the SDWA rules. However, because of the way our funding program is set up, the final loan payback amount may be up to 40% less than the final construction cost (we can go out to a 30 year/-3% loan)

Q: What is the definition of a fire district?
http://www.leg.state.vt.us/statutes/fullchapter.cfm?Title=20&Chapter=171
A: I know this is a link to statute, but it outlines the procedure for establishing a FD, roles, responsibilities, etc. But at a basic level, a FD is a municipality, with all the rights and responsibilities; however its boundary can be smaller than the town or cross town lines.

Q: Also, how are states changing their SRF program to integrate innovative partnership options? Do states have to go through a whole rulemaking process?
A: VT incorporated additional priority list points for consolidation. We only had to propose it during the IUP process, discuss it at the public meeting and, barring objection, implement in successive year IUP/priority list rankings.

Q: Did the daycare eventually find the original water source well?
A: Nope, they still have no idea where the source is. They've tried everything short of digging up the playground from where the well comes into the building—that would be expensive and disruptive especially in light of the probability of connecting to the community system.

Q: How was legal assistance provided in the daycare/Co-op consolidation? Was it financial assistance? Does VT have a pool of law firms willing to provide assistance, etc.?
A: Legal assistance is provided through a set-aside fund-- $10K a year. Historically, VT had put $10K a year into a legal fund that was managed through our TA provider. They chose two legal firms to provide the service, connected the system to the firm; the firm billed the TA provider; the TA provider sought reimbursement/payment through their monthly bills according to their contract.
We eliminated the TA contract a couple of years ago and since then the legal contract has been managed by me (the capacity position). Currently, we allow systems to choose their own legal firm, but I do have someone who I use predominantly (he's efficient, fast and reliable). When I know a system needs assistance, I have their firm of choice contact me and they produce a scope of services. I take that scope and request a PO from our business office. Once the PO is approved, the firm can perform the proposed services

and the firm bills me (the State) directly for what was proposed; the State pays the firm directly.
We try to restrict the benefit to $1000 a system and only offer it to systems whose scope is narrow and one-time. Items we usually cover are bond opinions, loan closings, right-of-way reviews, by-law reviews.

Q: Is the daycare paying their share up front, or if not, what type of user agreement did they sign? Are they committed to purchasing from the fire district for a certain number of years?
A: The daycare has provided the FD some money to assist with paying for preliminary engineering. Because the FD is getting a planning loan (a program funded through set-asides and repayment from previous years) from us, the system is reimbursed for the costs (and will then potentially repay the planning loan but will most likely get forgiveness for the whole amount- I can provide more information if you'd like). There is an interlocal agreement that the two parties signed (I am happy to provide a copy upon request) outlining each side's responsibility.
There is no commitment to a certain number of years, as the assumption is that the daycare will continue to need water and the FD will continue to provide it. The daycare does not want anything to do with running a water system; this is a significant benefit to both the daycare and the FD so neither side really needed to outline a time commitment for purchase of water.

Q: Is one of the partners usually acting to assist another, like how the Vermont FD was saying "it's for the kids"? Or are the partnerships more often equally/mutually beneficial to each other?
A: I think some of the impetus for the FD was 'it's for the kids' but I also think that both sides realized that this would be beneficial to the community as well as each side. As I said, the FD is very small and any additional, reliable user is a significant benefit given this area has seen shrinking residential (and commercial to the extent it existed) population, therefore shrinking financial support for the water system.

Q: What is the pressure of the water delivered to the daycare from the fire district?
A: I'm not sure I understand the question, but the system meets the system pressure requirement of the Water Supply Rule. This area is flat and the source and storage are about at grade with all connections, so pressure is managed by booster pumps/pressure tanks.

Q: GBFD has a PWSID then?
A: Yes, Greensboro Bend Fire District #2, formally known as Greensboro Bend Water Coop, has a PWSID.

Q: Does the GBFD provide drinking water to the public, i.e., connected to homes other than just under the city streets?
A: Yes, GBFD is a public drinking water system that provides water to 23 (soon to be more) connections—a mix of residential and commercial.

Q: For the Greensboro Bend example, please talk a little more about what is meant by "coop? How is it structured, in terms of the bills that the customers pay in a coop?
A: A coop in VT, is an historic structure that a few water systems developed; it really has no bearing or consistency on how they're organized. It could be that at one point anybody who wanted to connect to the system got an equal voting share in the operation of the system (like an HOA today), but I also know of other systems that use the name coop, but 'sell' shares of the system and only those who own 'shares' can vote. This is clearly not a coop, but yet that's what they call themselves. We really don't have a definition. I imagine back in the day when we began regulating systems, we just asked what their name was and that's what they told us.
Payment is structured the same way as any other water system. Bills go out on a regular basis, they're paid (or not). Under a fire district structure, billing and payment are the same as they were for the coop except that FDs are required to agree to use the Uniform Water and Sewer Disconnect statute (http://www.leg.state.vt.us/statutes/fullchapter.cfm?Title=24&Chapter=129) to implore non-payers to pay. Whether the systems actually use it is up to them.

Q: How popular is the co-op model in Vermont?
A: Not very, we don't see new coops being created. In fact, we see coops going away.

Q: Do the presenters believe that most partnerships are horizontal or vertical? If vertical, from the top down, don't regulators have an advantage in encouraging/inducing cooperation?
A: I see our role as vertical, but I see our advantage in encouraging/inducing coops as being advantageous to the water systems. I don't think we'd ever encourage a partnership that significantly benefited one system but had a negative effect on another, and given the nature of many of our systems (small, rural, volunteer, contract operator) we can look at the whole picture and see all moving parts (and ongoing expenses, regulations, efforts) and recommend that partnership. Ultimately, it is up to the system(s) as to whether they follow through. We do, however, as a lending agency, have a responsibility to ensure our money is being spent in the best way.

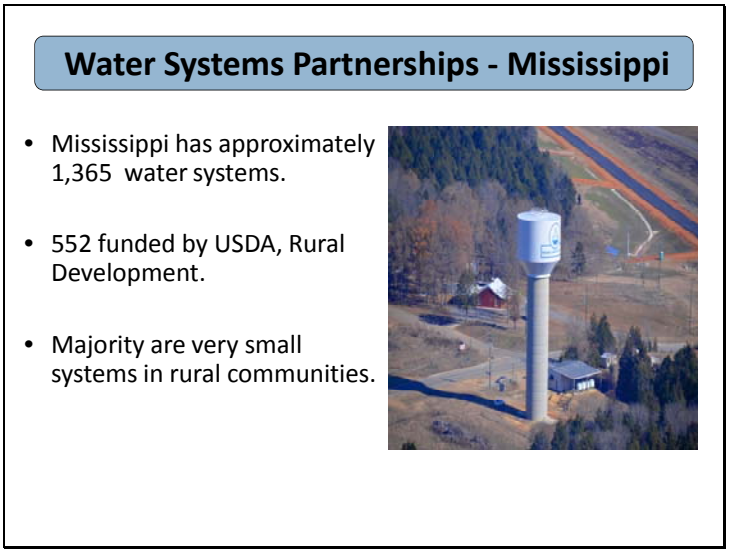
Q: Was there any cost analysis done to compare alternatives (e.g. the daycare center finds a new source/well) to the partnership you ultimately ended up with?

A: There was no formal cost analysis done—that would have cost money that neither side really needed to spend—it was obvious that connecting to the FD was the best alternative for the daycare. And the FD realized that they could get their project done sooner and with a smaller payback (because of our loan terms) and get more connections (paying customers) if they partnered with the daycare. Source exploration and permitting can easily cost $30-50k, plus they'd need to install stand-by disinfection, so maybe another $15-30K depending on whether they chose UV or chlorine (and may have needed storage for contact time). Plus, there was the engineering and on-going O&M associated with the daycare going it alone. Connecting was the obvious choice.

Slide 31

Allison - Now we're going to hear from Bettye Oliver from USDA.

Slide 32



Bettye - Information from MSRWA: 348 Municipal Public Water Systems (PWS), 813 rural PWS, 74 campgrounds/mobile home parks, and 130 other (such as schools, camp grounds, welcome centers, military bases, correctional facilities, industrial parks, etc.)

