

State Water Infrastructure Authority
North Carolina Department of Environmental Quality
December 13, 2017
Meeting Minutes

State Water Infrastructure Authority Members Attending Meeting

- Kim Colson, Chair; Director, Division of Water Infrastructure
- Melody Adams, Director, Rural Grants/Programs, Rural Development Division, NC Dept. of Commerce
- Johnnie Carswell, Burke County Commissioner
- Greg Gaskins, Deputy Treasurer, State & Local Finance Division; Secretary, Local Government Commission
- Leila Goodwin, Water Resources Engineer
- Maria Hunnicutt, Manager, Broad River Water Authority
- Cal Stiles, Cherokee County Commissioner
- Charles Vines, Mayor of Bakersville

Division of Water Infrastructure Staff Attending Meeting

- Julie Haigler Cubeta, Community Block Development Grant – Infrastructure Unit Supervisor
- Francine Durso, Special/Technical Issues Senior Program Manager
- Seth Robertson, State Revolving Fund Section Chief
- Jennifer Haynie, Environmental and Special Projects Unit Supervisor
- Anita Reed, SRF Wastewater Unit Supervisor
- Jessica Leggett, Project Manager, Environmental and Special Projects Unit
- Cathy Akroyd, Public Information Officer

Department of Justice Staff Attending Meeting

- Jill Weese, NC Department of Justice; Assistant Attorney General, Environmental Division

Item A. Call to Order

Mr. Colson opened the meeting and reminded the members of the State Water Infrastructure Authority (SWIA) of General Statute 138A-15 which states that any member who is aware of a known conflict of interest or an appearance of a conflict of interest with respect to matters before the Authority today is required to identify the conflict or appearance of a conflict at the time the conflict becomes apparent.

Item B. Approval of Meeting Minutes

Mr. Colson presented the draft meeting minutes from the September 20, 2017 Authority meeting for approval.

Action Item B:

- Mr. Vines made a motion to approve the September 20, 2017 Authority meeting minutes. Mr. Carswell seconded the motion. The motion passed unanimously.

Item C. Attorney General's Office Report

Ms. Weese had no items to report.

Item D. Chair's Remarks

The Authority's Annual Report was completed, will be posted on the Division website, and will be emailed to each Authority member. This year's report is combined with the Division's Annual Report because of new legislation.

The Master Plan Outreach Subcommittee met on December 1, 2017 and worked on messaging to local government units. In 2018, the Division will work with the Councils of Government (COGs) at their regional meetings. Mr. Stiles added that at the statewide meeting of all COG directors, the Master Plan was briefly discussed and was well received. The challenge will be to condense and refine the core messages to work within the 30-minute timeframe of presentations to most COGs.

The April 2018 Authority meeting will be held in eastern North Carolina and includes time to hear from local government units, like the meeting in Asheville in the Fall of 2015. There are many agenda items to be covered and a two-day meeting is needed. The meeting would start around noon on April 18 and finish on April 19 mid-afternoon.

Item E. Communications Update

Ms. Cathy Akroyd, the Division's Public Information Officer, presented an update about the Division's communications activities. She highlighted the dedication of the Kings Mountain Water Treatment Plant.

Item F. The One Water Concept

Mr. Trevor Clements, Director of Water Resources with Tetra Tech Engineering, Inc. in Research Triangle Park, presented "'One Water' in North Carolina: Reconnecting Water to Build Better Communities." He presented the following key One Water concepts:

- One Water embraces the idea that all water is valuable and the management of these resources (surface water, ground water, stormwater, wastewater) can be optimized to support a balanced triple bottom line of prosperous economy, high-quality of life for all, and a healthy environment that sustains prosperity and quality of life for future generations.
- Solutions for addressing existing water infrastructure systems have become much more complex. There is an opportunity to find innovative solutions that are not isolated to the same approaches of the past. Tying water infrastructure planning, management, and funding decisions to broader community objectives can increase public support to adequately fund water infrastructure and connect communities to the value of water in their everyday lives.
- Many agencies are turning to integrated water resource planning and One Water approaches that consider drinking water, wastewater, stormwater and reclaimed water together.
- Smart Master Planning can combine asset management, risk management, and resiliency frameworks to develop robust, prioritized capital improvement programs (CIP).
- Under the One Water paradigm, we can consider a broad array of options that provide multiple benefits to communities as they invest in and manage their water infrastructure. In regions where infrastructure is being expanded to support growth, asset management costs could be decreased by co-locating stormwater capture and wastewater recovery systems with potable supply.
- Placing smaller, more decentralized (or satellite) systems closer to where the demand exists in shorter time frames is referred to as a "go as you grow" method that decreases the time until communities are using the infrastructure at full capacity.

