

Meeting Minutes
STATE BOARD FOR FINANCING WATER PROJECTS
Wednesday, April 17, 2019
1:30 p.m.

Tahoe Hearing Room
901 South Stewart Street, 2nd floor
Carson City, NV 89701

Members Present:

Bruce Scott, chair
Andrew Belanger, vice chair
Lori Williams
Mike Workman
Carl Ruschmeyer
My-Linh Nguyen, ex-officio member

NDEP Present:

Jason Cooper
Michelle Stamates
Kyle Casci
Valerie King
Erik Ringle

Public Present:

Tom Pyeatte, Nevada Water Resources
Bob Foerster, Nevada Rural Water Association
Sally Sue Broili, Mount Rose Bowl Property Owners' Water Company
Ingrid Heggen, Heggen Lentz Engineering
Walt Curtis, Star City
Tom Swanger, Star City
Ken Johnson, Farr West Engineering
Brent Farr, Farr West Engineering
Abel Del Real-Naveux, Humboldt County
Dave Mendiola, Humboldt County
Chris Melville, West Wendover
Amanda Brownlee, Nevada Water Resources
Bridgit Harris, Rural Community Assistance Corporation
Andrew Artusa, Zions Public Finance

Legal Counsel Present:

Dan Nubel, deputy attorney general

Begin meeting

1) Introduction (Discussion)

Chair Bruce Scott opened the meeting and invited introductions from board members and those present in person and on the phone.

2) Establish quorum (Discussion)

Chair Scott established a quorum as all board members were present.

3) Public comment (Discussion)

There were no public comments.

4) Approval of minutes – June 20, 2018 meeting (For Possible Action)

Chair Scott requested rewording “re-loan payments” to “loan repayments” in section seven and editing “Mr. Copper” to “Mr. Cooper” in section 13.

Motion: Member Mike Workman moved to approve the minutes with the revisions. Member Lori Williams seconded the motion, and it passed unanimously.

Drinking Water State Revolving Fund program (DWSRF)

5) Program updates (Discussion)

Jason Cooper of the Nevada Division of Environmental Protection (NDEP) outlined the new funding commitment methodology of the drinking water program. The old methodology had issues representing the amount of money actually available for future projects. For example, it did not recognize cash from interest, grants, bonds, and future loan repayments. Additionally, it assumed that all previously committed funds would be disbursed immediately, even though funds are actually disbursed over a period of time.

Mr. Cooper explained that the new methodology will be a cash flow model, giving the program the ability to commit money to larger projects as they come forward. The U.S. Environmental Protection Agency (EPA) has issued memorandums and guidance documents encouraging states to use cash resources more efficiently. Moving forward, available funds will be evaluated on a month by month basis, with a three-year forecast for every dollar that comes in and expected expenditure out. Expected draws will be based on time lines of cash flow models provided by water systems. These models include treasurer’s interest, loan principal and interest repayments, grants awarded, and bonds issued. These cash items will be added into the pool of available cash to help determine how much money is available to commit to future projects.

Six parameters have been put in place to ensure this cash flow model is met:

1. Future grant awards will be calculated at the current funding level and only if it’s likely that the grant will be awarded.

2. If NDEP requests the Nevada State Treasurer's Office to issue bonds, the future bond issuances will be calculated. Historically, bonds have been requested every two to three years to reduce the cost of issuance.
3. Debt service reserves will equal the required payments for the next three years.
4. Interest earnings on the program will be calculated at the current earnings rate.
5. Borrowers will be asked to prepare draw schedules to help estimate when money will actually leave.
6. Cash available for commitment and carry forward to the next month will not drop below \$20 million, which is an internal guideline to provide a cushion.

Chair Scott expressed the importance of getting money out to communities for needed projects.

Member Carl Ruschmeyer asked if tying the cash flow model to a three-year term window coincides with loan principals being repaid at the three-year mark.

Mr. Cooper answered that loan contracts require borrowers to begin repaying principal within three years of the initial date of the contract, completion of the project, or de-obligation of the funds — whichever is earliest. He explained that NDEP uses the three year period to create a sense of urgency for borrowers to draw funds to avoid arbitrage. It also allows NDEP to better plan, monitor, and commit funds.

