



# Water Systems Partnerships: Collaborative Approaches to Address Drinking Water Issues

Meeting Summary

January 31, 2017

## Water System Partnerships, January 31, 2017

On January 31, 2017, EPA hosted a daylong meeting on Water System Partnerships in Washington D.C. The meeting focused on efforts to promote partnership activities and create incentives for and reduce challenges to their development. The meeting included presentations, working sessions, and plenary discussions and was part of a collaborative vision to establish a framework to support partnership activities on a national and local level. Prior to the meeting, EPA held a webinar to help select key priority areas to guide the discussion. The three topics identified were funding and finance options for partnerships, incentives and drivers to support water system partnership development, and outreach and education. Over 80 participants from federal agencies, state and local government, utilities, associations, private sector, and non-profits attended the meeting, representing a range of diverse perspectives: small, medium, and large utilities, state associations, technical assistance (TA) providers, federal agencies, private sector organizations, and non-profit organizations.

### Summary and Key Points

While participants were not asked to reach consensus, the meeting focused on developing short term and long term solutions to reduce the challenges to partnership development across systems. Key action items from the group discussion are found below. They include products and ways to focus the discussion around partnerships.

- Design products and tools around the fact that partnership solutions are most likely to be successful if they are locally driven.
- Provide legal and contractual templates for communities that lack the resource or knowledge to develop them on their own.
- Focus on the regional level for establishing partnerships.
- Share examples of systems that were reluctant to partner but eventually were pleased with the outcome.
- Focus partnership discussions on service, not cost.
- Identify leaders, equip them with resources, and help them remove the unique barriers to partnerships in their communities.
- Highlight the potential challenges moving from another city's water system. Create a series of questions for system to consider when leaving an existing partnership including: Do the systems really have the right people available to run a plant? Do they have the budget to hire staff? Even if the city raises rates, what is the system taking on to get out of the rate increase?
- Increase funding for the non-tangible aspects of partnerships establishment, not just the physical infrastructure. This include regional meetings, facilitation, contract and legal consultation.
- Communicate the benefits of regionalization to contract operators where economies of scale can reduce the risk to the operator and increase their economic benefit, therefore creating an incentive for them to work with the system.

### Meeting Approach Overview

The meeting was designed to be a working session, where participants would spend the majority of the day in small group discussions and conversations with the room. A brief welcome session and examples of partnerships from three keynote speakers began the meeting. Following the keynote, the room moved into the in-depth discussion of the priority areas. The three priority areas (funding and financing, incentives and communication and outreach) were the focus of the rest of the day. Discussion topics were introduced by two speakers. The first presentation would focus on challenges, while the second would focus on possible options moving forward. The two presentations would prepare participants for table discussions. There were 90 minutes set aside for each discussion session, of which 45 minutes was spent on table discussions, followed by a plenary discussion.

## Welcome Session

Peter Grevatt, Office Director for the Office of Groundwater and Drinking Water, began the meeting by welcoming participants and introducing partnerships and their importance to building capacity in drinking water systems. He emphasized two important points, the first is that partnerships encompass a wide range of options from something as informal as equipment sharing to more formal agreements such as shared management or pipe-to-pipe connections. This is not code for consolidation.

The second important point was emphasizing that the goal of partnerships is not to reduce the number of systems, or small systems. Many small drinking water systems run high quality programs. The goal of EPA's work on partnerships is to collaborate broadly in support of systems leveraging available expertise to better utilize the limited existing resources and expertise. Through this meeting, EPA was looking to hear what the agency and others can do to help partnerships move forward.

## Partnership in the Community – Community Keynote

To provide on-the-ground context for the meeting, three keynote speakers shared their unique perspective on partnership activities: Martin Lopez from Lower Rio Grande Public Water Works Authority, Robert Walters from Davidson Water, Inc., and Jordan Mersky from American Water.

