

TO: Board Members

THROUGH: Jeff Walker, Executive Administrator
Jessica Zuba, Deputy Executive Administrator
Todd Chenoweth, General Counsel
Rebecca Trevino, Chief Financial Officer
David Carter, Director, Support Services & Contract Administration

FROM: Mark Wyatt, Director, Program Administration & Reporting

DATE: June 14, 2017

SUBJECT: Briefing on a pilot initiative to offer assistance to smaller water and wastewater systems.

ACTION REQUESTED

Briefing on a pilot initiative to offer assistance to smaller water and wastewater systems.

BACKGROUND

Under a pilot initiative, the Texas Water Development Board (TWDB) proposes to assist smaller water and wastewater utilities by providing funding for the entity to create a comprehensive plan for managing their systems in a financially and technically sustainable manner. To develop the program, the agency will solicit qualified contractors to evaluate smaller systems and create asset management plans, along with other management tools, in accordance with the guidelines created by the Texas Commission on Environmental Quality's (TCEQ) Small Business and Governmental Assistance Section. The asset management plans that the TWDB-procured contractors develop are intended to become the planning basis for system sustainability by identifying replacement dates and estimated costs, developing best practices for operation and maintenance, and developing associated financial plans for obtaining funding for future needs.

The water and wastewater systems selected for this pilot initiative will receive the following tangible assistance:

- a. Asset Management Plans
- b. Sustainability Plan
- c. System Operations and Maintenance Manual
- d. Training for system management and staff

Our Mission : **Board Members**

To provide leadership, information, education, and support for planning, financial assistance, and outreach for the conservation and responsible development of water for Texas :
: Bech Bruun, Chairman | Kathleen Jackson, Board Member | Peter Lake, Board Member
:
: Jeff Walker, Executive Administrator

- e. Compliance Manuals
- f. Installation of all tools that were developed on the entity's computer system

SUMMARY OF PROPOSED PROGRAM

Funding – Administrative Costs

The Executive Administrator is recommending a total of \$450,000 be made available for the pilot initiative. The funds to cover the contracted services for these smaller systems would come from origination fees from the Clean Water State Revolving Fund (CWSRF) and Drinking Water State Revolving Fund (DWSRF). The services offered are considered administrative costs of the respective programs. The benefit to wastewater systems would be covered through CWSRF origination fees while projects that benefit water systems would be covered through DWSRF origination fees. (For systems providing both water and wastewater, each program would cover 50 percent of the costs.) The Chief Financial Officer has verified that the funds are available for this initiative.

- a. The TWDB funding will not exceed more than \$75,000 per project for systems that have not had an inventory of assets conducted within the previous five years, nor exceed \$50,000 per project for systems that have had an inventory of assets conducted within the previous five years. The maximum amounts were established based on consultation with TCEQ's Small Business and Governmental Assistance Section. The total TWDB expenditures for this initiative will not exceed \$450,000, which is based on \$75,000 for six projects. The total amount TWDB pays under this initiative could be less if one or more of the systems already had an acceptable inventory of assets or the size of the system warrants a lower amount.
- b. Match - There is no match requirement for the program; however, the system will be required to contribute 80 hours of staff time to participate in the development of the plan. (TWDB may reduce or waive the contribution requirement if the TWDB determines it would constitute a serious hardship on the operations of a system with only a few or no full-time staff.)

System Eligibility

Eligible systems are defined for the purpose of this program as (a) having 5,000 service connections or less or (b) an entity that has a population equal to or less than 10,000 and one that is not located within the boundaries of any municipality with a population over 10,000 or its extra-territorial jurisdiction.

Selection of Contractors

The TWDB may select multiple contractors according to qualifications that are specified in the Request for Qualifications (RFQ). The procurement process will follow all applicable procurement laws and requirements.

Selection of Systems to Receive Assistance:

For the pilot phase, the TWDB will request recommendations from TCEQ of potential candidates in each of the six project implementation team regions that would benefit from

this assistance. As part of the request, TCEQ will include candidates that are in full compliance with TCEQ regulations. If the program proceeds in the future, TWDB anticipates developing an application process.

- a. WSI-Program Administration staff will score the water and wastewater systems using the following prioritization criteria.
 - Size - number of service connections for the system; with smaller systems receiving more points.
 - Rural area – whether the systems serves only rural areas. TWDB will use the U.S. Census definition of an urban area to establish rural areas. All areas not in an urban area (urbanized areas and urban clusters) will be considered rural.
 - Income of the service area - Annual Median Household Income; with systems serving residents with lower incomes receiving more points
 - Operations - Texas Commission on Environmental Quality (TCEQ) violations; awarding points only if the small system has had no TCEQ violations in the previous three years as of the date of that application being submitted to the TWDB.
- b. TWDB will rank systems and then select the highest scoring system in each of the six Regional Water Project Development team regions with the following provision: once the TWDB has selected three water or wastewater systems, the remaining selections must be from the other system-type. For example, once three water applications have been selected, any remaining applications to be selected must be wastewater systems. This process is to ensure that a mixture of both water and wastewater systems are selected for the pilot phase.
- c. The selected small systems in each of the six regions will make their own selection from the TWDB pre-qualified contractor list, in rank order based on the number of service connections, with the system with fewest number of service connections selecting first. Depending on the number of pre-qualified contractors and the number of systems that select a particular contractor, TWDB may, in its discretion, limit the total number of projects per contractor.

Scope of Work to be Performed by Contractors for Selected Systems

The work must meet the following requirements:

- a. Asset Management
 - Conduct a system evaluation (asset identification, location, and date of service or approximate age), as needed, resulting in an inventory of the system and prioritization of assets,
 - develop a comprehensive plan for managing system assets,
 - develop a budget for managing system assets,
 - develop an implementation plan, including a time schedule, for implementing and updating the asset management plan, and
 - determine whether a rate study is necessary.

