

ARKANSAS REGISTER

Proposed Rule Cover Sheet



Secretary of State
John Thurston
500 Woodlane Street, Suite 026
Little Rock, Arkansas 72201-1094
(501) 682-5070
www.sos.arkansas.gov



Name of Department _____

Agency or Division Name _____

Other Subdivision or Department, If Applicable _____

Previous Agency Name, If Applicable _____

Contact Person _____

Contact E-mail _____

Contact Phone _____

Name of Rule _____

Newspaper Name _____

Date of Publishing _____

Final Date for Public Comment _____

Location and Time of Public Meeting _____

Linda Luebke

From: Legal Ads <legalads@arkansasonline.com>
Sent: Thursday, December 7, 2023 9:03 AM
To: Linda Luebke
Subject: Re: Legal Notice - Oversight of Retail Water Providers (Act 605)

Thanks, Linda. Will run Sun 12/10, Mon 12/11, Tues 12/12, and Wed 12/13.

Gregg Sterne, Legal Advertising
Arkansas Democrat-Gazette
legalads@arkansasonline.com

From: "Linda Luebke" <linda.luebke@agriculture.arkansas.gov>
To: "legalads@arkansasonline.com" <legalads@arkansasonline.com>
Cc: "Cynthia Edwards" <cynthia.edwards@agriculture.arkansas.gov>, "Wes Ward" <wes.ward@agriculture.arkansas.gov>, "Chris Colclasure" <Chris.Colclasure@agriculture.arkansas.gov>, "Jay Whisker" <jay.whisker@agriculture.arkansas.gov>, "Ryan Benefield" <Ryan.Benefield@agriculture.arkansas.gov>, "Darla Brooks" <Darla.Brooks@agriculture.arkansas.gov>
Sent: Wednesday, December 6, 2023 8:52:50 AM
Subject: Legal Notice - Oversight of Retail Water Providers (Act 605)

Please run the attached legal notice December 10 – 13, 2023.

Sunday, December 10, 2023, statewide. Monday (12/11/23) and Tuesday (12/12/23) in all counties that still receive daily (Mon. – Sat.) delivery of the printed edition.

As always, please confirm my request.

Thank you!

Linda Luebke

Administrative Analyst

Arkansas Department of Agriculture
1 Natural Resources Drive, Little Rock, AR 72205
(501) 225-1598
linda.luebke@agriculture.arkansas.gov
agriculture.arkansas.gov



Legal Notice

Arkansas Natural Resources Commission


The Arkansas Natural Resources Commission is proposing amendments to Act 605 Rules Governing the Oversight of Retail Water Providers in Arkansas.

The purpose of the proposed rule amendments to Act 605 is to update the rules with the passing of Acts 545 and 691 of 2023. These updates include eliminating a study before a major development, clarifying when to use funds from a refurbishment account, adding flexibility to time required to enact new rates, and moving the deadline for training board members.

Comments can be mailed to: Arkansas Department of Agriculture – Attn: Jay Whisker, 10421 West Markham Street, Little Rock, AR 72205, or emailed to jay.whisker@agriculture.arkansas.gov.

Written comments will be accepted beginning December 10, 2023 until January 8, 2024. Oral comments may be made in person at the Arkansas Department of Agriculture, 1 Natural Resources Drive, Little Rock, AR 72205 on January 4, 2024 at 2 pm.

The proposed rules changes can be viewed on the website at www.arkansas.agriculture.gov



Jay Whisker, PE, CFM
Engineer Supervisor
Arkansas Department of Agriculture

**QUESTIONNAIRE FOR FILING PROPOSED RULES WITH
THE ARKANSAS LEGISLATIVE COUNCIL**

DEPARTMENT _____
BOARD/COMMISSION _____
BOARD/COMMISSION DIRECTOR _____
CONTACT PERSON _____
ADDRESS _____
PHONE NO. _____ EMAIL _____
NAME OF PRESENTER(S) AT SUBCOMMITTEE MEETING _____
PRESENTER EMAIL(S) _____

INSTRUCTIONS

In order to file a proposed rule for legislative review and approval, please submit this Legislative Questionnaire and Financial Impact Statement, and attach (1) a summary of the rule, describing what the rule does, the rule changes being proposed, and the reason for those changes; (2) both a markup and clean copy of the rule; and (3) all documents required by the Questionnaire.