Mr. Lopez from the Lower Rio Grande Public Water Works Authority described how his drinking water system formed a new association with several other neighboring systems. The major drivers of the partnership were reducing duplication of effort, improving compliance, and maximizing limited resources. For the systems had provided mutual assistance, such as lending equipment or operators to one another for years; through these smaller partnerships, they determined that they could benefit from economies of scales by becoming a larger system. After the five systems merged, they had more adequate staffing, eliminated duplicate expenses, were able to perform more in-house functions, could provide 24/7 back-up service, and benefited from more efficient use of equipment and materials.

Mr. Walters from Davidson Water Inc. of Winston-Salem, North Carolina, presented from the perspective of a system serving a little over 60,000 connections with a population of 140,000. They are a private, nonprofit, membership co-op that began with USDA grant funding. They have shared operators and other staff with systems in the area. Over the years they have grown by incorporating nearby systems (mostly manufactured housing communities and other systems that were having trouble) and becoming a wholesaler.

Mr. Mersky of American Water provided information about a large system involved with water system partnerships in New Jersey. American Water is involved in many types of water system partnerships. Recent activities include a merger with a system that was doing well, concession agreements, and capital agreements. American Water is also involved in contracts in which it operates a water system, treats water, or provides water; contracts in which one system uses their treatment plants or they use a system's treatment plants; and assisting systems that have lost their operator.

## Moving Forward on Partnerships

Prior to the in-depth table discussions, participants discussed what some of the biggest challenges are in establishing partnerships. A few of these stated challenges included:

- Small towns often see partnerships as a loss of independence.
- Need for committed staff in towns through the entire process of establishing the partnership.
- Lack of understanding of the funding options that exist for establishing a partnership.
- A need for more opportunities to create and share information at a regional level.
- Lack of support for managing complex legal aspects related to some types of water system partnerships.

## Funding and Financing Options: Priority Area One

Access to funding and financing to establish partnerships is one of the biggest challenges facing partnership development. Funding needs to be available for facilitation, infrastructure, and contract assistance. Many of the challenges around financing partnerships relates to limited funding availability and the challenge of matching available funds with the needs in a given situation. Discussions from the group explored current funding sources, opportunities for better collaboration, and possible new funding sources.

### Table Discussion - Funding and Financing Options: Priority Area One

Participants at each table spent time discussing challenges and brainstormed solutions regarding funding and financing options. The major points from the table discussions were:

#### Sharing best practices:

- States have a varied approach to coordinating funding. Some have successfully managed to coordinate the various funding sources, and those should be highlighted as examples for other states to model where possible.
- Communicating and training for decision makers often falls short of what is needed. Having the resources/tools to have these discussions intelligently and encourage good decisions is critical to successful partnerships. They shared that their table discussion covered reciprocity and certification needs.
- Encouraging community leadership and supporting that leadership needs to be a priority. A leader is not necessarily always an operation specialist. Especially at the federal level, how can we identify ways and resources to encourage good leadership?

#### Funding mechanisms:

- Funding mechanisms can both encourage and discourage partnerships. Participants felt that unsustainable utilities can be kept in business by loans below market rate value though TMF issues exist throughout the system.
- Participants stated that the Clean Water Act is set up to fund partnerships more easily than the Safe Drinking Water Act, but SRF set-asides could potentially be used.
- Silos need to be removed to allow the water sector to work together.
- Funding for planning efforts is typically tied to infrastructure projects, not non-physical partnerships. There is also an expectation that a planning effort will lead to an infrastructure project.
- Challenge of dealing with multiple funding programs and how communities will wait a long time to do a project, because they think it will help them to receive more funding to wait. This practice can delay projects and discourage partnerships. It would be helpful to gather multiple funding agencies in one room to talk about a project and encourage that project to move forward.