Following the presentation, the Authority discussed these issues with Mr. Clements:

The Authority commented that this is an impressive effort and long overdue. It is clear that solid local leadership is needed for this to be successful.

The One Water Concepts mesh very closely with many issues that the Authority continues to work on, such as stormwater, as well as issues identified in the Statewide Infrastructure Master Plan.

The Authority and Division have expressed concerns about: project cost per connection; whether centralized systems are always the best solution; and, if a decentralized approach makes more sense in certain circumstances. One challenge is whether individual homeowners would maintain their individual systems. It is likely that a county or other entity would need trained personnel to take care of the decentralized system and an accompanying issue would be who pays for the trained personnel.

Ms. Adams mentioned that the One Water Concepts could be beneficial in helping build rural economies with a focus on connecting rural/urban and moving away from the competition between the two. There may be good connections with the Department of Commerce that could be explored with the Secretary and the Assistant Secretary for Rural Development.

Both ordinances and policies that incentivize urban projects and using green infrastructure will likely be needed. Watershed associations and regional planning associations may be the key to bringing stakeholders together.

Mr. Clements is in contact with some of the NC Councils of Government (COG) regarding the One Water concepts which relate economic development to water resources management and environmental protection. The Division's work with the COGs to promote the Master Plan overlaps with the One Water concepts.

Mr. Stiles stated that, as Acting Chair of the COG Forum, he sees that the COGs have the framework in place to reach local governments. Working closely with the COGs will be the most effective way to work with the local systems.

Item G. September 2017 Application Round Update and Planning for February 28 Meeting

Approximately 290 applications were received during the Fall 2017 funding round for:

- Construction projects (wastewater, drinking water or stormwater/stream restoration)
- CDBG-I projects (including projects for hurricane relief)
- Asset Inventory and Assessment grants (AIA)
- Merger/Regionalization Feasibility grants (MRF)

As in the past, the Division determines the best possible source(s) of funding for which an applicant/project is eligible. If an applicant is eligible for grant funds, the affordability criteria is applied to determine the percentage of the project cost that could be offered as a grant. The Fall 2017 application round is the last round of Connect NC bond funds. The Authority will make funding decisions at its February 28, 2018 meeting.

Applications received for the funds available for hurricane relief under the CDBG-I program are scored and ranked separately from the non-hurricane relief applications. Since the funds are separate, the hurricane relief projects will not receive any special priority over the non-hurricane relief projects.

The Division received 162 applications for Asset Inventory and Assessment grants. The grants are still limited to \$150,000 from the Wastewater Reserve or the Drinking Water Reserve, over a period of three years, to the same local government unit or nonprofit water corporation.

The plan for the 2018 Intended Use Plans (IUPs) for the Clean Water and Drinking Water SRF programs was presented. The application priority ranking methods used for the evaluation of applications to the CWSRF and DWSRF are proposed to the U.S. Environmental Protection Agency (EPA) each year, in North Carolina's IUP for each SRF program. Each IUP includes the Priority Rating System, which contains the points that are applied by the Division when evaluating applications. The IUPs are submitted to the EPA as part of the capitalization grant applications. The Division is proposing no changes to the CWSRF and DWSRF Priority Rating Systems. The Division will hold a public meeting to receive public comment on each Draft IUP before it is submitted to the EPA. The public meeting will be scheduled as soon as possible. However, there will still be an opportunity to revise the IUPs if needed, based on metrics to be discussed in April 2018.

Action Item G:

- Ms. Goodwin made a motion to approve the draft CWSRF and draft DWSRF priority rating systems for public review. Mr. Vines seconded the motion. The motion passed unanimously.