If the rule is being filed for permanent promulgation, please email these items to the attention of Rebecca Miller-Rice, miller-ricer@blr.arkansas.gov, for submission to the Administrative Rules Subcommittee.

If the rule is being filed for emergency promulgation, please email these items to the attention of Director Marty Garrity, garritym@blr.arkansas.gov, for submission to the Executive Subcommittee.

Please answer each question completely using layman terms.

1. What is the official title of this rule?

2. What is the subject of the proposed rule? _____
3. Is this rule being filed under the emergency provisions of the Arkansas Administrative Procedure Act? Yes No

If yes, please attach the statement required by Ark. Code Ann. § 25-15-204(c)(1).

If yes, will this emergency rule be promulgated under the permanent provisions of the Arkansas Administrative Procedure Act? Yes No

4. Is this rule being filed for permanent promulgation? Yes No

If yes, was this rule previously reviewed and approved under the emergency provisions of the Arkansas Administrative Procedure Act? Yes No

If yes, what was the effective date of the emergency rule? _____

On what date does the emergency rule expire? _____

5. Is this rule required to comply with a *federal* statute, rule, or regulation? Yes No

If yes, please provide the federal statute, rule, and/or regulation citation.

6. Is this rule required to comply with a *state* statute or rule? Yes No

If yes, please provide the state statute and/or rule citation.

7. Are two (2) rules being repealed in accord with Executive Order 23-02? Yes No

If yes, please list the rules being repealed.

If no, please explain.

8. Is this a new rule? Yes No

Does this repeal an existing rule? Yes No

If yes, the proposed repeal should be designated by strikethrough. If it is being replaced with a new rule, please attach both the proposed rule to be repealed and the replacement rule.

Is this an amendment to an existing rule? Yes No

If yes, all changes should be indicated by strikethrough and underline. In addition, please be sure to label the markup copy clearly as the markup.

9. What is the state law that grants the agency its rulemaking authority for the proposed rule, outside of the Arkansas Administrative Procedure Act? Please provide the specific Arkansas Code citation(s), including subsection(s).

10. Is the proposed rule the result of any recent legislation by the Arkansas General Assembly?
Yes No

If yes, please provide the year of the act(s) and act number(s).

11. What is the reason for this proposed rule? Why is it necessary?

12. Please provide the web address by which the proposed rule can be accessed by the public as provided in Ark. Code Ann. § 25-19-108(b)(1).

13. Will a public hearing be held on this proposed rule? Yes No

If yes, please complete the following:

Date: _____

Time: _____

Place: _____

Please be sure to advise Bureau Staff if this information changes for any reason.

14. On what date does the public comment period expire for the permanent promulgation of the rule? Please provide the specific date. _____

15. What is the proposed effective date for this rule? _____

16. Please attach (1) a copy of the notice required under Ark. Code Ann. § 25-15-204(a)(1) and (2) proof of the publication of that notice.

17. Please attach proof of filing the rule with the Secretary of State, as required by Ark. Code Ann. § 25-15-204(e)(1)(A).

18. Please give the names of persons, groups, or organizations that you anticipate will comment on these rules. Please also provide their position (for or against), if known.

19. Is the rule expected to be controversial? Yes No

If yes, please explain.

FINANCIAL IMPACT STATEMENT

PLEASE ANSWER ALL QUESTIONS COMPLETELY.