#### Technical assistance:

- A funding relationship to successfully complete a partnership effort can take years. It's hard to commit to a partnership when the parties involved do not know if they will win the money needed each year. The EPA TA grant funds of \$12.5 million that can be used towards partnerships goes very quickly across the country. A more dedicated source of funding is needed, and because partnerships need to evolve over time, funding should be set up to reflect that.
- Challenges exist with TA grants and their use to facilitate partnerships. Technical, financial, and managerial capacity has to be an important link in the field in each component.

- There are benefits of having people in funding agencies aware of and available to help people in communities to think about partnerships. Decisions need to be supported by local TA providers and agencies.

Individual systems have a responsibility to customers. What incentives exist to take on a system when that would create a financial burden to their existing customers?

### Detailed Group Discussion - Funding and Financing Options: Priority Area One

Following the report out from table discussions, the large group continued with further discussion.

- Limitations caused by constraints on the use of current TA grants.
- Disincentives to partnerships that the current structure of available funds causes.
- Additional funding sources such as working with foundations and approaches to mixing public and private funding.
  - One community used an energy related funding source to pay to cover water storage with solar panels, and was able to use the saved funds for upgrades to their plant.
  - Water systems in Iowa enjoy long-standing relationships with CoBank and USDA, while also partnering with other funding agencies.
  - Foundations are playing an important funding role in New England.
- Traditional funding sources don't support facilitation work, while foundations and private organizations do. However, facilitators and communities have to work very hard to earn even \$10,000 from those sources, which does not go very far.
- EPA should explore ways that the DWSRF program might be able to be used to help encourage or establish partnerships.
- The importance of rate structuring in a partnership, which can be a deal breaker for communities. Sometimes the evaluation of rates, which depend on many factors, can form the center of a community's decision.
- It would be helpful if federal funders could establish a policy across all programs that hold everyone to the same standard in order to establish fair footing for partnerships. They could require consideration of value engineering.
- A strong, standardized understanding of technical, managerial, and financial capacity is needed. Current standards don't appear to hold systems accountable for technical, managerial, and financial capacity.
- Provides grant funding to communities to look at their options for improving operations, and one of the required grant outcomes is that the community in need defines their real cost of continuing to run independently. This means the full cost, not just getting by (including operations and maintenance, management, saving for the future, etc.). Then they compare that cost to options such as forming partnerships or consolidation. That way, the system can't argue that they are financially okay when they are not.

### Incentives for Partnerships: Priority Area Two

Limited incentive options exist for communities to enter into partnerships, and those that exist are often not widely known. Participants were asked to think of incentives that could encourage communities to enter into partnerships all types of partnerships: incentives where struggling utilities are assisted by well-functioning ones and creating incentives for both players; partnerships where communities enter into contract management or informal arrangements rather than operating solely independent. These incentives could be financial, compliance related or any other creative option to encourage their use.

## Table Discussion - Incentives for Partnerships: Priority Area Two

Participants at each table discussed challenges and brainstormed solutions regarding incentives. The major points from the table discussions were:

Collaborative approaches to outreach on existing incentives:

- Better engaging with the consulting engineers and incentives that could focus on including partnerships in their work with utilities.
- There was discussion of USDA Rural Development unveiling an online report format. USDA was interested in looking at grants to help with consulting engineering costs.

Opportunities to leverage different programs as incentives for partnerships:

- Providing funds to support activities like asset management as systems enter into partnerships.
  - For example, a system in North Carolina is receiving money from a state grant of up to \$150,000 to allow small systems to inventory what infrastructure they have. It is helpful to provide money to smaller systems so they can know what they have, map it, and assess the condition their system is in. Then they can determine what projects they might need or a larger system interested in buying them can find out what infrastructure actually exists.
- Asset valuation by a third party to avoid the different opinions for valuation of the water system being acquired, and an objective opinion is helpful.
- Incentives for board training and creating opportunities for neighboring systems to communicate and share ideas. Table 1 added that federal agencies should play a greater role in creating incentives, whether via carrot or stick.
- They also discussed the State's abilities to coordinate these services, which has proven effective in Kansas and Kentucky.