Chair Scott clarified that bonding for the program is state money. He said that better tools allow the State Revolving Fund (SRF) program to forecast need ahead of the bonding cycle.

Vice Chair Andrew Belanger commented that he liked the new approach as it gives staff tools to commit funds more rapidly.

Member Williams agreed that the new methodology is a much better approach.

Chair Scott asked whether interest credit was accrued for grants.

Mr. Cooper responded that grants are on a reimbursement draw basis, that expenses have to be accrued for borrowers to draw their funds. Bond funds are drawn first followed by grant payments and finally loan repayments.

Mr. Cooper and Chair Scott acknowledged EPA representatives Elizabeth Borowiec and Josh Amaris, who attended the meeting.

Chair Scott reiterated to the audience that the bottom line is to address issues from regulators and make more money available more quickly.

The conversation then switched to DWSRF program updates.

Mr. Cooper indicated that the Drinking Water 2019 Intended Use Plan (IUP) is still being developed. The 2019 federal grant award is forecast to be \$14,163,600 — \$2,832,720 of which will be obligated for principal forgiveness. Attachment B of the IUP, which regards principal forgiveness funding, is being addressed to better manage systems' funding.

Mr. Cooper continued, explaining that NDEP is currently managing a process to select candidates to provide technical assistance to water systems. Technical assistance may include testing and sampling water, preparing an operation and maintenance manual, assisting with fiscal sustainability plans and capital reserve accounts, and training water operators.

Mr. Cooper commented that the SRF has a vacant accountant position since Ms. Rachel McFarland left to take a position with the State Controller's Office. The office is seeking qualified applicants to fill the position.

Chair Scott stated that rural areas are in dire need of certified operators.

6) DWSRF 2020 Project Priority List (For Possible Action)

Representing NDEP, Ms. Michelle Stamates provided an overview of system eligibilities, the ranking process, and the general layout of the priority list. Nine new projects were added and five removed from the 2019 Project Priority List.

Member Williams asked why projects remain on the priority list if they have already been funded.

Ms. Stamates answered that projects remain on the list in case their preliminary cost estimates are low and borrowers need to request additional funding to complete their projects. However, projects are removed from the list once they are completed.

Chair Scott stated that the board and NDEP staff have tried evaluating all other alternatives in small communities prior to implementing treatment.

Motion: Vice Chair Belanger moved to approve the resolution designated the “Year 2020 Drinking Water State Revolving Fund Priority list.” Member Williams seconded the motion, and it passed unanimously.

7) DWSRF Loan Commitments

a. Mount Rose Bowl Property Owner’s Water Company – DWSRF Loan (For Possible Action)

Representing NDEP, Ms. Stamates recommended that the board approve a \$500,000 loan for the Mount Rose Bowl Property Owners’ Water Company. Ms. Stamates explained that the loan will help fund a project to replace an old redwood tank with a new 30,000 gallon welded steel tank and treat the water company’s highly acidic water supply using pH adjustment by aeration. The estimated project cost is \$722,600 — \$500,000 of which will come as a loan from the SRF program. The remaining \$222,600 will be funded with a combination grant/loan from the United States Department of Agriculture (USDA).

Ms. Sally Sue Broilli of Mount Rose Bowl Water Company said that the water system is co-owned by residents and that new homes have sold recently. More residents will be in the neighborhood in the near future.

Ms. Ingrid Heggen of Heggen Lentz Engineering stated that replacing the tank to increase water pressure for the system will benefit the water company.

Chair Scott inquired whether there are fire hydrants on the water system.

Ms. Broilli answered that there are six or seven hydrants.

Member Workman asked whether empty lots in the neighborhood pay a monthly water fee.

Ms. Broilli answered that empty lots are not charged a monthly fee. She said that, in order to access the water, new residents must pay a connection fee of \$20,000 to join the system.

Member Workman then asked whether the copper service lines from the meters to the homes had ever been upgraded.

Ms. Broilli answered that she believes the lines are PVC, which were upgraded when meters were installed.