DEPARTMENT _____
BOARD/COMMISSION _____
PERSON COMPLETING THIS STATEMENT _____
TELEPHONE NO. _____ **EMAIL** _____

To comply with Ark. Code Ann. § 25-15-204(e), please complete the Financial Impact Statement and email it with the questionnaire, summary, markup and clean copy of the rule, and other documents. Please attach additional pages, if necessary.

TITLE OF THIS RULE _____

1. Does this proposed, amended, or repealed rule have a financial impact?
Yes No

2. Is the rule based on the best reasonably obtainable scientific, technical, economic, or other evidence and information available concerning the need for, consequences of, and alternatives to the rule?
Yes No

3. In consideration of the alternatives to this rule, was this rule determined by the agency to be the least costly rule considered? Yes No

If no, please explain:

(a) how the additional benefits of the more costly rule justify its additional cost;

(b) the reason for adoption of the more costly rule;

(c) whether the reason for adoption of the more costly rule is based on the interests of public health, safety, or welfare, and if so, how; and

(d) whether the reason for adoption of the more costly rule is within the scope of the agency's statutory authority, and if so, how.

4. If the purpose of this rule is to implement a *federal* rule or regulation, please state the following:
(a) What is the cost to implement the federal rule or regulation?

Current Fiscal Year

General Revenue _____
 Federal Funds _____
 Cash Funds _____
 Special Revenue _____
 Other (Identify) _____

Total _____

Next Fiscal Year

General Revenue _____
 Federal Funds _____
 Cash Funds _____
 Special Revenue _____
 Other (Identify) _____

Total _____

(b) What is the additional cost of the state rule?

Current Fiscal Year

General Revenue _____
 Federal Funds _____
 Cash Funds _____
 Special Revenue _____
 Other (Identify) _____

Total _____

Next Fiscal Year

General Revenue _____
 Federal Funds _____
 Cash Funds _____
 Special Revenue _____
 Other (Identify) _____

Total _____

5. What is the total estimated cost by fiscal year to any private individual, private entity, or private business subject to the proposed, amended, or repealed rule? Please identify those subject to the rule, and explain how they are affected.

Current Fiscal Year

\$ _____

Next Fiscal Year

\$ _____

6. What is the total estimated cost by fiscal year to a state, county, or municipal government to implement this rule? Is this the cost of the program or grant? Please explain how the government is affected.

Current Fiscal Year

\$ _____

Next Fiscal Year

\$ _____

7. With respect to the agency's answers to Questions #5 and #6 above, is there a new or increased cost or obligation of at least one hundred thousand dollars (\$100,000) per year to a private individual, private entity, private business, state government, county government, municipal government, or to two (2) or more of those entities combined?

Yes No

If yes, the agency is required by Ark. Code Ann. § 25-15-204(e)(4) to file written findings at the time of filing the financial impact statement. The written findings shall be filed simultaneously with the financial impact statement and shall include, without limitation, the following:

- (1) a statement of the rule's basis and purpose;
- (2) the problem the agency seeks to address with the proposed rule, including a statement of whether a rule is required by statute;
- (3) a description of the factual evidence that:
 - (a) justifies the agency's need for the proposed rule; and
 - (b) describes how the benefits of the rule meet the relevant statutory objectives and justify the rule's costs;
- (4) a list of less costly alternatives to the proposed rule and the reasons why the alternatives do not adequately address the problem to be solved by the proposed rule;
- (5) a list of alternatives to the proposed rule that were suggested as a result of public comment and the reasons why the alternatives do not adequately address the problem to be solved by the proposed rule;
- (6) a statement of whether existing rules have created or contributed to the problem the agency seeks to address with the proposed rule and, if existing rules have created or contributed to the problem, an explanation of why amendment or repeal of the rule creating or contributing to the problem is not a sufficient response; and
- (7) an agency plan for review of the rule no less than every ten (10) years to determine whether, based upon the evidence, there remains a need for the rule including, without limitation, whether:
 - (a) the rule is achieving the statutory objectives;
 - (b) the benefits of the rule continue to justify its costs; and
 - (c) the rule can be amended or repealed to reduce costs while continuing to achieve the statutory objectives.

