

WINNIPESAUKEE RIVER BASIN PROGRAM

ADVISORY BOARD MEETING MINUTES

October 18, 2018 – Belmont Corner Meeting House

Members Present: The meeting was called to order by Wes Anderson (Laconia), assistant chair, at 10:05 am. Ron White (DAS), Sharon McMillin (NHDES), Rene Pelletier (NHDES), Katie Ambrose (Sanbornton), Johanna Ames (Tilton), Brian Barry (Franklin), Jeanne Beaudin (Belmont), Glen Brown (Northfield), Steve Dolloff (Meredith), and Ray Korber (Bay District) were present at that time.

Minutes: Ray moved, seconded by Jeanne, to approve the September 20, 2018, meeting minutes. The motion passed.

Monthly Summary Report: Sharon provided the following updates. They were based on the *Monthly Summary Report* for September 2018.

- Flow Metering Services Study – There are no new updates at this time.
- Asset Management/Collection System Evaluations Initiative – There are no new updates at this time.
- WRBP Infrastructure Ownership – There are no new updates at this time.
- Governance Work Plan – A meeting at NHDES (Commissioner Scott, Assistant Commissioner Freise, Rene Pelletier, and Sharon McMillin) with governance group members (Wes Anderson and Ray Korber), the legal firm representatives, and the AG's office was held on September 26th to discuss the Phase 1 Roadmap effort.
- Rate Assessment Formula – The Rate Assessment Workgroup has been collecting information regarding how each member does its assessments and deferred presenting its recommendations until the October AB meeting. See the Rate Assessment Workgroup Update section below for further discussion. On September 26th, the Bay District member had a conference call with the Wright-Pierce to discuss their flow metering analysis report.
- Replacement Fund (Reserve Account) Legislation – The AB has been working with the DES to amend RSA:485-A:51 during the 2018-2019 session. Sponsors are being sought for the RSA to submit the placeholder bill. See the Replacement Fund (Reserve Account) Legislation Update section below for further discussion. SB468-FN that would have redirected fines to the General Fund was opposed by the members of the legislature in the last session and referred to interim study. The interim study committee recommended ITL on September 13th. The executive session was on October 10th.
- Commercial Discharge Permit (CDP) – There are no new updates at this time.
- WRBP Rules Update – The draft was submitted to the LBA by the DES legal team. A public hearing will be held November 6th concerning the re-adoption of the rules with minor modifications to the definitions. The initial proposal will readopt with amendments submitted to the Water Council and the LBA. A second public hearing will be held to discuss final actual

amendments. The DEP issued a report for its industrial pre-treatment audit and those recommendations and requirements will also be proposed for the amended Rules.

Annual CIP and MOU Updates: Wes announced that the CIP Subcommittee met with Sharon to discuss the proposal for the upcoming 10-year CIP period. Subcommittee members plan to meet again and finalize recommendations for the November 13th AB meeting. Sharon handed out copies of *MOU Milestones Calendar – 2018 Update* and *Memorandum of Understanding – Annotated Update 2018*. Wes suggested AB members review the handouts so that they could be discussed at the November AB meeting.

Rate Assessment Workgroup Update: Wes handed out copies of *Rate Assessment Flow Meter Accuracy & Billing by Flow*.

After a discussion with W-P and review of the report entitled *Flow Meter Assessment*, dated November 18, 2016, Wes agreed that the current flow metering for the northern member communities (Bay District, Meredith, Gilford, Laconia, and Sanbornton) was accurate enough for billing purposes. Changes had been recommended for Laconia, which have been implemented. That leaves the flow metering for the four southern member (Tilton, Franklin, Northfield, and Belmont) which the report indicated is not accurate enough for billing by flow. The number of connections in each of these four member communities is listed on the handout.

The inaccuracies for Tilton and Franklin are caused by the method that the total flow is calculated, because of the difference between larger versus smaller flow contributions. Modifying the meters in these member communities will not improve accuracy. Likewise, calculations for Belmont and Northfield are inaccurate and result in negative flows. Modifying the meters in those member communities will not improve accuracy either.

Sharon noted that, in addition to the larger versus smaller flows, there are more than one meter involved in calculating flows; which contributes to cumulative inaccuracies.

