

**Murat Ulasir (OHM Advisors):** Welcome to the Advancing Communities Show brought to you by OHM Advisors. I am Murat Ulasir and I am the infrastructure asset planning specialist here at OHM Advisors. I am delighted to have Jaclyn Merchant and Bob Schneider from the Michigan Department of Environmental Quality. Jaclyn, you are a project manager with the Department of Environmental Quality and Bob, you are the technical specialist.

**Bob Schneider (Michigan Department of Environmental Quality):** That's correct.

**Murat:** Welcome to the podcast.

**Bob:** Thanks.

**Jaclyn Merchant (Michigan Department of Environmental Quality):** Thank you

**Murat:** What we would like to talk about today is really the changing regulatory landscape in the state of Michigan and how the Michigan Department of Environmental Quality, the DEQ, facilitates that change and also share with the communities upcoming changes that they can take advantage of.

As I mentioned, then, the state of Michigan is in some ways, compared to the neighboring states, a bit more progressive, for example, when it comes to managing infrastructure. When it comes to managing sanitary issues or overflows and so on and so forth. The sense I am getting is that in the state of Michigan, then, in that context, the landscape of managing its infrastructure, the landscape of doing capital improvement planning is changing. Can you speak to what some of these changes are and perhaps how it may compare to how things used to be?

**Bob:** Well, I think over the years the state has realized that when there are problems with either a drinking water system or a waste water system, it boils down to money. No one wants their rates raised but sometimes that has to happen. The infrastructure is aging and so the opportunities for replacement of those assets, there is not a lot of opportunities for funding and so communities are realizing that more and more they're on their own.

The asset management tool is a way to kind of bring all that together, and so I think the department is looking at asset management as a way to not only to help the department in

accomplishing their goals but helping communities accomplish their goals as well. Better service, better infrastructure needs addressed with rates that are still sufficient to cover those expenses.

**Murat:** Very well said. So the sense I am getting, then, from what I hear you say, Bob, is that on one hand we are recognizing that things are changing. Money is becoming tight, communities are increasingly needing to take care of an ailing infrastructure in the context of declining revenues. What I hear you also then say is, "You know what, the state not only recognizes this but also wants to help." So any upcoming changes, which we will be talking about, I think is in the context of, "Hey, the DEQ is not here to penalize. The DEQ is here to help first and foremost." Correct? Am I stating it properly?

**Bob:** Correct. Sometimes regulations do serve purpose and it moves things forward. We've experienced over the years where sometimes there's a disconnect between the rates that are needed and the willingness to raise those rates to that level. It's been seen that asset management is a tool that can bring [together] the operators, the managers of the system, the decision-maker, the political people who have to implement or pass those rates on to their customers, that the asset management plan is a way to bring all those players together, operate on the same page, looking at the same information and making a more informed decision.

**Murat:** I think as you are talking, what I am reminded of is this changing way of thinking about infrastructure. I think it used to be that capital improvement planning was more often art, if you will. You bring the guy with the most institutional knowledge to the table and say, "Okay, here is a blank sheet of paper. Write down what we should be spending on this year, next year and so on."

What you're trying to do is to say, "Wait a minute. Let's bring some science into this. Let's develop some simple tools and let's bring people together." Let's put some science into this and be more informed about not only the decisions we make but perhaps even the implications of those decisions. Right?

**Bob:** Correct. Maybe there's a better way to spend the money.

**Murat:** Very well said. I should also mention that Bob, you were also involved in this, we call it the SAW grant initiative, Stormwater Asset Management and Wastewater initiative, and you were on the committee who developed not only the criteria for the grant disbursement, but also developed some technical material to help communities actually bring more science into their decision-making process. Isn't that so?

**Bob:** That's correct. We developed an asset management plan workbook, which is an Excel-based spreadsheet that communities can use as an actual tool and it would be geared more for smaller communities because it is a pretty simple asset management tool. For larger communities, they can use it as a template to see what the department is looking for as far as fulfilling those requirements for an asset management plan that now are part of an NPDES permit for some communities and also for drinking water systems.

**Murat:** So this is probably a nice segue to talking about the future. We talked about today in terms of tools and availability what we're trying to do, so let's take a more broad perspective view as to what municipalities should expect coming down the pipe. You already started talking about drinking water. So are you suggesting that some asset management type things are going to be coming our way in the near future?