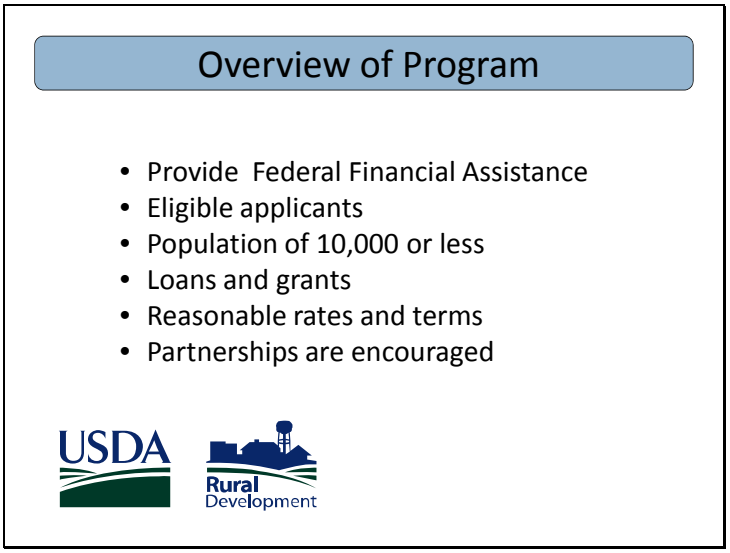
These systems face unique challenges in providing affordable drinking water and wastewater services that meet federal and state regulations. Many of these systems lack financial resources and have difficulty obtaining financial assistance, have management limitations, lack long-term planning activities, have aging infrastructure, and lack the ability to attract qualified and certified operators.

Reliable and affordable water and wastewater treatment can help rural areas improve the quality of life for rural residents. Investments in small system infrastructure support our long-term national goal of ensuring that rural communities have the basic infrastructure to become sustainable and protect the rural economy and public health.

Slide 33

Bettye - These efforts are coordinated under the Capacity Development and Operator Certification Programs. Funding for both infrastructure improvements and technical assistance are provided through the Drinking Water State Revolving Fund (DWSRF), where the Mississippi RD Program Director serves on the Board.

Slide 34


Overview of Program
• Provide Federal Financial Assistance
• Eligible applicants
• Population of 10,000 or less
• Loans and grants
• Reasonable rates and terms
• Partnerships are encouraged
USDA
Rural
Development

Slide 35

How do we do it?

Area Directors & Staff:

- Network with partners & stakeholders for all program areas
- Set specific goals & expectations that are tied to performance measures
- Cooperate rather than compete
- Program Director provides leadership
- Communicate expectations
- Facilitate discussion & collaboration

Slide 36

Sustainability of Rural Communities

Well-maintained water and wastewater systems are critical to ensuring the sustainability of rural communities.

Bettye - USDA-RD-RUS encourages system-wide planning that takes into consideration sustainability goals. In addition, RD provides training and information to encourage the adoption and adaptation of effective utility management strategies as funding allows.

Slide 37

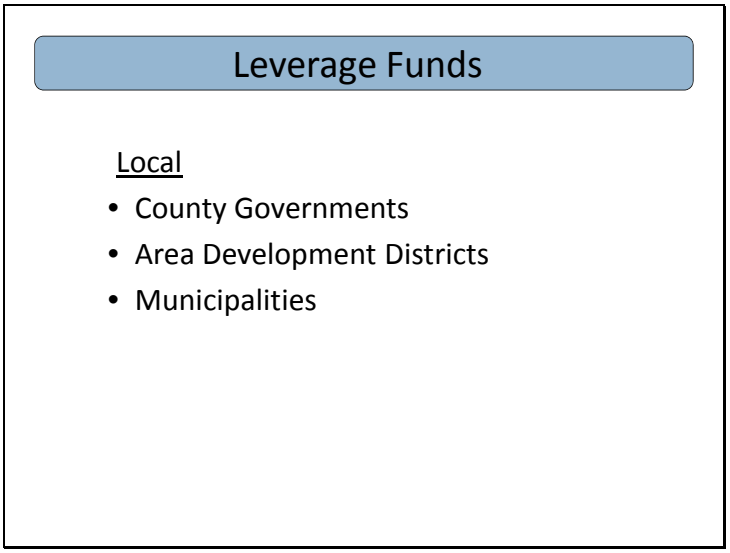
Leverage Funds

Know the other funding sources available for your projects!

Federal & State

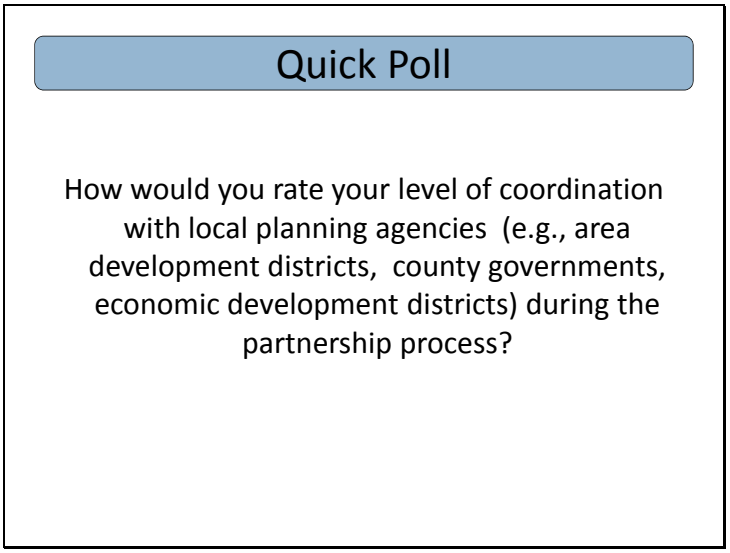
- EPA – Environmental Protection Agency
- ARC – Appalachian Regional Commission
- CDBG – Community Development Block Grant
- DOT – Department of Transportation
- DRA – Delta Regional Authority
- SRF – State Revolving Loan Funds

Slide 38



Bettye - These partners guide applicants to RD when it appears we would be the best funding agency for their project.

Slide 39



Allison - How would you rate your level of coordination with local planning agencies (e.g., area development districts, county governments, economic development districts) during the partnership process?
High, medium, or low?

High - regularly coordinating with local planning agencies.
Medium - coordinating with them on the occasional project.
Low - not very much coordination at all.

And if you happen to be a person who is from one of these local planning entities, can you rate your own involvement with other entities in partnerships.

Slide 40

Community Development Team Meetings

- Held in all 82 counties
- Inform and educate
- Prioritize needs
- Assist customers with their plan to help themselves through Rural Development financing and technical assistance
- Do not make promises you cannot keep
- Target Persistent Poverty/Strike Force Communities

Slide 41

Other Strategies

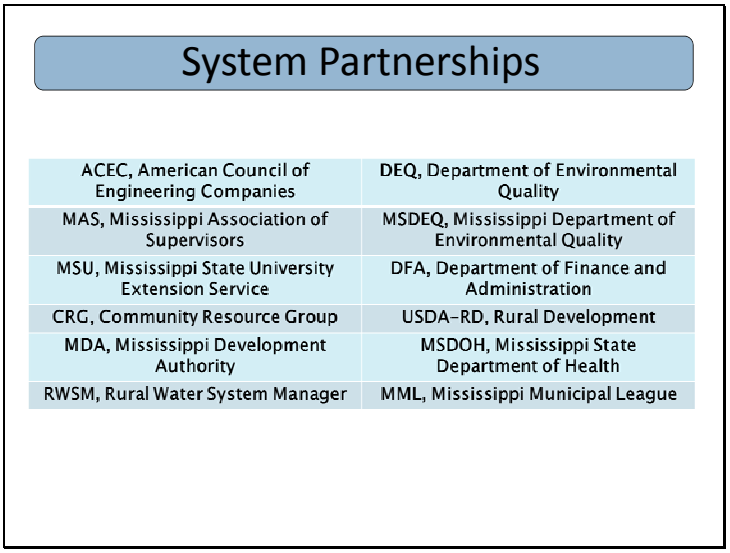
- Meet regularly with other funding partners
- Technical Assistance Providers
- Market our programs
  - Press media
  - Ground breakings
  - Local officials
  - Celebrate successes

Slide 42

Bettye - EPA and USDA-RD-RUS understand that many challenges face rural water systems just to maintain day-to-day operations. Partnering to ensure that regulation training is provided to public water and wastewater systems in rural areas in a timely manner is essential to systems' compliance.