Member Williams stated that the SRF's contribution to the water company is just over \$33,000 per connection. She added that she is in favor of obtaining better water quality and storage for the system.

My-Linh Nguyen of NDEP's Bureau of Safe Drinking Water expressed her happiness that the project will help the water system achieve water quality compliance.

Motion: Member Williams moved to approve the resolution titled "04-2019 Mount Rose Bowl Property Owners' Water Company Project Loan Commitment Resolution." Member Workman seconded the motion and it passed unanimously.

b. West Wendover – DWSRF Loan (For Possible Action)

Representing NDEP, Mr. Cooper recommended that the board approve a \$2,200,000 loan for the city of West Wendover. Mr. Cooper explained that the loan would refinance a 1998 USDA water revenue bond. The original loan met all SRF program requirements at the time of the loan since USDA had similar requirements.

By refinancing its debt, West Wendover will save approximately \$468,381 on a 3% interest rate. The city will use these savings to address other drinking water projects.

Chris Melville of West Wendover thanked the board and NDEP staff for working to free up funds for future projects.

Motion: Member Ruschmeyer moved to adopt the resolution titled "04-2019 City of West Wendover Refinancing Loan Commitment" in an amount not to exceed \$2,200,000. Member Williams seconded the motion, and it passed unanimously.

c. Humboldt County (Star City) – DWSRF Loan (For Possible Action)

Representing NDEP, Mr. Cooper recommended that the board approve a \$575,000 loan to Humboldt County for a managerial consolidation with Star City. He explained that an October 2018 appraisal valued the water system at \$1,646,000. Star City does not believe a private investor can be found who would match that price. Therefore, residents of the city are looking for a purchaser to provide them with water in exchange for acquiring the assets. They also want to pay off the existing debt to USDA, allowing the new water company to start debt free. Humboldt County has spent the last 20 months establishing a public works department, which provides them the managerial, financial, and operational capacity it needs to support water systems. The project is estimated to cost \$598,470 — \$575,000 of which will come from the DWSRF. The remaining \$23,470 will be funded locally.

Chair Scott stated that the board appreciates Humboldt County's willingness to take over and manage rural water systems.

Member Williams asked whether the purchase of the water system would be deed restricted, preventing Humboldt County from selling the Star City water rights to another purchaser.

Dave Mendiola of Humboldt County answered that county commissioners had originally considered purchasing the water company and selling it later. However, after much discussion, they decided it was in the best interest of Humboldt County to keep control of the Star City water system.

Motion: Member Workman moved to approve the resolution titled "04-2019 Humboldt County Consolidation of Star City Loan Commitment Resolution." Member Williams seconded the motion, and it passed unanimously.

d. Humboldt County (McDermitt) – DWSRF Loan (For Possible Action)

Representing NDEP, Ms. Stamates and Mr. Cooper recommended that the board approve a \$568,800 loan to Humboldt County for the McDermitt Water System. Ms. Stamates explained that the project will address the high arsenic levels in the system's water. To do this, the proposed project will include an oxidation/coagulation filtration system, a chemical injection system, and a programmable logic controller to operate the treatment system. The project is estimated to cost \$714,300 — \$568,800 of which will come from DWSRF and \$145,500 from the Clean Water State Revolving Fund (CWSRF).

In May 2009, the board committed a \$492,000 principal forgiveness loan to McDermitt to help investigate the hydrogeology of the area and find the most cost effective method to mitigate the arsenic issue. Centralized treatment was not considered cost effective at that time, and officials found groundwater in local wells that complied with arsenic standards. Based on the results of the hydrogeological investigation, drilling and constructing a new well was proposed.

In February 2014, the board approved a second principal forgiveness loan for \$500,000 to cover the cost to construct the new well. The new well began operating in December 2015. However, after running for a year, it was determined that water from the new well still exceeded the annual average for arsenic.

In June 2017, Humboldt County (on behalf of McDermitt) received \$60,350 from the Capital Improvement Grant program for a preliminary engineering report (PER) to evaluate arsenic treatment methodologies to assure compliance with state and federal regulations. Work completed with this grant funding included pulling the packers on well #3, studying water quality, and preparing the PER.