Wes acknowledged that W-P recommended against optimizing the flow meters and had instead suggested investigating alternative methods of calculating the flow contribution from these four member communities. He suggested that doing so might be a good starting point. As he saw it, the Workgroup might consider asking W-P to determine if it is feasible to measure the flow in other locations to improve accuracy; or, to ask W-P to help determine a hybrid cost allocations system as proposed in the CDM report. The CDM report included an option for using the number of sewer customers. He asked the other AB members for input regarding these options.

Sharon agreed that exploring alternatives (i.e. connections or sewer population) especially hybrid options might be a good place to start and still provide a defensible basis for billing purposes.

Wes asked what type of recommendations the Workgroup should give the AB for moving forward. Johanna expressed her concern about continuing to spend money on flow metering without improving accuracy. She was not sure where to go moving forward but did not want to spend more money on flow metering that did not provide good data. Katie suggested asking W-P for help exploring alternatives as it may result in a cost savings. Steve agreed with Katie.

Ray suggested putting the following three questions in front of the consultant: (1) Can we get the four member communities to a level of accuracy that is acceptable to all of the member communities? (2) If

so, how do we get there? (3) How much will it cost us to implement? By asking these questions, the consultant would develop a scope of work and determine an appropriate proportional-based recovery model not necessarily one based solely on flow metering.

Sharon expressed concern regarding the consultant's potential recommendations and the four member communities potentially finding them unpalatable. She asked if members wanted community population (not just the sewered population) to be considered since CDM has proposed that as one factor in their model. Ray suggested giving the consultant a chance to develop any and all recommendations without ruling anything out, because the recommendations would affect all of the member communities and not just the four. Wes suggested that a one-size-fits-all solution would not work for every community and that a hybrid solution might. Rene agreed with Wes.

Johanna moved, seconded by Katie, for the AB to recommend the Workgroup solicit W-P for a scope of work. The motion carried.

Replacement Fund Legislation Discussion: Wes handed out copies of *Purpose of the Replacement Fund: Fund Capital Projects, Updated October 17, 2018*. He noted that the handout was an update from the previous monthly meeting. Changes have been italicized.

Wes summarized the questions set before the AB members at the previous meeting as being: (1) What should the value of the fund be – \$5.4M or another number? (2) What should the period of time for payments be? (3) How should the fund be used? He summarized the goals of the member as: (1) to stabilize rates for the rate payers; (2) to maintain the integrity of the system; (3) to use the funds for emergency use only; and (4) to fund other uses such as management or governance studies.

Ray indicated that Bay District did not see rate stabilization as being an issue because there were contingencies already built into the O&M and administrative budgets. So far as debt service is concerned, debt service is well-defined and carried by the cost recovery budget. It is unnecessary to set aside emergency funds for that purpose, and he did not agree that the replacement fund should be used to pay down debt. Bay District is concerned about the replacement of assets such as equipment replacement and looks at the fund as a rainy-day fund as defined in the statutes, and for unplanned expenses only. Thus, Bay District believed that the fund should be for emergency use only. Sharon suggested that the word emergency may be a tricky word to use, as it may eliminate the fund being used for certain types of emergencies. Ray agreed. He suggested using a different word or phrase in the proposed legislation.

Ray asked if depreciable assets could be better defined in the proposed legislation. Wes asked if the idea was to use revolving loan funds or long-term bonds. Ray agreed that he was thinking that and that he would like to see a more robust CIP as that made more sense so far as debt service was concerned.

Rene asked if each member community had its own CIP. Ray explained that while every member community has one that they differed from member community to member community. For example, Ray indicated that the Bay District's CIP only covered about 6 months. Ray believed that completing the asset management initiative and condition assessment (horizontal assets) was key for putting together a more robust WRBP CIP. Rene announced that DES planned to respond via a letter regarding last week's meeting about the roadmap to request additional information regarding some of what was discussed at that meeting, including WRBP and individual member assets and capital needs.

Wes asked if the fund should be used for management or governance studies. He acknowledged that this type of funding did not sound like emergency funding, given that the AB members wished the fund to be used for emergencies only. Jeanne and Steve agreed. Brian suggested defining emergency more broadly in case there were unplanned project costs. Ray agreed. Johanna expressed concern about how escrow accounts would be managed given escrow management practices in the past. These practices made it difficult to access the funding. Tilton wants the funding to be less difficult to access moving forward.