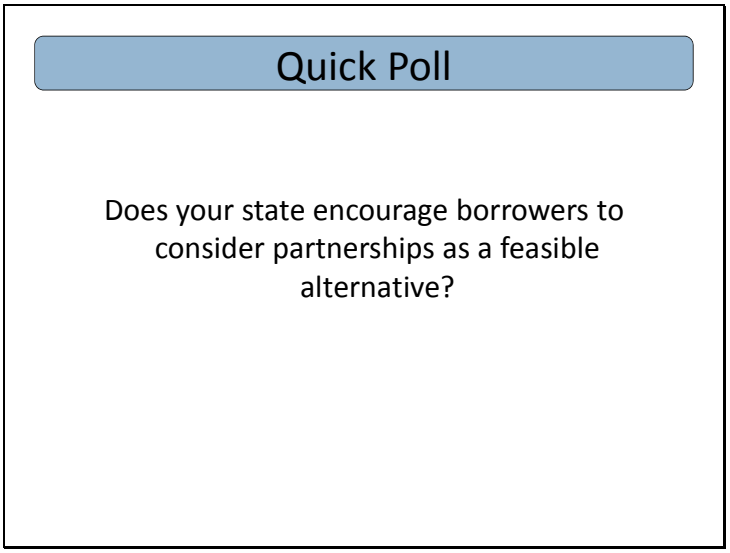
EPA and USDA-RD-RUS work together to consider funding priority to projects needed for compliance with nation drinking water regulations and we coordinate with technical assistance providers to conduct training for rural water systems on specific water and wastewater rule requirements. In Mississippi, technical assistance is provided through Mississippi Rural Water Association (MSRWA) and Community Resource Group (CRG) to aid rural water systems with hands-on operator training and trouble-shooting , office personnel and Board management training , regulatory compliance, rate studies, capacity development, source water education, emergency/disaster relief, and financial reporting requirements.

Slide 43



Bettye - To attain the necessary technical, managerial and financial capacity to provide clean and safe water in rural communities, small water systems need to develop partnerships with other systems. EPA and USDA-RD-RUS educate communities and utilities on the array of tools that are available and encourage struggling water systems to explore all options that may be available to increase sustainability. EPA and USDA-RD-RUS work together develop a common understanding of system partnerships and coordinate effectively when interacting with communities, utilities, and other stakeholders; and identify funding opportunities available if collaboration is pursued.

Slide 44



Allison - Does your state encourage borrowers to consider partnerships as a feasible alternative? Please answer yes or no.
If you answered yes, please use your chat box to give us a few examples of how you do this.

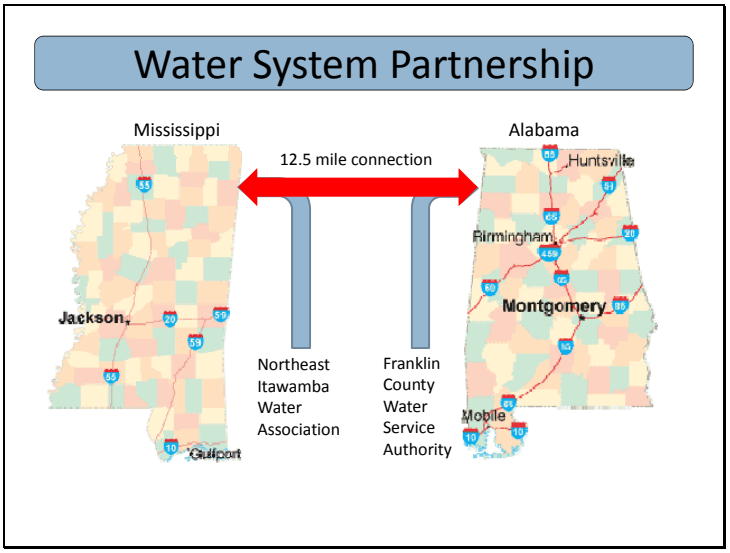
Slide 45

Northeast Itawamba Water Association, Inc.(NEIWA)

- Diminishing water source.
- The Association needed an additional supply of water.
- They approached RD for funding.

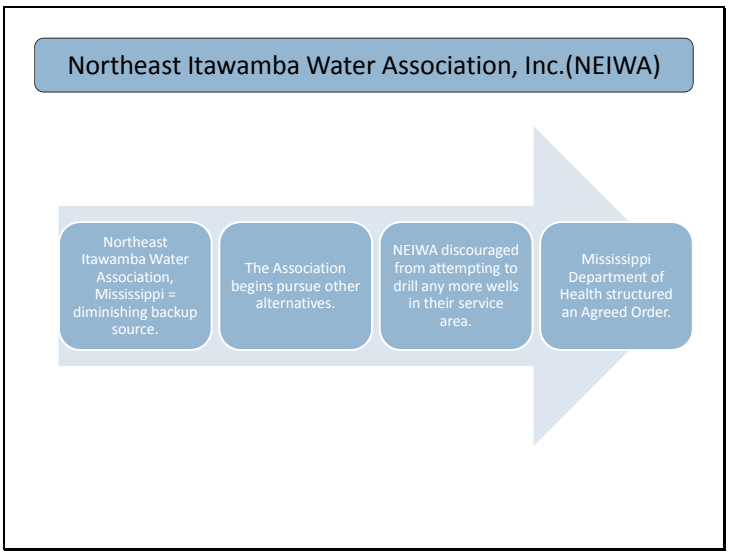
Bettye - NEIWA serves approximately 1700 residential customers with an average household income of $31,283 in the northeast part of Itawamba County, MS. The State Non-Metropolitan Household Income (SNMHI) for the State of Mississippi is $31,289. The system was originally built in the mid 1970's; by 2009 all 5 wells were struggling to produce water from the diminishing water source (aquifer).
The Association initially approached RD in 2009 to discuss funding a project consisting of 2 wells and approximately 5 miles of distribution lines with a cost estimate of $1,373,973. The Association's attempts to locate an acceptable water source was unsuccessful – two test wells did not produce enough water to support the demand.

Slide 46



Bettye - Water system partnership that crosses state lines!

Slide 47



Bettye - The City of Red Bay, Alabama has been providing a backup source of water to the system to keep it running; however, due to system restraints Red Bay has limited the amount of water NEIWA can use. With unproductive test wells and the unlikely prospects of being able to locate another satisfactory well site, the Association and their consulting engineer began to pursue other alternatives.

Issues: Although there had been no negative comments received by RD after the publication of the Notice of Intent to File an Application, the Notice of the Availability of an Environmental Assessment (Preliminary Notice) and the Notice of a Finding of No Significant Impact (FONSI), once construction began on the test wells, nearby residents raised concerns about the possibility of NEIWA exhausting their water supply. Nearby municipalities were not amenable to selling water to NEIWA for the same reason (diminished supply of their own sources). Approximately 1744 customers would soon be without water without this project. The system has 5 wells and currently only 2 are operating at their capacity, due to falling ground water levels. There was dissension among board members as to which option to pursue. The consulting engineer and MSDOH met with the Board several times to try to arrive at a consensus.

The Mississippi Department of Health and Environmental Quality, as well as the U.S. Geological Survey strongly discouraged NEIWA from attempting to drill any more groundwater wells in their service area.

Because the water supply/capacity for NEIWA was declining rapidly, the Mississippi Department of Health structured an Agreed Order, establishing a time line for the system to procure a back-

up water source so that the customers would not be without water if the wells stopped working.

The MSDOH Agreed Order was issued May 2, 2011, following an investigation on March 7, 2011 by the Director of the Bureau of Public Water Supply and several engineers. Their investigation revealed that the Association had constructed and tied an untreated test well directly into the distribution system without obtaining the approval of DOH. DOH met with the Association on March 29, 2011, to discuss the matter and entered into the Agreed Order with a plan to obtain a “will serve” letter from another source by June 30, 2011 and advertise for bids by January 31, 2012. Several Amendments have ensued with the current Agreed Order dated July 9, 2012.

Slide 48

Northeast Itawamba Water Association, Inc.(NEIWA)

Franklin County Water Service Authority in Alabama approached NEIWA with a proposal.

- Proposed 12" distribution main from Franklin County Water Authority in Alabama to NEIWA.
- Projected cost = $3,388,000. A loan for $2,187,000 and a grant $1,201,000 were obligated on May 4, 2012.
- The average monthly user cost is projected to be $32.76.

Bettye - The original application was withdrawn at the request of the President of NEIWA in a letter dated 1/4/12.

This project was discussed at an SRF Board meeting, and it was decided that RD would be the best funding partner.