Rules Implementing Act 605 of 2021 Oversight of Retail Water Providers

I. Purpose

1. The purpose of these rules is to:
 - a. Implement Ark. Code Ann. § 14-234-801 et seq.;
 - b. Provide oversight of retail water providers to promote efficiency in service and stability in fiscal management;
 - c. Provide training and education to governing bodies of retail water providers; and
 - d. Provide training of local, state, and federal leaders on the issues surrounding provider personnel, finances, compliance, and environmental factors.
2. The rules shall be read in conjunction with Ark. Code Ann. § 14-234-801 et seq.

II. Definitions

The following definitions are supplemental to the definitions in Ark. Code Ann. § 14-234-801 et seq.:

1. "Annualized Revenue Requirement" means the projected revenue if the recommended increase, as well as all previous recommended increases, is in effect for the full 12-month period.
2. "Commission" means the Arkansas Natural Resources Commission.
3. "Debt Service Coverage Ratio" ("DSCR") means Net Operating Income divided by Total Debt Service.
4. "Department" means the Arkansas Department of Agriculture, including the Natural Resources Division thereof.
5. "Future Capital Expenses" means the design and construction of new and replacement infrastructure, including any associated labor and fees.
- ~~6. "Major Development Project" means a project that exceeds twenty percent (20%) of gross revenues of the provider for the immediately preceding fiscal year.~~
7. "Non-operating Revenue" means revenue derived from sources other than water use charges.
8. "Net Operating Income" means earnings before interest, tax, depreciation, and amortization (EBITDA) less capital expenditures.
9. "Provider board" as used herein shall have the definition provided in Ark. Code Ann. § 14-234-801(b)(3).
10. "System" means:
 - a. For a provider that provides water service only, the provider's water system.
 - b. For a provider that provides water service and sewer service, but where the water system and the sewer system are not operated as a joint and integrated undertaking (i.e., when a separate audit is prepared for water and for sewer), the provider's water system.
 - c. For a provider that provides water service and sewer service, and the water facilities are operated as a joint and integrated undertaking (i.e., when water and sewer are combined in a single audit), the provider's joint and integrated water and sewer system.
11. "Total Debt Service" means current debt obligations, including but not limited to any interest, principal, sinking fund, and lease payments due in a given year.

III. Refurbishment and Replacement Account

- ~~1. Refurbishment and Replacement accounts, as required under Ark. Code Ann. § 14-234-802(e), shall only be used to make repairs or to replace System appurtenances.~~
- ~~2.1.~~ Providers may designate existing depreciation or replacement accounts as the Refurbishment and Replacement Account required by Ark. Code Ann. § 14-234-802(e), so long as the amount deposited therein complies with the provisions of Ark. Code Ann. § 14-234-802(e).
- ~~3.2.~~ The calculation of the amount required to be deposited into a Refurbishment and Replacement Account pursuant to these Rules and Ark. Code Ann. § 14-234-802(e) shall be based on the gross operating revenues of a System.
- ~~4. The funds shall not be used for routine repairs. Expenditures of \$1,000 or less shall be considered routine repairs.~~
- ~~5.3.~~ Utilization of funds from the Refurbishment and Replacement account must be approved by the Provider Board prior to its use.