Wes asked if a motion should be made stipulating to use the fund for emergency use only and not for management or governance studies. Ray and Sharon suggested that unchanged, the statute already mandated doing so.

Wes asked how much the other AB members would like to see in the fund and over what period of time, noting that in the past the fund only covered the aboveground assets. The horizontal assets (by order of magnitude) would be covered moving forward. At the previous meeting, everybody had agreed that 5% or \$5.4M was a good target amount, and now the question was over what period of time.

Ray announced that Bay District has done some research and that the typical utility sets aside 1-2% of the depreciable assets or replacement value. In his opinion, the 5% currently mandated by the statute is "healthy." He suggested that how the assets were defined would probably drive the cost structure for the member communities moving forward and he wanted to better define the assets used for the assessment.

Sharon noted that the DES accounting is bound by state accounting rules and included assets valued over \$10K, which would include rolling stock. The Department does not depreciate property.

Ray expressed his concern regarding the location of the assets. Because there is a very limited revenue base, and the geographic footprint of the assets is large, the fund should probably be conservative. Given that the CIP is not as robust as it could be, is another reason to be conservative. Wes agreed, noting that the age of the system was also a concern.

Rene asked what the \$107M assets valuation included. Ray explained that it included the WWTP, the pump stations, and the pipelines (including force mains and gravity); and any expense over \$10K in equipment a/k/a rolling stock. Rene asked if it included the infrastructure belonging to the member communities. Sharon and Wes explained that it did not; it covered only what was state-owned.

Ray suggested that because the AG's Office had mandated for the fund to be managed according to the current statute moving forward, he would like to have a better understanding of the depreciable assets under the current statute and whether equipment should be included. He recommended understanding the current definitions before changing language in the proposed legislation. Depending upon the definitions as they currently stand, it may be a better option to put together a policy memorandum defining the collective understanding of depreciable assets among other things. Such a policy memorandum could also be reviewed by the AG's Office.

Jeanne suggested using the definition of depreciable assets from the government's standards on accounting for fixed assets as they relate to state and local governments. Sharon noted that the Accounting Department was already using these.

Wes asked if everybody agreed on 5% of the current valuation. Katie announced that Sanbornton has voted internally on 5% over 10 years based upon the DES valuation. Ray agreed that 5% over 10 years was also acceptable to Bay District; although again he wished to see the depreciable assets better defined.

Sharon noted that the AB had expressed a desire to prospectively collect against a future project. This is not possible under the current statute and was one reason for the proposed amendment to the statute.

Wes noted that some bonds for planned projects have a life longer than 10 years. Sharon agreed noting that there is a capital budget. She explained that this pool of money (currently @\$3.5M) is not yet bonded but would be available for any future capital project. It is a potential funding source in lieu of a reserve account and could be increased if the reasons for doing so are adequately justified. It could also be bonded almost immediately for an approved project. The age of the system could be used as a justification to increase the capital budget. Ray asked how quickly the state could get a bond. Sharon explained that if the state wants to bond a project and had a project to bond, it can generally bond within a week. Given that this was the case, Ray said he was definitely more comfortable with the 5% for the fund, as access to capital funds was the key.

Katie asked if there was a timeline for a determination, because Sanbornton needed one for budgeting purposes. Wes suggested for the Workgroup to get together with Sharon to make minor tweaks in the proposed legislation. Ray again suggested putting together policy guidelines for the management of the fund (i.e. definition of depreciable assets) and have the AG's Office review them to ensure that they match up with the statute.

Authority Discussion & Update: Wes announced that the Workgroup met with the DES last month. The two major concerns were taking care of the employees and the valuation of the facilities. Rene agreed to provide Wes with a letter in the next few weeks seeking clarification on some of what was discussed.

Other Business: The meeting was adjourned at 11:45 am. The next meeting will be held at the Corner Meeting House (downstairs) in Belmont on Tuesday, November 13, 2018, at 10:00 am. The minutes were prepared by Pro-Temp Staffing.