A water system in adjoining Franklin County, AL approached NEIWA and indicated they would be willing to sell treated water to NEIWA from their surface water source. This source of water is served by a modern surface water treatment plant which draws from the Bear Creek Reservoir. It has excess capacity and can ensure NEIWA the needed production capacity on a long term basis. RD coordinated with partners throughout the process.

Since buying water from Franklin County Water Service Authority was not included (even as a feasible alternative) in the original project (application forms, PER , Environmental Report and published notices), a new application was developed and submitted to RD in March 2012. Notice of Eligibility was determined on April 19, 2012, for the requested new project: approximately 12.5 miles of 12" water main to connect to the surface water source in Franklin County, AL. The proposed project involves a 12" distribution main from Franklin County Water Authority in Alabama to NEIWA (approximately 12.5 miles). The projected total cost is $3,388,000 . A loan for $2,187,000 and a grant $1,201,000 were obligated on May 4, 2012.

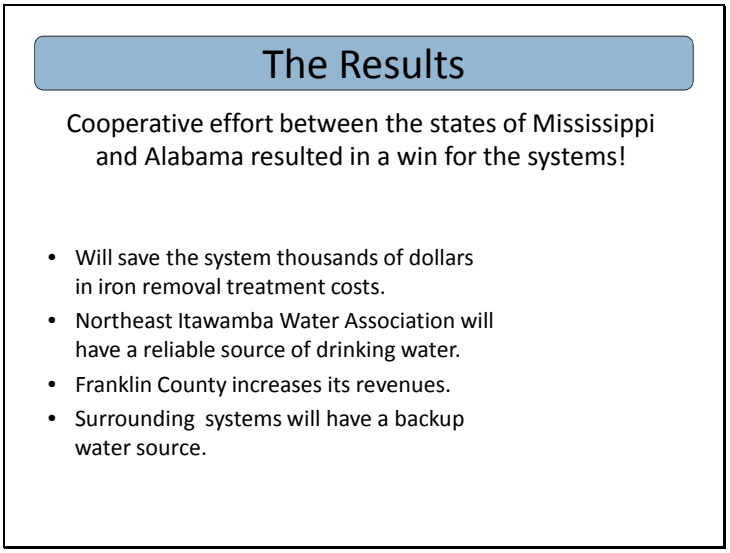
The Association plans to advertise for bids soon and complete construction by September 30, 2013.

Benefit: When completed, this project will supply both of NEIWA's systems with sufficient water to serve all of its customers and will eliminate the need to operate a costly iron removal treatment facility – in fact, having a reliable high-production water supply will afford NEIWA the opportunity to provide a back-up water source to surrounding water systems if needed.

Slide 49

Bettye -
•NEIWA = Borrower
•ESI = Consulting Engineer
•FCWSA – provider of the new water supply
•DOH - Worked with the Board to find alternatives
•RD in AL – agreed to allow the Franklin County system to sell water to NEIWA and supported the project
•ADEM & TVA – confirmed they would not impose limitations on the interbasin transfer of water to NEIWA
•AL DOT – will provide the necessary easements for the distribution/transmission lines
•USACE – reviewed possible environmental impacts related to the project
•USDA, NRCS MS & AL – confirmed the project will not affect prime or statewide important farmland
•MS PSC – met with NEIWA to encourage them to proceed with the project
•MS DAH & AL HC – reviewed the project information for possible impacts to cultural resources
•US Dept of Interior, MS DWFP & AL DCNR – reviewed the project area to ensure no threatened or endangered species would be negatively affected by the project
•MSRWA – Tom Abernathy, Circuit Rider, made visits to provide assistance in keeping the failing wells operating for as long as possible.

Slide 50



Bettye - Because of all of the partnerships involved, this project was able to come together quickly. The consulting engineers for the two entities worked together and received positive cooperation from the respective environmental agencies for Alabama and Mississippi. The Rural Development Program Directors for the two states also coordinated their efforts to provide assistance in order to assure that this project was funded.

Slide 51

These questions were from the webinar audience during the Q&A period. Bettye's answers are below.

Q: Were there health risks associated with the community in NE MS?
A: Yes, the system water supply was failing, resulting in occasional loss of water pressure, boil-water notices, and a moratorium on new connections.

Q: Do you have problems with DBP or other state testing requirements that Mississippi may require that Alabama may not? Did you have data sharing issues between the two states? Did you have any other issues when the water crosses the state line?
A: None have been identified.

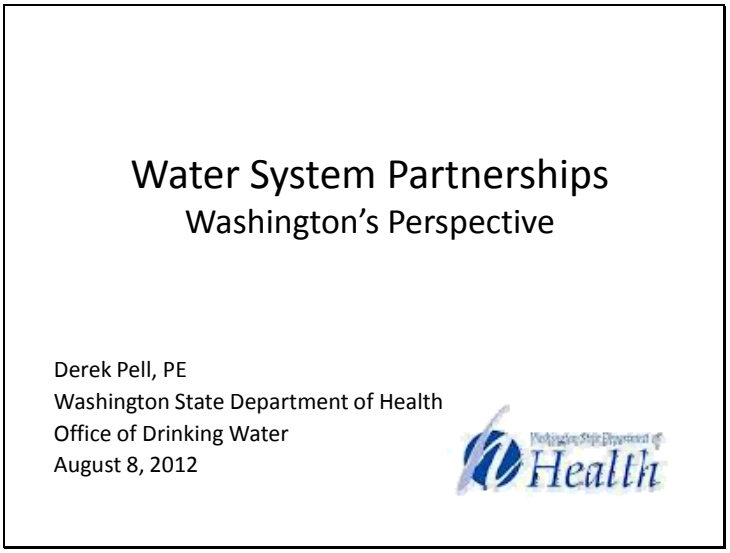
Q: Do the presenters believe that most partnerships are horizontal or vertical? If vertical, from the top down, don't regulators have an advantage in encouraging/inducing cooperation?
A: In this case, the regulators have been actively involved in helping the project move forward, although the review process has been challenging. At last count, approval from seven different agencies was required.

Q: In the Mississippi example, is the estimated monthly cost of $32 the expected average water bill or the added cost of paying back loans?

A: The project will add on average around $6.00/month to the customer's monthly bill. The $32.00 is the computed average bill based on the annual sales and the number of customers at the time the PER was submitted.

Q: Many of the rural communities are experiencing a declining population. Do these community teams address declining population issues and if so, can some examples be provided?
A: That question did not come up on this project. Census data shows a stable population in the area with very slight growth.

Slide 52



Allison - And now we will have a presentation by Derek Pell from the Washington State Department of Health.

Slide 53

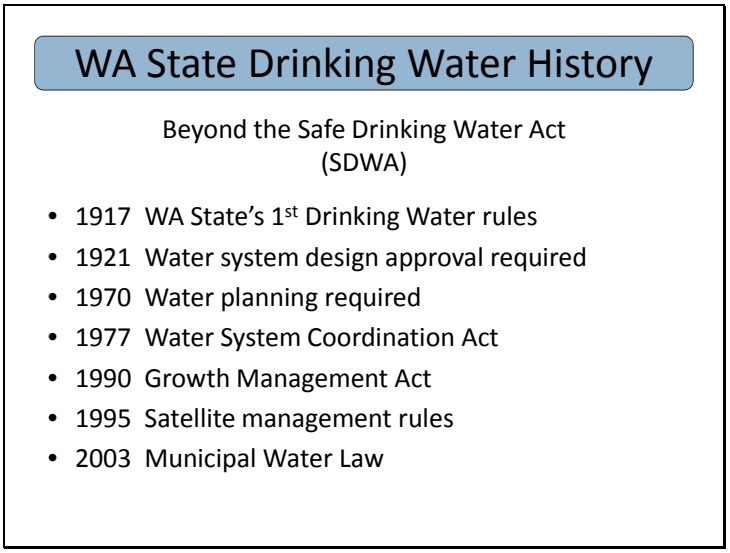
Derek –

WA Partners
WA Identity – our history, our DW program, and a profile of water systems

Partnership Strategies / Tools
– Proactive: a look at current rules, programs, & strategies that create, promote, & leverage partnerships between utilities, operators, & local government.
- Reactive: compliance, enforcement, receivership