IV. Rate Studies for Retail Water Providers

1. Retail water providers shall obtain rate studies pursuant to the requirements in Ark. Code Ann. § 14-234-802.
- ~~2. A provider that plans to undertake a major development project, as defined above and in Ark. Code Ann. § 14-234-802(h)(2), shall obtain a rate study or amend the provider's existing rate study before beginning the major development project to include consideration of the financial impact of the major development project on the fiscal sustainability of the provider.~~
- ~~3.2.~~ Rate studies shall be based on the guidelines of the American Water Works Association and the Water Environment Federation.
 - a. The rate studies shall include:
 - i. Reports containing the following information for the current year and projections for the next five years:
 1. A comprehensive cost analysis, including:
 - a. Operations and maintenance (O&M) expenses;
 - b. Financing expenses, including but not limited to debt service payments, bond issuance costs, and commercial paper fees, if applicable;
 - c. Any required cash reserves unavailable to pay for expenses, including but not limited to the annual refurbishment and replacement account deposit requirement as set out in Ark. Code Ann. § 14-234-802(e);
 - d. Depreciation expenses;
 - e. Future capital expenses;
 - f. Expenses required for an annual audit or agreed-upon procedures and compilation report;
 - g. Expenses required for rate studies required under Ark. Code Ann. § 14-234-802; and

- h. Any other expenses not accounted for in paragraphs (a) through (g).
 - 2. A comprehensive revenue earnings analysis, including:
 - a. Available Cash balance;
 - b. Non-rate revenue;
 - c. Rate revenue without recommended increases;
 - 3. For the five projected years, recommended rate increases and the projected additional revenue derived therefrom;
 - 4. Debt Service Coverage Ratios;
 - 5. The number of days that the available cash balance could cover O&M expenses without additional revenue;
 - 6. Annualized revenue requirement.
 - ii. The provider's asset management plan, including:
 - 1. inventory of essential assets and for each essential asset, without limitation, the following information:
 - a. Asset type;
 - b. Annual maintenance costs;
 - c. Year installed;
 - d. Vendor-specified useful life, if available;
 - e. Anticipated date of replacement;
 - f. Installation or replacement cost estimate; and
 - g. Projected consequence of failure.
 - 2. The provider's plan for replacement of essential assets.
 - iii. Proposed changes in rates should be based on achieving and maintaining a Debt Service Coverage Ratio of 1.1 or higher.
 - iv. An explanation of the provider's chosen rate design; and
 - v. Recommendations for any changes to the provider's operations, including a plan on how the changes should be implemented.
 - vi. Certification by the entity performing the rate study that such study complies with Ark. Code Ann. § 14-234-801 et. seq. and these Rules.
 - b. Rate studies shall be provided to the Department at the time it is provided to Arkansas Legislative Audit under Ark. Code Ann. § 14-234-802(i).
 - c. The Commission may request further information necessary to determine a provider's fiscal status, and providers shall cooperate with the Commission's requests.
 - d. The Commission may waive any one or more requirement in Section IV(3)(a), above, upon written request.
- ~~4.3.~~ Rate studies for providers that operate a joint and integrated water and sewer system shall analyze the total System.
- ~~5.4.~~ Rate studies performed shall be an objective and unbiased review of the provider's fiscal status.
- ~~6.5.~~ The Commission will maintain a list of approved entities to conduct rate studies as required under Ark. Code Ann. § 14-234-802(f)(1). The Commission may remove an approved entity from its list of approved entities if it determines that an entity violated Arkansas law or Commission rules in performing a rate study.