Item H. Fair Bluff Initiative

The Division has assembled a team for this pilot project that includes members of the LGC staff, the University of North Carolina's Environmental Finance Center (EFC), Compass Services, LLC and HDR Engineers, Inc. A representative from each entity, along with WK Dickson (currently working directly for the Town of Fair Bluff), were present at the Authority meeting. HDR is providing engineering services for cost estimates and other evaluations necessary for this initiative.

Hurricane Matthew-related impacts to Fair Bluff have jeopardized the ability of its wastewater utility to operate as a self-sufficient business and affects the area's regional wastewater system which includes Fairmont, Cerro Gordo, Boardman and Proctorville. The towns are aware that their situations are dire and are working closely with the Division team on the initiative. The scope of the initiative includes:

- Assess the general condition of water and wastewater infrastructure assets
- Conduct financial reviews
- Estimate general costs to upgrade/replace/repair infrastructure
- Determine the level of funding needed to function as long-term, self-sufficient utilities
- Develop potential alternatives for the provision of water and wastewater services for the involved communities under a viable utility structure
- Prepare a summary report

The team has completed an initial assessment of the water and wastewater infrastructure assets and conducted initial financial reviews.

This update and agenda item is to provide the Authority with a brief overview as well as provide a time to discuss types of information that would be useful to consider as the team moves forward with this work (i.e. potential alternatives, potential future actions towards viability). The Authority's input is needed not only for this project but also for developing a Troubled System Protocol template.

Four of the five communities are currently participating; the team meets monthly with the Town Managers of Fairmont, Fair Bluff, Cerro Gordo and Boardman. Fairmont and Fair Bluff are the two largest communities. The Manager of Proctorville has not participated yet.

Current funding to Fair Bluff was discussed:

- The Authority awarded funds to Fair Bluff under the CDBG-I program for sewer rehabilitation work to reduce inflow/infiltration and the Town has a new application to fund additional work.

- The Authority also awarded Fair Bluff a sewer AIA grant which is targeted to areas where rehabilitation is not occurring. The results of the AIA grant will be used in the alternatives analysis.
- Related to Hurricane Matthew, Ms. Adams noted that Fair Bluff received some direct appropriations to rehabilitate a bank building for its Town Hall and a new fire station. The Golden LEAF Foundation may be amenable to help reallocate funds toward better projects for rebuilding.

There is a clear link between the Fair Bluff situation and the conditions in rural communities in general. The One Water presentation highlighted that the problem needs to be addressed holistically. Mr. Gaskins noted that a General Assembly legislative research committee has been established that will address issues like those in Fair Bluff, Fairmont, and the other communities. He is hopeful that many people and partners will give testimony about the problems and how to tie the solutions together.

Item I. Stormwater Infrastructure Scope of Work Discussion

During scoping for the first Master Plan, the Authority decided that it should focus on drinking water and wastewater infrastructure, with stormwater to be included in the next version of the Plan. Based on the Authority's guidance, staff will develop a working outline of stormwater topics to be researched and addressed. The following topics were discussed by the Authority:

Within the CWSRF program, stormwater quality projects can already be funded with 0% interest loans. Other SRF programs across the county have approaches that we may be able to use. State grant funds that have recently been provided have been targeted by the legislature for water and wastewater projects only; the Connect NC Bond money is an example of this. Projects that address stormwater conveyance/flooding cannot currently be funded, and the statutes would need to be changed to allow that use of funds.

Stormwater is a very complex basinwide issue in terms of downstream impacts created by upstream conditions. Approaching stormwater at the basin level and encouraging entities to work together to find ways to holistically manage stormwater would be better than entities trying to address issues in only their individual location. Potentially, basin associations could further this approach and it would mesh well with the One Water Concepts. Education about addressing pollution sources and looking for creative solutions is important.

It is critical not to make the same types of decisions that created water and wastewater silos, and to potentially create and perpetuate a new silo. Taking a holistic view is crucial and will be a challenge. It is a difficult scope due to the geographical variations across the state.