Restructuring Stories

Slide 54



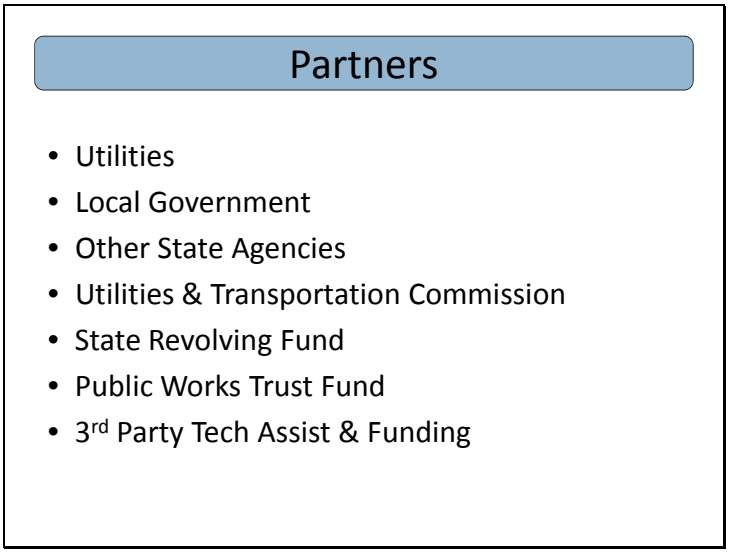
Derek –

Note early focus on:
•Engineering design approval for water systems
•Planning requirements for larger water utilities
•Coordinated planning in critical areas identified by local government
•Satellite management for new systems and for islands within existing service areas

Additional Background:
•1917 Recognized link between safe drinking water supplies and public health protection
•1921 Early focus on engineering design. Build it right and it should provide sustainable public health protection.
•1970 Planning required for systems >1,000 connects
•1977 Water System Coordination Act
    •Local governments initiated, guided by DOH Drinking Water staff to develop regional coordinated water supply plans.
    •Regional plans include service area maps, design standards, and "right of first refusal" for water service.
•1990 Growth Management Act
    •Local governments to manage growth by preparing comprehensive plans and implementing them through development regulations. As it applies to water –must prove adequate water supply before subdivision of land.
•1995 Satellite management rules
    •New water systems must be owned and/or operated by a DOH approved SMA.
•2003 Municipal Water Law

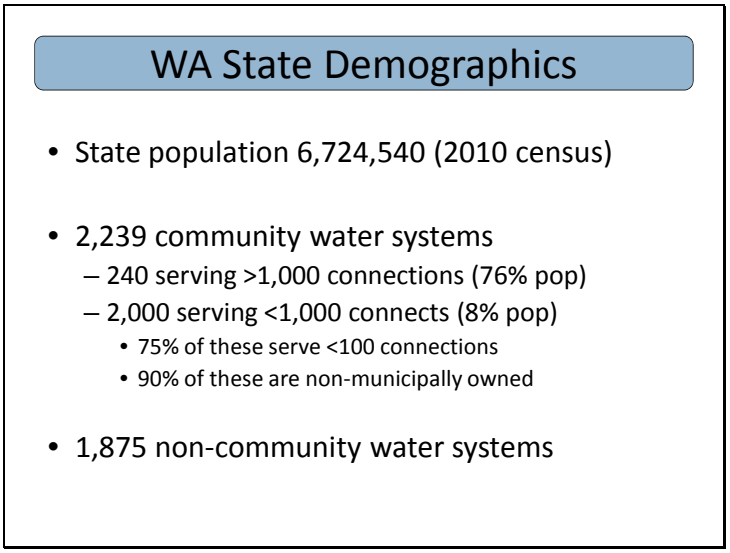
•Provide water right flexibility and certainty to municipal water suppliers in exchange for efficiency and consistency with local government water supply planning.

Slide 55



Derek - When it comes to building & sustaining “Capacity”, WA State looks to these partners. I’d guess that many States have similar partners. Today’s presentation we will get into how we use them.

Slide 56

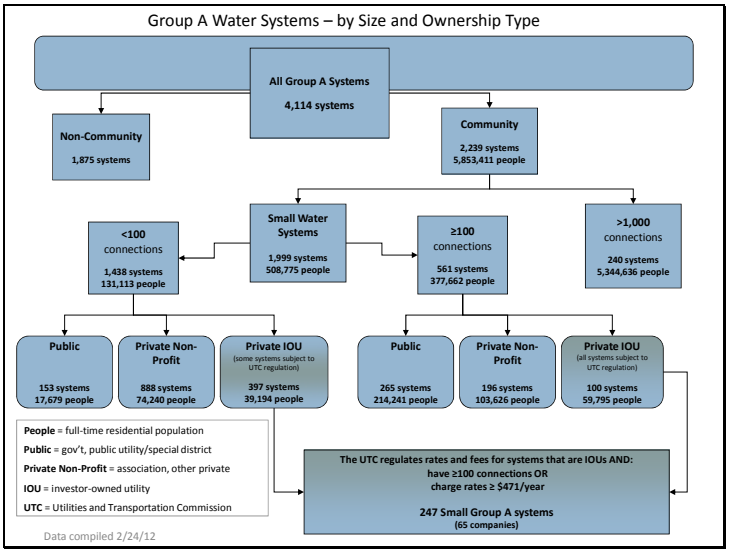


Derek - Here's a look at the WA public water system landscape today. The next slide includes a table for more detail.

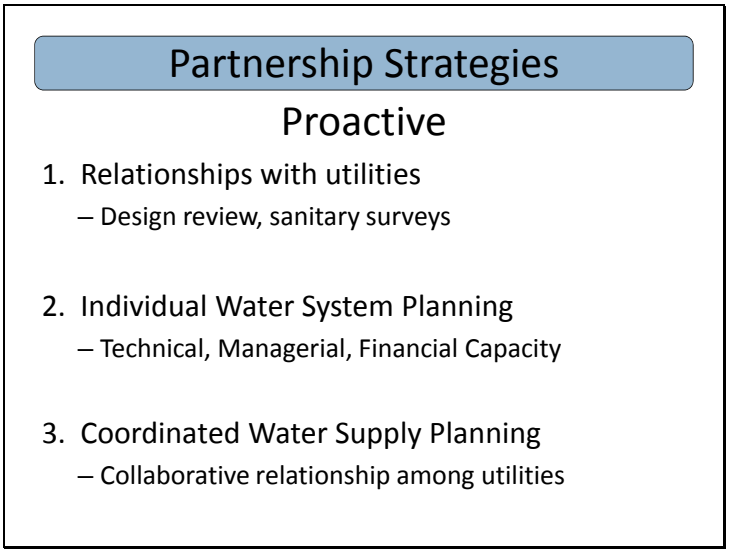
DOH Office of Drinking Water has about 100 FTEs, 1 HQ office and 3 Regional offices
WA State has about 3 times as many water systems as Vermont or Mississippi. We have about 3 times the number of staff to implement our programs.

Observations:
Lots of small water systems created 1950-1990 (Governance & financial issues).
Financially unregulated water systems, some w/ poor customer service.
Some approaching the end of their design life.

Slide 57


Group A Water Systems – by Size and Ownership Type
All Group A Systems
4,114 systems
Non-Community
1,875 systems
Community
2,239 systems
5,853,411 people
Small Water Systems
1,999 systems
508,775 people
<100 connections
1,438 systems
131,113 people
≥100 connections
561 systems
377,662 people
>1,000 connections
240 systems
5,344,636 people
Public
153 systems
17,679 people
Private Non-Profit
888 systems
74,240 people
Private IOU
(some systems subject to UTC regulation)
397 systems
39,194 people
Public
265 systems
214,241 people
Private Non-Profit
196 systems
103,626 people
Private IOU
(all systems subject to UTC regulation)
100 systems
59,795 people
People = full-time residential population
Public = gov't, public utility/special district
Private Non-Profit = association, other private
IOU = investor-owned utility
UTC = Utilities and Transportation Commission
The UTC regulates rates and fees for systems that are IOUs AND:
have ≥100 connections OR
charge rates ≥ $471/year
247 Small Group A systems
(65 companies)
Data compiled 2/24/12

Slide 58



Derek - Now, with a sense of WA State's regulatory history and utility landscape, let's take a look at 6 proactive partnership strategies.