V. Determinations of Fiscal Distress

1. A Provider will be in Fiscal Distress if the Provider:
 - a. Fails to obtain a rate study as required;
 - b. Fails to implement the rates contained in the completed rate study ~~required~~ within ~~one (1) or two (2) years as the time requirements~~ provided under ~~ACA 14-234-802(c)(2)(B)(ii)-(iii)~~ Ark. Code Ann. § 14-234-802(c)(2)(B)(ii)-(iv); or
 - c. Fails to maintain a Debt Service Coverage Ratio of 1.05 or higher.
2. A Provider may be determined to be in fiscal distress if the Provider:
 - a. Does not comply with the training required by Ark. Code Ann. § 14-234-805 and Section VII, below;
 - b. Fails to file with Arkansas Legislative Audit an audit report or agreed-upon procedures and compilation report required by Ark. Code Ann. § 14-234-120;
 - c. Fails to maintain unincumbered cash or cash equivalents in an amount equal to one-twelfth of the total expenses from the most recent fiscal year;
 - d. Fails to adopt budget before the beginning of a new fiscal year providing for sufficient revenues to meet or exceed anticipated expenses during that fiscal year;
 - e. Fails to make all required payments due to the United States Treasury – Internal Revenue Service, Arkansas Department of Finance and Admission, or Arkansas Department of Health;
 - f. Fails to make any bond, loan, or lease payment; or
 - g. Fails to comply with an administrative order of the US Environmental Protection Agency, Arkansas Department of Health or Arkansas Division of Environmental Quality concerning operation and maintenance of the system.
3. Providers determined to be in fiscal distress shall submit to the Department an improvement plan as required in Ark. Code Ann. § 14-234-802(k) detailing in writing the provider's plan to resolve the violation or violations of rule or law or the provider's plan to resolve its fiscal insufficiency that caused it to be considered in fiscal distress.
4. A provider will be determined by the Commission to no longer be in fiscal distress if:
 - a. The provider resolves the violation of rule or law that caused it to be considered in fiscal distress and obtains written verification from the Commission that the violation has been resolved; or
 - b. The provider implements a change of rates that is shown by the study to resolve the provider's fiscal insufficiency.

VI. Miscellaneous

1. A provider seeking approval from the Commission under Ark. Code Ann. § 14-234-802(g) shall demonstrate its fiscal sustainability by submitting to the Commission a business plan demonstrating its technical, financial, and managerial capacity.
2. Pursuant to provisions relating to Commission intervention under the conditions provided for in Ark. Code Ann. § 14-234-804(d), upon request of a municipal provider or a customer or unserved customer of a municipal provider, the Department will assist in the resolution of the issue or issues if the party or parties involved demonstrate that all parties involved made a good faith effort to resolve the issue or issues.

- a. Such intervention may include without limitation negotiation or mediation with the party or parties involved.
- b. If the Department determines that a party is not acting in good faith, the Department may end its intervention.

VII. Training

~~1. The Advisory Training Board created under Ark. Code Ann. § 14-234-805 shall develop the training protocol for provider board members, including training protocol for rate studies performed under the guidelines of the American Water Works Association and the Water Environment Federation.~~

~~2.1. By December 31, 2022, a~~ A majority of the members of provider boards shall receive a minimum of eight hours of provider training.

~~3.2.~~ If a change in membership of a provider board causes the provider board to have less than a majority of members who have undergone provider training, enough members of the provider board shall receive provider training within one year of the change in membership such that a majority of the board has received training.

~~4.3.~~ Each provider board shall report the following information annually, by January 31, to the Department:

- a. the names and contact information of each member on the provider board;
- b. an identification of which members have obtained eight hours of provider training; and
- c. an identification of which members have served on the board for more than ten (10) years and are exempt from the training requirement pursuant to Ark. Code Ann. § 14-234-805(a)(3).

