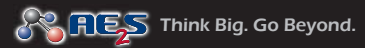


UTILITY ENTERPRISE MANAGEMENT

The Source

2nd Quarter 2010



Recovery Zone Bonds

The Recovery Zone (RZ) Bond program was designed to provide tax incentives for economic development in the form of lower borrowing costs, either through federal tax exemption for the interest on bonds issued to finance development projects or through a new program of “direct payments” to the bond issuer. RZ Bonds must be issued by January 1, 2011 and are available in two types: RZ Economic Development Bonds (RZEDBs) and RZ Facility Bonds (RZFBs).

RZEDBs can be utilized to fund capital expenditures for property located within the zone, public infrastructure and construction of public facilities, and job training and educational programs. The issuer of the RZEDBs receives an interest subsidy in the form of payments from the Internal Revenue Service (IRS). The subsidy rate is 45 percent of the interest payments.

RZFBs can be utilized to finance private activity projects within a RZ, including retail, commercial, office, manufacturing, entertainment, and warehouse facilities. Interest income received from RZFBs is exempt from federal, and in some cases state, income tax to the bondholder. RZFBs are not a “direct payment” subsidy from the IRS.

Allocations were made specified by the IRS to city and county governments based on relative declines in employment in 2008. Allocations may be waived and

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Asset Management is defined as a systematic process of maintaining, upgrading, and operating physical assets. The concept of asset management has been identified as one of the most useful tools available to utility managers and staff; however, implementation of asset management has shown to be a challenge. Guidance from the United States Environmental Protection Agency

Asset Management: An Illustration

(USEPA) has identified five core questions to evaluate when developing an asset management strategy:

1. What is the current state of my system’s assets?
2. What is my required “sustainable” level of service?
3. Which assets are critical to sustained performance?
4. What are my minimum life cycle costs?
5. What is my best long-term funding strategy?

In an effort to paint a picture with regard to asset management, this edition of *The Source* highlights the successful utilization of asset management practices by the City of Grand Forks, North Dakota.

Assessment of Grand Forks Water Treatment Plant Needs

The City has been facing a number of challenges at its existing Grand Forks Water Treatment Plant (GFWTP) for over 15 years, including regulatory, capacity, and condition issues. Replacement of the facility, which was constructed in phases over a period of 30 years, has been estimated to cost approximately \$100 million. Based on a desire to identify the best long-term project for implementation and develop a fiscally responsible funding program for the project, the City has completed a number of detailed study efforts, including a thorough assessment of the condition of the existing facility.

To evaluate the current state of the assets, the scope of the project involved assessing condition and risk of failure for various components at the GFWTP, including process equipment, support systems, and architectural/structural components. Previous study efforts had established the required sustainable level of service for the GFWTP, which then became the baseline for operational performance in the condition assessment. A project team was assembled to complete plant tours, develop inventory lists, and ultimately assign a scoring system to the list allowing the various infrastructure components to be ranked according to risk. Initial screening criteria, including Condition, Risk of Failure, and Redundancy were applied. If the infrastructure did not score higher than a specified total value and lacked redundancy, additional evaluation criteria were applied. The additional criteria included:

- Regulatory Compliance
- Safety Issues
- Capacity Reduction
- Difficulty of Repair or Replacement

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(RZ Bonds continued from first page)
 redistributed anywhere in the state at the state's discretion. Details on allocations can be found at www.irs.gov/taxexemptbond.

There is pending federal legislation (HR 4849) that would allocate additional RZ funds that would be available through January 1, 2012.

For more information, contact Brian Osowski, AE2S Financial/Asset Group Manager, at 701-746-8087. ■

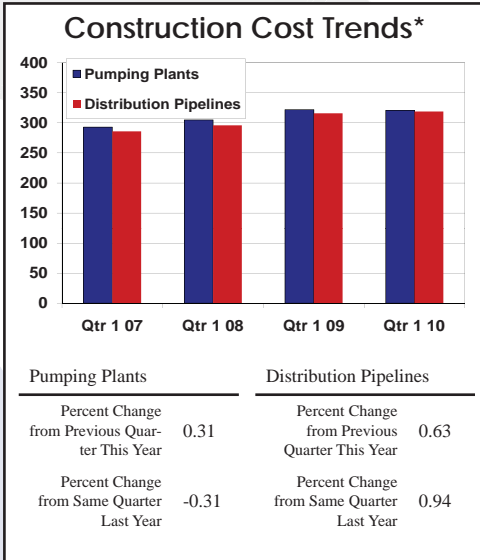
(Asset Management: An Illustration continued from first page)

- Timeframe for Repair or Replacement
- Loss of Redundancy
- Cost

A matrix of probability of failure versus implications of a failure was developed. Items with both a high probability of failure and a high implications score were identified as Very High Risk. These represented assets that are critical to sustained performance. Items with a low probability of failure and low implications score were identified as Very Low Risk. Additional categories of High Risk, Moderate Risk, and Low Risk were also established.

Capital projects were then developed for each risk category, with associated opinions of probable project costs (minimum life cycle costs). Based on the results of the project, City leaders determined that a large water treatment capital investment was on the horizon, but investment in a smaller capital project to address the most critical items was warranted in the near-term to provide sufficient time to adequately plan for a large capital replacement project, including identification of the best long-term funding strategy.

With the information obtained as part of the condition assessment, the City of Grand Forks gained insight into how facility components related to the overall condition of the facility, developed a fiscally responsible plan for preparing for a major capital project, and set the stage for future planning efforts moving forward. For more about Asset Management Best Practices, visit the USEPA at http://www.epa.gov/safewater/smallsystems/pdfs/guide_smallsystems_assetmanagement_bestpractices.pdf or contact AE2S. ■



*Based on information from the Bureau of Reclamation

www.ae2s.com

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