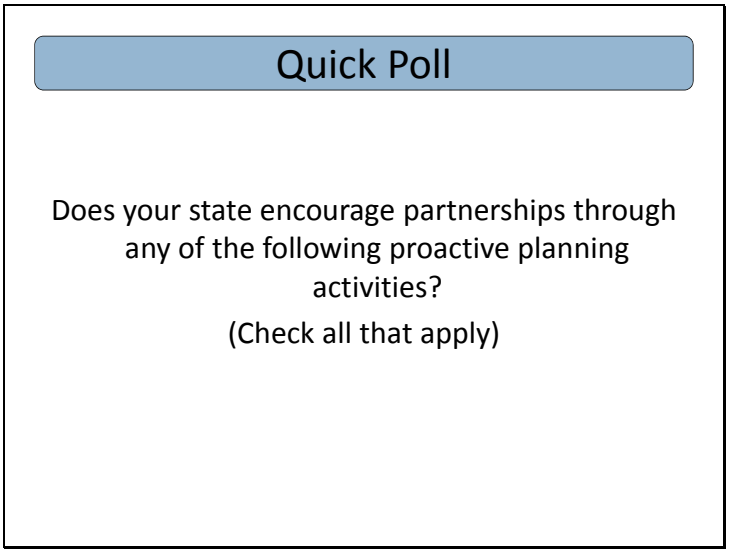
For example:

Relationships with utilities
•Understanding how water systems work
•Good working relationships with utility managers and operators
•Positions us well for capitalizing on restructuring opportunities.

Individual water utility planning defines:
•TMF Capacity review
•Service area coordination, service policies
•Professional management / economies of scale efficiency
•Expanded customer base to support financial capacity

Coordinated water supply planning
•Local government driven - "critical water supply areas"
•State regulators in a supportive, advisory role
•Collaborative relationships among utilities
•1st right of refusal for service (new water systems not created) – this means that before a new water system is created, existing water systems must be approached to see if they are willing to provide service. Only if the existing systems are unwilling or unable to provide service can a new water system be created.
•Common design standards for growth

Slide 59

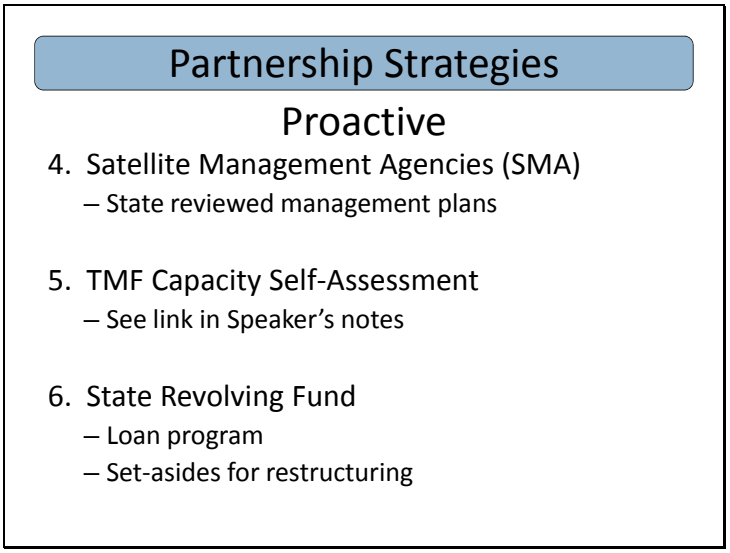


Allison - So after hearing about some of the proactive activities that Washington state engages in, we'd like to know if you engage in some similar proactive activities. Please check all that apply.

- Maintaining a good working relationship with utilities to capitalize on partnership opportunities.
- Working with local planning agencies (ex. municipal or county level).
- Promoting common design standards to facilitate connection.
- First right of refusal policies (or something similar).
- Other.

And if you answered other, please give us an example of a proactive approach in your state.

Slide 60



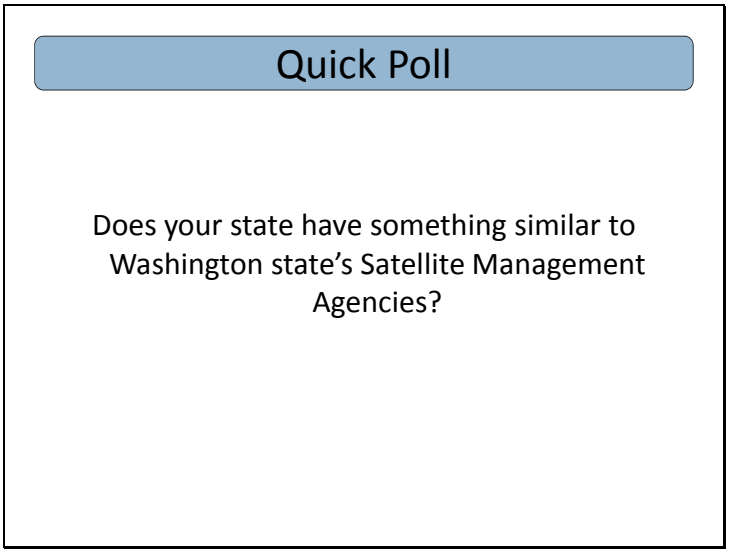
Derek -
Satellite Management Agencies (SMA)
•New water systems must be owned or operated by SMA
•Professional management / economies of scale efficiency
•Existing utility may develop a satellite system within service area if direct service is not economical

TMF Capacity Self Assessment
•Points utilities in the right direction on Managerial and Financial Capacity success.
•Gives us data to provide outreach.
•Capacity Assessment web survey link:
http://www.doh.wa.gov/CommunityandEnvironment/DrinkingWater/WaterSystemAssistance/CapacityDevelopment/CapacityAssessment.aspx.

State Revolving Fund
•Gives priority to restructuring projects
•Loan forgiveness for some consolidations
•Set-aside fund for providing grant funding for feasibility studies to potential restructuring projects.

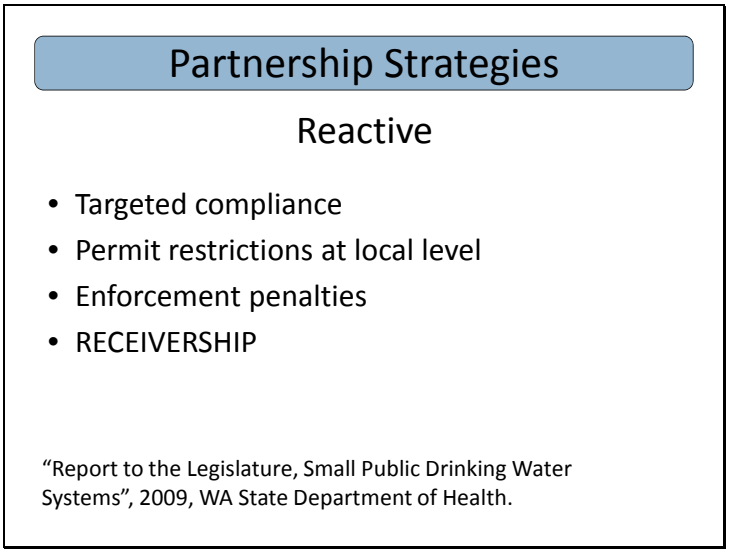
I think you'll see that WA's planning centered Drinking Water Program provides a strong base for proactive partnerships!

Slide 61



Allison - We would like to know if your state has something similar to Washington state's Satellite Management Agencies.

Slide 62



Derek - Moving on to "Reactive" Strategies. In other words, when a utility or community governing body fails to engage in a proactive partnership, these are the tools we use to help move things along:

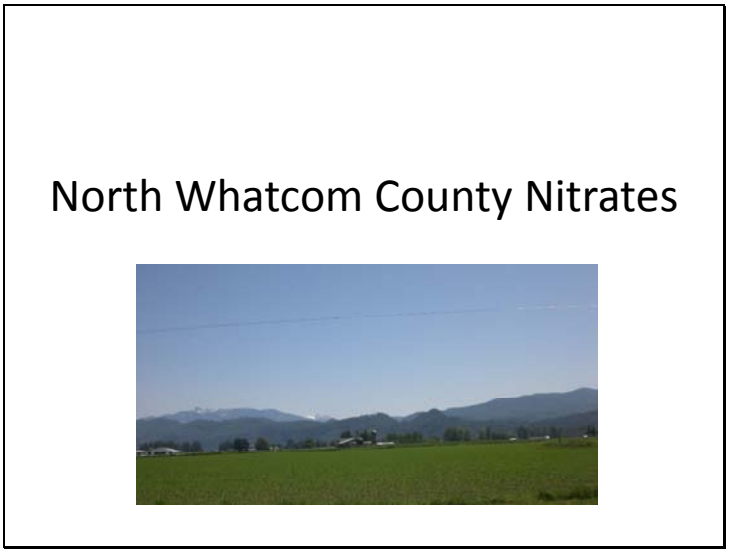
Receivership
•Tool of last resort
•A process not an endpoint
•4 receivership actions in past 10 years.
•Cost & loss of control are big motivators to transfer ownership without receivership
•Reference Revised Code of Washington RCW 43.70.195.