Oversight of Retail Water Providers

I. Purpose

1. The purpose of these rules is to:
 - a. Implement Ark. Code Ann. § 14-234-801 et seq.;
 - b. Provide oversight of retail water providers to promote efficiency in service and stability in fiscal management;
 - c. Provide training and education to governing bodies of retail water providers; and
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2. "Commission" means the Arkansas Natural Resources Commission.
3. "Debt Service Coverage Ratio" ("DSCR") means Net Operating Income divided by Total Debt Service.
4. "Department" means the Arkansas Department of Agriculture, including the Natural Resources Division thereof.
5. "Future Capital Expenses" means the design and construction of new and replacement infrastructure, including any associated labor and fees.
6. "Non-operating Revenue" means revenue derived from sources other than water use charges.
7. "Net Operating Income" means earnings before interest, tax, depreciation, and amortization (EBITDA) less capital expenditures.
8. "Provider board" as used herein shall have the definition provided in Ark. Code Ann. § 14-234-801(b)(3).
9. "System" means:
 - a. For a provider that provides water service only, the provider's water system.
 - b. For a provider that provides water service and sewer service, but where the water system and the sewer system are not operated as a joint and integrated undertaking (i.e., when a separate audit is prepared for water and for sewer), the provider's water system.
 - c. For a provider that provides water service and sewer service, and the water facilities are operated as a joint and integrated undertaking (i.e., when water and sewer are combined in a single audit), the provider's joint and integrated water and sewer system.
10. "Total Debt Service" means current debt obligations, including but not limited to any interest, principal, sinking fund, and lease payments due in a given year.

III. Refurbishment and Replacement Account

1. Providers may designate existing depreciation or replacement accounts as the Refurbishment and Replacement Account required by Ark. Code Ann. § 14-234-802(e), so long as the amount deposited therein complies with the provisions of Ark. Code Ann. § 14-234-802(e).
2. The calculation of the amount required to be deposited into a Refurbishment and Replacement Account pursuant to these Rules and Ark. Code Ann. § 14-234-802(e) shall be based on the gross operating revenues of a System.
3. Utilization of funds from the Refurbishment and Replacement account must be approved by the Provider Board prior to its use.

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1. Retail water providers shall obtain rate studies pursuant to the requirements in Ark. Code Ann. § 14-234-802.
2. Rate studies shall be based on the guidelines of the American Water Works Association and the Water Environment Federation.
 - a. The rate studies shall include:
 - i. Reports containing the following information for the current year and projections for the next five years:
 1. A comprehensive cost analysis, including:
 - a. Operations and maintenance (O&M) expenses;
 - b. Financing expenses, including but not limited to debt service payments, bond issuance costs, and commercial paper fees, if applicable;
 - c. Any required cash reserves unavailable to pay for expenses, including but not limited to the annual refurbishment and replacement account deposit requirement as set out in Ark. Code Ann. § 14-234-802(e);
 - d. Depreciation expenses;
 - e. Future capital expenses;
 - f. Expenses required for an annual audit or agreed-upon procedures and compilation report;
 - g. Expenses required for rate studies required under Ark. Code Ann. § 14-234-802; and
 - h. Any other expenses not accounted for in paragraphs (a) through (g).
 2. A comprehensive revenue earnings analysis, including:
 - a. Available Cash balance;
 - b. Non-rate revenue;
 - c. Rate revenue without recommended increases;
 3. For the five projected years, recommended rate increases and the projected additional revenue derived therefrom;
 4. Debt Service Coverage Ratios;
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 - ii. The provider's asset management plan, including:

1. inventory of essential assets and for each essential asset, without limitation, the following information:
 - a. Asset type;
 - b. Annual maintenance costs;
 - c. Year installed;
 - d. Vendor-specified useful life, if available;
 - e. Anticipated date of replacement;
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 - g. Projected consequence of failure.
2. The provider's plan for replacement of essential assets.
- iii. Proposed changes in rates should be based on achieving and maintaining a Debt Service Coverage Ratio of 1.1 or higher.
- iv. An explanation of the provider's chosen rate design; and
- v. Recommendations for any changes to the provider's operations, including a plan on how the changes should be implemented.
- vi. Certification by the entity performing the rate study that such study complies with Ark. Code Ann. § 14-234-801 et. seq. and these Rules.
- b. Rate studies shall be provided to the Department at the time it is provided to Arkansas Legislative Audit under Ark. Code Ann. § 14-234-802(i).
- c. The Commission may request further information necessary to determine a provider's fiscal status, and providers shall cooperate with the Commission's requests.
- d. The Commission may waive any one or more requirement in Section IV(3)(a), above, upon written request.
3. Rate studies for providers that operate a joint and integrated water and sewer system shall analyze the total System.
4. Rate studies performed shall be an objective and unbiased review of the provider's fiscal status.
5. The Commission will maintain a list of approved entities to conduct rate studies as required under Ark. Code Ann. § 14-234-802(f)(1). The Commission may remove an approved entity from its list of approved entities if it determines that an entity violated Arkansas law or Commission rules in performing a rate study.