Potential financing incentives:

- Loan forgiveness would help incentivize acquisition. If there is existing debt or significant investment in infrastructure necessary, those are disincentives to acquiring a system. Not all debts are infrastructure related, so making funding available for other opportunities to develop partnerships (such as training and other networking opportunities) to connect with neighboring systems would be beneficial.
- Additionally, there is a disincentive for states to regionalize, because the PWSS grant is associated with the number of PWSs that a state regulates. That is, federal funding is tied to the number of PWSs in the state.
- Kansas' planning grants were presented as a source of additional funding, along with 30% principal forgiveness.
- Private loan assistance could also help because return on investment has been low, so if they could leverage federal dollars to make investment in systems more attractive to private investors that would encourage more private investment.

Potential compliance incentives:

- Compliance flexibility for an entity acquiring a system in violation would be another incentive. It would remove some disincentive if the acquiring entity was not immediately in non-compliance as well, but was given additional time to become compliant.
- California recently passed a law regarding consolidation that requires larger organizations to become part of the solution. They need to work to fix issues before they can grow their own system.



- It might be helpful to establish a grace period when acquiring other systems so that the operator's license is not jeopardized.

### Detailed Group Discussion - Incentives for Partnerships: Priority Area Two

Following the report out from table discussions, the large group continued with further discussion.

- The new legislation in California regarding system consolidation ( .
  - It only applies to disadvantaged systems, and only when there are Maximum Contaminant Level (MCL) violations or health-based issues.
  - Some participants voiced the perspective that, generally, systems with major water quality issues are receiving grant money to deal with them anyway, and the state can use that as leverage to force a consolidation when appropriate.
  - The state also passed SB 1263, which requires California systems becoming PWSs to search for nearby PWSs to join before they can become a new system.
  - Large PWSs can receive funding on a zero-interest loan for up to \$5 million for another project they are working on if they are helping small disadvantaged systems.
    - This type of incentive is important because there needs to be a business case for systems that have high technical, managerial and financial capacity to partner with systems that are facing challenges in these areas.
  - Other states don't have the similar laws; having statutory abilities like this can be helpful.
- Very small systems can't afford their own dedicated operator, so there is a question of how to bring knowledgeable operators in to help the system without him or her putting their own day job on the line.
- In developing strategies for compliance flexibility it is important to consider is equivalent protections. For example, if EPA was going to allow three years to fix an issue instead of 12 months, it would be necessary to ramp up public notification and provide a much more robust public outreach effort.
- Planning documents can be incentives as well. Hydraulic modeling, master planning, and tools that can lead to better understanding about strengths and vulnerabilities of a system can provide the business case for why a partnership would be beneficial for the system.
- Many states are being innovative and have good ideas.
  - Some group could catalog all of the ideas and share all those possibilities with the states.
  - It wouldn't be enough to just have an inventory of information, but it would be necessary to use active outreach to get that information out to the people who could use it.
  - It's important to be careful not to duplicate efforts of other groups that are collecting data and serving as a resource repository, in particular the Water Infrastructure and Resiliency Finance Center which had similar discussions two weeks prior to this meeting. That group took on the task of finding and compiling available resources.
  - States have different approaches and different needs, but sharing information can be helpful in finding innovative solutions.
  - Other state agencies besides the primacy agency may also have incentives. Some states may have an agency that can provide incentives for municipalities to improve their infrastructure or work together to make purchases. They also discussed SRF programs and suggested adding a question about nearby entities and similar needs to loan or grant review processes, as well as the need for lots of TA.

## Outreach and Education: Priority Area Three

Outreach and education was the third priority area for the meeting. Outreach can serve as a way to engage with communities hesitant to enter into partnerships and expose them to the benefits that working with other utilities can bring. Often, partnerships are not on the table as an option to help struggling systems due to a lack of awareness or understanding amongst the board members, communities, regulators, engineers etc. Partnership messages need to be delivered differently for different audiences.