•DOH petitions Superior Court to place water system into receivership
•Includes name of potential receivers (if none, County)
•Receiver acts in best interest of customers
•Receiver assesses capability of system to operate in compliance with standards & reports to DOH & court
•Court authorizes receiver to impose assessments to recover costs
•Within 12 months, DOH, County develop & present to court a plan for disposition of system (options)
•Court orders implementation (court can't force existing utility to accept system, but can order community to form a new Water District)

More on receivership in the following case studies.

Quick note on our 2009 Report to the Legislature – areas where we are looking to enhance our existing tools.

Slide 63



Derek - Now for the fun part – the Restructuring Stories.

In WA State we have dozens of stories with highlights on using the tools I discussed.

We decided to share 2. The first one is a story about the “threat of getting to receivership”, the second is about a case that went through a receivership process.

Slide 64

Derek -

<u>Background</u>:

•Whatcom County is the northwest most county in WA State.
•Bordered by Canada to the north and the Strait of Georgia / Pacific Ocean to the west.
•Agricultural area, economic engine of region.
•12 small water systems drawing from shallow, unconfined aquifer have nitrate contamination >10mg/L. Impacting about 1,000 people.
•Clustered in two geographic areas adjacent to the Town of Lynden.
•Contamination starts in Canada and increases in concentration as aquifer moves southwest.
•Lynden has treated surface water supply (no nitrate problem).

Slide 65

Derek -

Issues:

•Nitrate poses an acute health risk.
•Contamination exacerbated by agricultural activity (economic engine).
•Consumers impacted by nitrate contamination draw livelihood in agricultural community.
•Can 12 small treatment systems be sustainably operated for the long term?
•Treatment affordability challenges for small systems.
•Shortage of experienced operators to manage treatment.
•No blue babies – yet – gratefully
•Basin is water right limited. No new water rights available. Contentious.
•High risk environment – health, legal, financial, political.
•Partners' interests are not aligned.

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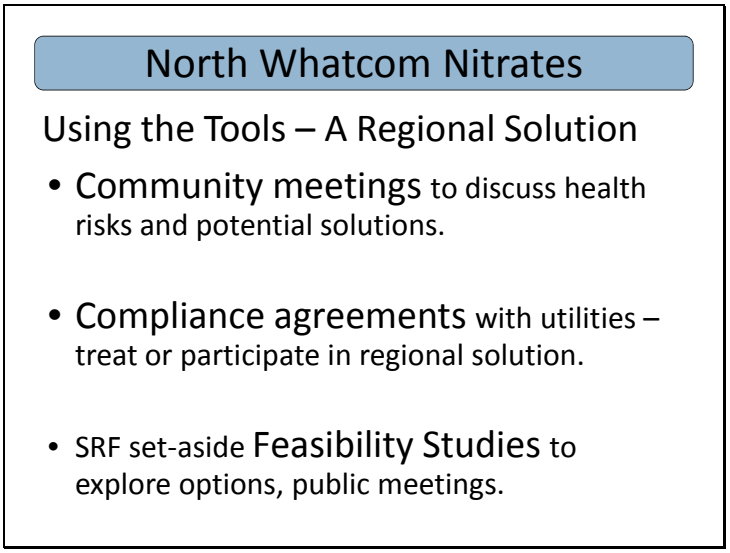
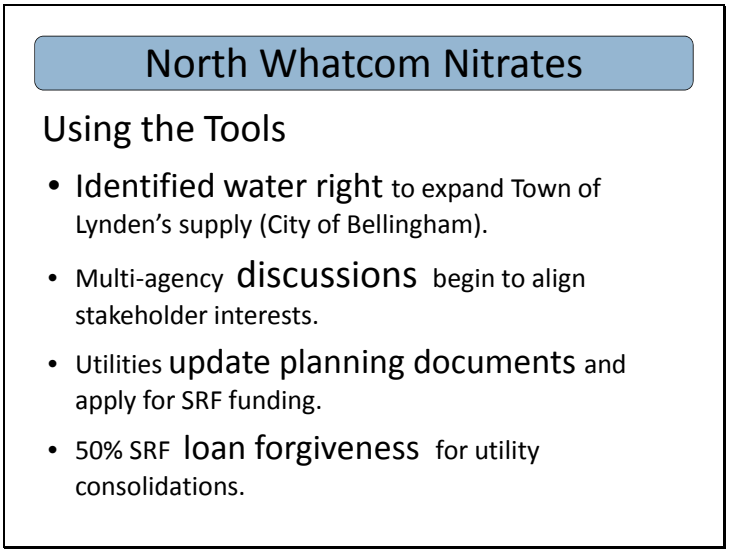
Slide 66



Derek -
Feasibility Studies
•$87,000 in SRF set-asides produced two Feasibility Studies - explore a regional solution to groundwater contamination.
•Extending Town of Lynden's treated surface water supply is most economic and sustainable option.

•Water Right challenges in closed basin with concerned parties.

Slide 67



Derek -
•Aligning stakeholder interests challenging.
•8+ year process. Changes in agency staff.
•Threat of receivership bring stakeholders to the table.
•Changes in elected representatives (irony of fate).
•Close to a regional supply solution.
•Individual utilities must implement.
•SRF funding available.

Slide 68

The Results

- Town of Lynden wholesales water
- Small utilities consolidate service areas
- Consumers receive water meeting nitrate standard
- Implementing Best Management Practices to mitigate source of nitrate contamination

Slide 69

Columbia Crest Estates

Derek - When proactive partnerships with utilities don’t work, this is a story about using Reactive tools – RECEIVERSHIP.

Slide 70

Derek -

Background:

•Investor-owned water utility on a groundwater source of supply.

•22 connections on lots overlooking the Columbia River, in southwest WA.

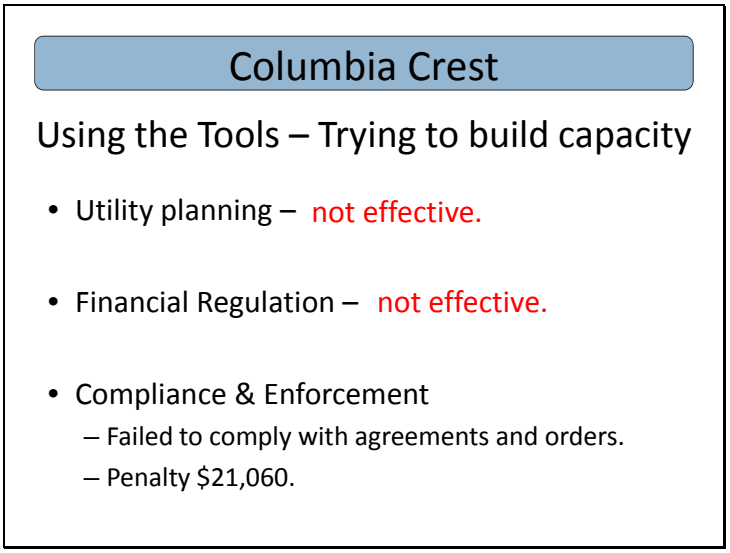
Issues:

•On-going water quality concerns (As, water outages, coliform risk) with poor utility follow up response.

•Many complaints from users regarding financial management and level of service.

•Customers have no trust in utility owner / manager.

Slide 71



Derek -
Attempts to help owner build TMF Capacity:

Utility planning
•Planning is only as good as its developer. – investor owner not responsive.
•TMF tech assist offered, but not taken.
•Investor owner did not share business plan.
•Considered TMF failure

Financial Regulation
•Utilities & Transportation Commission
•Initially rates unregulated under $39/mo
•Raised rate to $45/mo and met regulatory threshold, UTC accepted rate.
•Financial and managerial concerns.

Compliance & Enforcement
•Compliance agreement
•Departmental Order
•Penalty (once system placed into receivership, the utility owner no longer had a say in the water system's operation – we cancelled the $21,060 penalty).