In April 2018, NDEP and Humboldt County agreed to make a final effort to locate a local source of arsenic-compliant water. A spring northwest of town located on a private ranch, which was not reviewed in the original hydrogeological study, was found to meet standards. However, the discharge quantity appeared insufficient to supply the town, and access to the spring and water rights were not resolved.

Mr. Cooper explained that the Nevada Rural Water Association has completed a rate study, which they will present to the Humboldt County Board of Commissioners for approval on June 3. Mr. Cooper explained that McDermitt still needs to comply with the arsenic standard despite earlier attempts to find a better source; treatment was determined to be the only option after extensive studies. Therefore, he said that NDEP recommends approving the loan, contingent on the acceptance of a rate increase for McDermitt water users.

Member Williams asked why the loan is eligible for principal forgiveness funding.

Mr. Cooper responded that McDermitt is categorized as a disadvantaged community as its median household income is below the state average.

Member Workman asked what level of certification an operator would have at the treatment facility.

Ms. Stamates answered that it would be a level two operator certification.

Chair Scott asked whether the CWSRF has principal forgiveness provisions similar to those of the DWSRF.

Mr. Cooper affirmed that the CWSRF has similar provisions to the DWSRF.

Mr. Mendiola said he appreciated that the arsenic issue was finally being solved.

Member Workman asked for clarification on the loan being contingent on the approval of the rate increase.

Mr. Cooper responded that NDEP is asking for loan approval contingent on a rate increase being established by the Humboldt County Board of Commissioners.

Motion: Member Williams moved to approve the resolution titled “04-2019 Humboldt County for McDermitt Water System Project Loan Commitment Resolution,” contingent on the approval of the proposed rate increase. Member Workman seconded the motion, and it passed unanimously.

Capital Improvement Grants Program Policies

8) Program Updates (Discussion)

Mr. Cooper updated the board on funding for the Capital Improvement Grant program:

- **\$933,785 is currently available**, \$16,731 of which is reserved for administration.
- **\$899,007 is committed** but not yet disbursed, leaving \$28,047 in uncommitted funds.
- **\$3,000,000 for the Capital Improvement Grant program is included in the governor’s recommended budget**, which is under consideration at the Legislature. This money is not an infusion of direct cash but authority for the State to issue a \$3,000,000 bond. If the budget is approved, the DWSRF priority list may need to be opened for more projects to be added. A discussion on which projects are ready to proceed in order to receive grant funding will also need to take place.

Member Williams asked what type of projects would be targeted for Capital Improvement Grant funding as opposed to DWSRF funding.

Mr. Cooper answered that a board workshop may be needed to discuss which projects should receive funding and how much funding is needed to address the situation. However, private borrowers are not eligible for this funding. He added that, in order to have the State Treasurer’s Office issue the bond, a need for the funds and a guarantee that the money will be spent in three years’ time must be shown.

Conversation then switched to Senate Bill 150 (SB 150).

Vice Chair Belanger commented that SB 150’s fiscal notes estimate the cost for each county to be between \$15,000 and \$20,000.

Mr. Cooper said that SB 150 would affect the Capital Improvement Grant. This bill would require certain governing bodies to prepare a water resource plan funded by the Capital Improvement Grant program. Unless planning documents can be tied directly to a capital project, a taxable bond (instead of a tax-exempt bond) would need to be issued to fund planning documents for capital projects. Mr. Cooper explained that there are many questions on how the bonding will work if it is passed. A board workshop may be needed to create guidance on potential regulation changes and how to address this funding.

Chair Scott said he hoped the legislative intent of the bill would be added to help in implementing the funding.

9) Board Comments (Discussion)

There were no board comments.

10) Public Comments (Discussion)

Mr. Cooper proposed June 25, 2019, for the next board meeting. All board members agreed on the date.

Brent Farr of Farr West Engineering remarked that NDEP staff deserves credit for working on concluding the McDermitt project.

11) Adjourn Board for Financing Water Projects Public Meeting

The board meeting adjourned at 3:53 p.m.

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