The resulting asset management plan must fulfill the general requirements of a Fiscal Sustainability Plan as outlined in the Federal Water Pollution Control Act.

Further, in the section of the asset management plan that discusses funding sources, it must identify current TWDB financial assistance programs, including the CWSRF and DWSRF programs as applicable, that may be utilized to meet the system's needs. The asset management plan must include an analysis of whether current utility rates would provide adequate revenue to meet future system needs but it does not have to include a full rate study that establishes a new rate structure.

- b. For Water Systems: Source Assessment and Planning - Identify the utility's drinking water source, develop any appropriate best management practices for sustaining the source (at a minimum develop or update the system's conservation and drought contingency plans), and, if needed, identify options for alternative sources. It will discuss plans for water conservation and detecting and minimizing water loss.

For Wastewater Systems: Sustainable Systems - Create a plan to manage the system more efficiently by conducting an energy assessment of the system and including recommendations for energy-efficiency improvements, and potential public-participation programs.

- c. Operations and Maintenance - Create an operations and maintenance manual for the utility that includes a plan for scheduling and performing preventative and general maintenance. The plan may identify other resources available to the system such as TCEQ's financial, managerial, and technical assistance.
- d. Compliance - Train the utility's management and staff on monitoring, reporting, and record-keeping requirements, the TCEQ's investigation and enforcement process (including an enforcement scenario), and develop a compliance manual that includes copies of all required reports, compliance checklists and tables for keeping track of State and/or Federal requirements. The compliance manual may be incorporated into the Operations and Maintenance manual.
- e. Other Requirements - As part of the project, all tools that are developed, such as spreadsheets and manuals, shall be nonproprietary and will be installed on the system's computer system and key staff members will be trained sufficiently to implement the plan. The TWDB-procured contractor must coordinate development activities, including the training of key system staff members, with the utility's management. The utility's management and the TWDB must be kept informed quarterly of the status of the project while it is under development and be provided an opportunity to provide ample input on the development of plans.

The project activities conducted by the TWDB-procured contractor must include at least one presentation to the system's governing body or owner that provides an overview of the

developed plans, the benefits to the system of implementing the plans, and any recommendations.

The TWDB-procured contractor must return to the system between 12 months and 18 months after delivery of the final plans to assess the system's implementation progress and provide TWDB and the system's governing body or owner a written analysis of the system's implementation of the plans.

Proposed Timeline

TWDB staff is planning to issue a RFQ for contractors as soon as possible.

Incentives

The TWDB is considering proposing in future CWSRF and DWSRF Intended Use Plans an increase in the percentage weight that asset management will have in the prioritization scoring. This will increase their overall ranking in the CWSRF and DWSRF programs and therefore, if eligible for any principal forgiveness funding option, it could increase the probability of receiving the subsidy.

Measuring Long-term Success

TWDB will assess the long-term benefits of this assistance through:

- TWDB Site visits - The TWDB's Regional Water Project Development team associated with the entity will perform at least one site visit to confirm that the entity has continued to maintain and use the plans. The TWDB's Outreach team may assist as warranted in conducting the site visits. This will be the best indicator of the success of the initiative. The TWDB site visits could be coordinated to coincide with the contractor's visit or be conducted separately.
- TWDB Survey form – the system can provide feedback on the benefits of the developed plans. This feedback will assist TWDB in refining the initiative.
- TCEQ Small Business and Local Government Assistance staff can visit the site to offer assistance and assess the services provided, if invited by the system. The TCEQ staff would be encouraged to share the information and make suggestions to the TWDB.
- Another measure of success is the system submitting a request for financial assistance from one of the TWDB's programs, including the CWSRF or DWSRF, based on the forecasted needs included in the asset management plan.

RECOMMENDATION

The Executive Administrator requests feedback on the proposed pilot program to assist smaller water and wastewater systems. The Executive Administrator proposes to modify the proposal as necessary with respect to the Board's comments and publish an RFQ for

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qualified contractors. The results of the RFQ will be presented to the Board at a later date for approval to execute the contracts.

Attachment: 1.) Prioritization Criteria for Selection of Systems to Receive Assistance

Prioritization Criteria for Selection of Systems to Receive Assistance

Prioritization Criteria

TWDB will use the following prioritization criteria to establish the score.

Size - Number of Service Connections for System	Points
Number of Service Connections less than or equal to 500	5
Number of Service Connections is greater than 500 but not more than 1,000	4
Number of Service Connections is greater than 1,000 but not more than 2,000	3
Number of Service Connections is greater than 2,000 but not more than 3,000	2
Number of Service Connections is greater than 3,000 but not more than 4,000	1
Number of Service Connections is greater than 4,000	0

Rural area - provides service only to rural areas	Points
The system serves only rural areas. (TWDB will use the U.S. Census definition of an urban area to establish rural areas. All areas not in an urban area, whether urbanized areas or urban clusters, will be considered rural.)	4

Income - Annual Median Household Income (AMHI) of the service area compared to the State of Texas AMHI	Points
Service Area AMHI is less than or equal to 63% of State AMHI	4
Service Area AMHI is greater than 63% but not more than 75% of State AMHI	3
Service Area AMHI is greater than 75% but not more than 90% of State AMHI	2
Service Area AMHI is greater than 90% but not more than 117% of State AMHI	1
Service Area AMHI is greater than 117% of State AMHI	0

Operations - Texas Commission on Environmental Quality (TCEQ) violations	Points
System has had no TCEQ violations in the previous 36 months as of the date the TWDB considers the system.	2

Maximum of 15 points

Tiebreaker - (1 point) - the system with the fewest number of service connections