**Bob:** Yes. Starting January 1st, 2016, all publicly-owned water systems will be required to have a capital improvement plan in their general plan. That will address their 5- and 20- year needs. Of course, the 5-year needs would be more detailed; the 20-year needs are more general in nature. Starting in January of 2018, those communities that have greater than 1000 customers will have to have an asset management plan as well. The thinking is that, really, to have a capital improvement plan that's functional, you really have to have that front end documentation that comes with an asset management plan in its totality. So that will be coming along in 2016 and then in 2018.

**Murat:** Wow. And tying these upcoming requirements onto the discussions at the onset of the podcast, which is that the purpose of these new requirements are to help municipalities make more informed decisions. It's not necessarily to induce hurdles or something to give out the money. It's more like, "Okay, make sure that you are cognizant of what you're asking for and prove to the DEQ that you are the one who should be getting the money as opposed to somebody else because, Bob, as you mentioned, there is only so much you can divvy out, right?"

**Bob:** That's exactly right.

**Murat:** So changing the perspective then, broadening the perspective even further, then, and going outside the state of Michigan and looking at it federally, I understand that there are some federal mandates along the lines of infrastructure asset management that are coming as well. For example, the state revolving funds, there are some new requirements associated with those. Jaclyn, would you like to give us some thoughts on what those are?

**Jaclyn:** Sure. Well, there are some new federal requirements that are only for the clean water revolving fund, so that's the Michigan state revolving fund. The SRF. One of those is a fiscal sustainability plan, which sounds a lot like the asset management plan. It has some of those same components in it. So that will be a new requirement, that SRF recipients – loan recipients – complete a fiscal sustainability plan and will need a certification stating that's being done with a PERT 3 application.

It's a little bit of a new burden, but we do offer up to two million dollars to fund that as part of the loan. So the FSP can cover just the components of the project that you're proposing with that loan, or it can be for broader than that, like more of your system or all of your system if you so choose. So that's one of the new requirements. Another one is that we must now have a qualifications-based selection process for architectural and engineering services.

**Murat:** Wait a minute. I can't just go to my buddy down the street and say, "You know what? Take care of this for me." They have to actually kind of prove that they are qualified and such?

**Jaclyn:** Yeah, you have to do that now. So there's a relatively extensive process of requesting for qualifications, and with that public advertisement you also have to detail your ranking procedures or what your criteria for selection is going to be, and then you evaluate it and you need at least three responses from firms. Then once we receive the project plan, when you go to apply for SR funding, we need to see documentation of the publication and then a certification form as well.

**Murat:** I see.

**Jaclyn:** Yeah. And the only other thing that I would also let you know about is that we can now offer for SRF funds a 30-year loan for disadvantaged communities. That's a nice new thing that

we can do for you. But you do have to show that the project that you're proposing to complete, the life of that project, is not going to fall short of the life of the loan.

**Murat:** Wow. As you were talking, I was writing down some of the upcoming changes and some of the requirements. So in wrapping up the podcast, the pieces that I picked up, and I'd be curious to see whether you agree with those, are the following.

Firstly, the landscape, the context within which communities are trying to make capital improvement decisions are changing, not only in the state, but also in the country, really, nationwide. What I am also hearing then is yes, changes are coming, but help is coming, too. For example, Bob, you developed the asset management workbook [that is] free, available to everybody and easy to read.

The SRF loan requirements, for example, they also come along with money; low-interest loans that communities can use to build these plans, so there's help. And then, in the context of that, the DEQ is also thinking about, if I may say so, the little guys. Right? I mean, disadvantaged communities, there is a recognition that the disadvantaged communities may need extra help. There is a 30-year loan that you're talking about so the landscape is changing, but there is help to help you transition from the old way of thinking, if you will, to the new way of thinking.

**Bob:** That's correct. You had mentioned earlier the SAW program. That helps about 470 communities with about \$500 million dollars' worth of funds that are grants, and that's for asset management. So that's going to help a lot of communities get off the first base.

**Murat:** Wow. Folks, the DEQ is your friend. Thank you so very much for taking the time to talk with us.

**Bob:** Our pleasure

**Jaclyn:** Yes, thank you.