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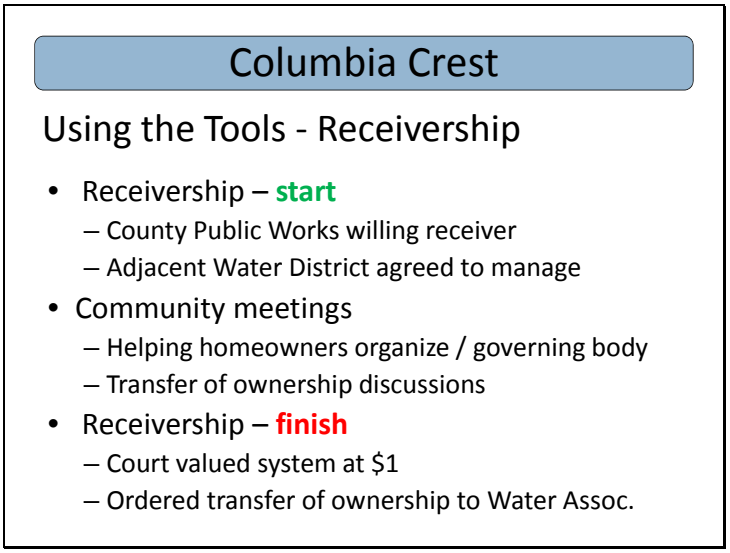


Derek -

Timeline:

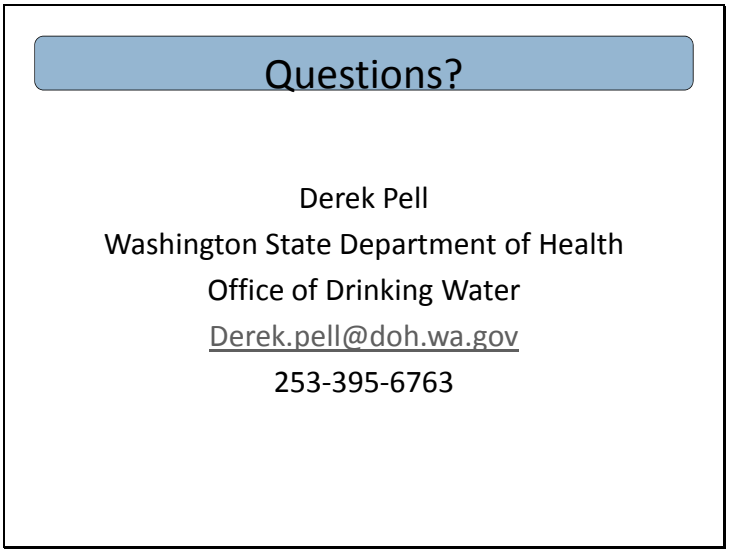
•May 2008 compliance agreement signed – install facilities by Feb 2009. Failed.
•July 2009 Departmental Order
•Aug 2010 Penalty
•March 2011 Court appointed receiver
•April 2012 Court accepted plan for disposition (involuntary transfer of ownership)
•July 2012 Court assigned system value and ordered transfer of system to Water Association

Slide 73

The Results

- Compliance Agreement with Water Association
- Utility Planning
- State Revolving Fund
- Arsenic treatment installed
- Reliable, self governed water utility

Slide 74



These questions were from the webinar audience during the Q&A period. Derek's answers are below.

Q: Do I understand that Columbia Crest Estates no longer owns nor will in the future own their own water supply?
A: In short, the investor owner of the water system was ordered by the court to sell the water system to the Water Association for $1.00. The Water Association now owns their own water system and is able to hire a contract certified operator to run day to day operations.

Q: How are states changing their SRF program to integrate innovative partnership options? Do states have to go through a whole rulemaking process?
A: We modified our SRF loan application program to grant priority to utilities that consolidate, including up to 50% loan forgiveness on some projects. We also use SRF set-asides to fund feasibility studies to explore restructuring possibilities.

Q: Please explain First right of Refusal?
A: 1st right of refusal for service (new water systems not created) – this means that before a new water system is created, existing water systems must be approached to see if they are willing to provide service. Only if the existing systems are unwilling or unable to provide service can a new water system be created.

Q: Do the presenters believe that most partnerships are horizontal or vertical? if vertical, from the top down, don't regulators have an advantage in encouraging/inducing cooperation?
A: Vertical, or top down, partnerships work but may be costly to implement. That is, if you have a reluctant utility, you have to use legal resources to make things happen. Horizontal

partnerships are about building relationships to help parties involved make good decisions on their own – with a little help from technical assistance providers and funders.

Q: Have you considered point of use (POU) devices for control of arsenic?
A: Yes, in WA State we have considered point of use devices for arsenic treatment. To date we do not allow them because of several significant challenges, including: whether to require POU devices on all taps within a home, the purveyor's ability access the device for maintenance, how installation of POU devices affects water system monitoring requirements, how compliance is determined if one of many devices is out of order, how compliance is determined if less than 100% of customers install POU devices. That said, we have an issue paper prepared that identifies what our WA State Drinking Water Program need to do (and resources required) to have an effective POU Program that meets these challenges. Additional resource have not been directed to the Program.

Q: Is an association eligible for SRF loans in Washington?
A: Yes.

Q: Many of the rural communities are experiencing a declining population. Do these community teams address declining population issues and if so, can some examples be provided?
A: Affordability of loans in communities with a declining population is a challenge. In WA State we look to the Infrastructure Assistance Coordinating Council to identify all funding options and creative solutions to help communities. Check out their website at http://www.infrafunding.wa.gov/.

Q: Who paid the fine?
A: In the Columbia Crest example, once the water system was placed into receivership, the utility owner no longer had a say in the water system's operation – we cancelled the $21,060 penalty.

Q: Can you provide citation for Washington utility receivership law?
A: Revised Code of Washington (RCW) 43.70.195.

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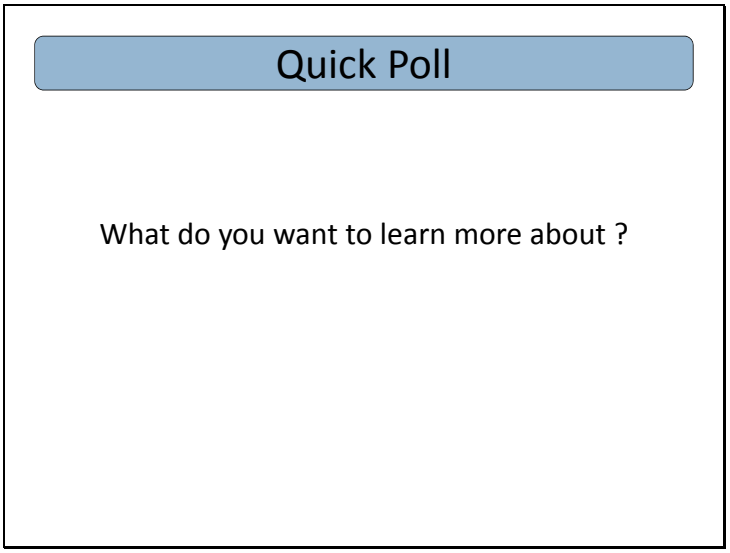
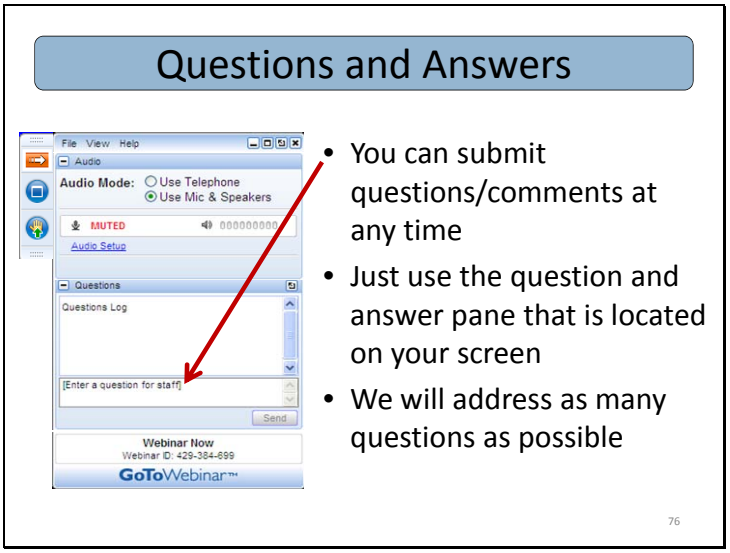


Allison - And now it's time for our final poll –
We are asking what you would like to learn more about.
If you respond "other" please use your Q&A panel to write in some suggestions.

Slide 76



Allison - Now we'll start our Q and A session.
Some of you have been submitting questions as we went along.
But for those of you that would like to submit a question now, just use the question and answer pane that is located on your screen to submit your questions.

I will read some of the questions out loud and ask the panelists for their opinions.