### Table Discussion – Outreach and Education: Priority Area Three

Table discussions started with participants focusing on the actions that they need to take in order to motivate and enable partnerships. Outreach and education play critical roles in both of those areas.

Increasing awareness of partnership opportunities. Approaches to do so include:

- Develop strategies to increase awareness including peer reviews, hands on engagement, and legislation.
- Continue to educate operators, mayors, and other decision makers. EPA puts many TA materials on its website, but at the end of the day, it is necessary to take the materials directly to those who need them.
- Resources are available, but more work needs to be done to ensure they are used more frequently.
- Consulting engineers need to be included more in the process.
- It can be helpful to bring in peers of a utility to provide examples of successful partnership implementation.
- The best opportunities to raise awareness for partnerships are informal gatherings, such as luncheons or evening meetings.

New or enhanced tools:

- Compilation of information on all types of partnerships, from mutual aid agreements to purchasing contracts, to shared operators to consolidation.
- Case studies on employee sharing, and rate setting within utilities. Each of these areas is intricately detailed, so a guide for what to look for would be useful.

Important to expand the discussion of partnerships to a wider range of ideas so when systems are introduced to the idea of partnerships they see it as a full array of ideas. Areas to focus on:

- Tools would be case studies and step-by-step guides that explain how different kinds of partnerships can be undertaken.
- Hosting or creating opportunities for more meetings of this type, especially for systems with the same source water or the same types of issues, would make sense. Local chapters of national organizations could be good hosts.
- Incorporate information about partnerships into other events or sources. For example, ideas about partnership could be peppered throughout a training on another topic.

### Detailed Group Discussion - Outreach and Education: Priority Area Three

Historically, many partnerships have been event-driven: they were necessary or desired because of cost-savings, an emergency, or poor infrastructure. To support more partnerships, it is important to look for ways to make consideration of partnerships more widely included as part of the general management of public water systems, not just as a solution to an current or imminent problem.

Raising awareness:



- SRF programs and suggested adding a question about nearby entities and similar needs to loan or grant review processes, as well as the need for lots of TA.
- Engage with engineers.
  - Engineering reports discussing partnerships would provide systems with more robust information for making decisions. Reaching out to engineers is important.
- Sanitary surveys often use those kinds of engineering reports. If those conducting sanitary surveys or engineers are aware of available resources and tools, they might be able to point out partnership opportunities when they interact with systems.

Another idea mentioned repeatedly was the notion of an information base.

- Lack of information is a potential stumbling block for water systems. They need to understand their assets, what they mean for valuation, and how to have a conversation about decision-making.
- Information is the best tool for decision-makers to make a good decision. A lack of funding and lack of information is keeping many entities from moving forward on projects.

## Next Steps

Towards the end of the meeting, time was set aside to discuss potential next steps for promoting drinking water partnerships. Highlights of the discussion include:

- Points were made repeatedly about building trust and relationships, looking for low-hanging fruit, and looking for ways to build trust in smaller ways to begin a relationship.
- Also, thought has been given and should continue to be given to mechanisms to trigger meaningful consideration when reviewing loan or grant applications.
- Money is needed to support the facilitation and planning aspect and training. Many TA providers may not be comfortable in the role of facilitator yet, but TA providers are really mediators for systems.
- The importance of catalysts or leaders and incentives such as financial incentives, plus training centered on leadership.
- The importance of an enabling environment was emphasized, including in
  - Governance (can clear the path for partnerships or make it very difficult),
  - Funding, and
  - Flexibility.
- The operator and consulting engineer communities were seen as important stakeholders. Discussion included putting incentives in place for them to encourage partnerships, training around partnerships, accountability, and understanding what the benefits of partnerships are and why they are not a threat. Both operators and engineers play a turnkey role.
- Outreach is key, taking into account the benefits of informal settings and questions of culture and trust.