V. Determinations of Fiscal Distress

1. A Provider will be in Fiscal Distress if the Provider:
 - a. Fails to obtain a rate study as required;
 - b. Fails to implement the rates contained in the completed rate study within the time requirements provided under Ark. Code Ann. § 14-234-802(c)(2)(B)(ii)-(iv); or
 - c. Fails to maintain a Debt Service Coverage Ratio of 1.05 or higher.
2. A Provider may be determined to be in fiscal distress if the Provider:
 - a. Does not comply with the training required by Ark. Code Ann. § 14-234-805 and Section VII, below;
 - b. Fails to file with Arkansas Legislative Audit an audit report or agreed-upon procedures and compilation report required by Ark. Code Ann. § 14-234-120;

- c. Fails to maintain unincumbered cash or cash equivalents in an amount equal to one-twelfth of the total expenses from the most recent fiscal year;
 - d. Fails to adopt budget before the beginning of a new fiscal year providing for sufficient revenues to meet or exceed anticipated expenses during that fiscal year;
 - e. Fails to make all required payments due to the United States Treasury – Internal Revenue Service, Arkansas Department of Finance and Admission, or Arkansas Department of Health;
 - f. Fails to make any bond, loan, or lease payment; or
 - g. Fails to comply with an administrative order of the US Environmental Protection Agency, Arkansas Department of Health or Arkansas Division of Environmental Quality concerning operation and maintenance of the system.
- 3. Providers determined to be in fiscal distress shall submit to the Department an improvement plan as required in Ark. Code Ann. § 14-234-802(k) detailing in writing the provider's plan to resolve the violation or violations of rule or law or the provider's plan to resolve its fiscal insufficiency that caused it to be considered in fiscal distress.
- 4. A provider will be determined by the Commission to no longer be in fiscal distress if:
 - a. The provider resolves the violation of rule or law that caused it to be considered in fiscal distress and obtains written verification from the Commission that the violation has been resolved; or
 - b. The provider implements a change of rates that is shown by the study to resolve the provider's fiscal insufficiency.

VI. Miscellaneous

- 1. A provider seeking approval from the Commission under Ark. Code Ann. § 14-234-802(g) shall demonstrate its fiscal sustainability by submitting to the Commission a business plan demonstrating its technical, financial, and managerial capacity.
- 2. Pursuant to provisions relating to Commission intervention under the conditions provided for in Ark. Code Ann. § 14-234-804(d), upon request of a municipal provider or a customer or unserved customer of a municipal provider, the Department will assist in the resolution of the issue or issues if the party or parties involved demonstrate that all parties involved made a good faith effort to resolve the issue or issues.
 - a. Such intervention may include without limitation negotiation or mediation with the party or parties involved.
 - b. If the Department determines that a party is not acting in good faith, the Department may end its intervention.

VII. Training

- 1. A majority of the members of provider boards shall receive a minimum of eight hours of provider training.
- 2. If a change in membership of a provider board causes the provider board to have less than a majority of members who have undergone provider training, enough members of the provider board shall receive provider training within one year of the change in membership such that a majority of the board has received training.

3. Each provider board shall report the following information annually, by January 31, to the Department:

- a. the names and contact information of each member on the provider board;
- b. an identification of which members have obtained eight hours of provider training; and
- c. an identification of which members have served on the board for more than ten (10) years and are exempt from the training requirement pursuant to Ark. Code Ann. § 14-234-805(a)(3).