The target audience should be smaller systems since larger communities such as Raleigh and Charlotte are "well on their way" with stormwater utilities. Smaller entities will have more challenges in funding stormwater management. It is a very local decision; the Authority should not try to recommend ways for individual entities to fund their stormwater programs.

Some issues are related to older construction when downspouts were directly connected to the sewer system which impacts the operation of wastewater treatment plants; this issue probably still occurs.

The Authority is tasked with managing state and federal funds to get the most benefit for the money. When considering stormwater and non-point source pollution, municipalities are a relatively small part of the picture whereas agriculture has many impacts.

Incentives will be key but it will be a challenge to develop and provide funds for effective incentives.

Item J. Reconsideration of Project Funding Due to Substantive Scope and Budget Changes

Applications that are determined as eligible to receive funding by the Authority are increasingly changing scope and escalating in costs during planning and design. Most of the recent changes are due

to construction costs increasing between the time of application and the time of bidding the project for construction. The purpose of this agenda item is to discuss when the Authority would like staff to bring a project back for the Authority to determine whether it is still consistent with the original application. Staff is seeking the Authority's input to ensure that staff does not override a decision made by the Authority. Example situations include:

- Substantial scope changes that may or may not match the original purpose and need of the application
- Substantial increases in funding that impact availability of future rounds
- Changes in funding program or type to meet project needs

Staff noted that after bids are received for a project, there is time sensitivity to either accept or reject the bids. Since the Authority does not meet frequently, making a decision within a short timeframe will be difficult. However, when project cost increases significantly, especially for smaller entities, most ask their engineer to reduce the scope of the project.

The following topics were discussed by the Authority:

The Authority needs to be made aware if an applicant submits another application for additional funds for the same project because of scope changes.

The Authority is concerned about small projects since it could take very little to double the cost. Knowing the percentage of the increase is more important than knowing the dollar amount.

If a change is requested that would affect the original score of the project and the funding, the Authority needs to be involved but there should be a threshold as to what is revisited.

The LGC is very concerned about the amount that projects overrun the initial cost estimates. The Division and the LGC have stopgaps in place as to when projects need to go back for LGC review. A related issue mentioned is the concern whether project costs may be knowingly underestimated with a plan to request additional funding.

The Division manages the loan program by looking at cash flow, but an issue is how much funding should be taken from future rounds to cover cost overruns and at what point does this impact future funding levels.

The Authority would like staff to present information about approved projects whose scope has increased and by what percentage, to start to benchmark what is typical and what is out of the ordinary.

Item K. Process for Use of Deobligated CDBG-I Funds

On occasion, CDBG-I grantees have projects that, after awarded and during review, are no longer considered viable projects. In other instances, projects may come in under budget, leaving the remaining funds unused. In both cases, funds are de-obligated to the Division for use in other CDBG-I projects. The Department of Housing and Urban Development (HUD) strongly encourages states to and complete projects within a 36-month period. Due to construction cost increases, however, the Division sees few projects coming in under budget. Changes were made by HUD two years ago, such that funds are now tied to grant years, which makes it more difficult to manage from a grant administration standpoint.

Staff presented a potential process and policy to address these issues. A related item is whether a CDBG-I project should receive more than the cap of \$3 million (for projects awarded from FY13, FY14, and first round FY15 funds), or the cap of \$2 million (all subsequent rounds). Although not part of the motion, the Authority concurred that the funding caps should not be increased.

In the CDBG-I program, there is no provision for a 10% project cost increases, like in the SRF programs. The Division requests that applicants reduce the scope of work but ensures that the low-to-moderate income (LMI) percentage served by the project does not change.

The Authority would like staff to present information about leftover funds to understand where these de-obligated funds would be applied.

Action Item K:

- Mr. Gaskins made a motion to approve the process and policy as presented. Mr. Carswell seconded the motion. The motion passed unanimously.

Item L. Future Funding Levels and the Potential for SRF Leveraging

The purpose of this agenda item is to provide the Authority with information about and seek input on future funding levels and the potential need to increase those levels.

The Chair presented that the state has improved the funding program efficiency and effectiveness by making the application process easier, streamlining the engineering report and environmental document reviews, developing cash flow models for both SRFs, and combining the funding programs under single management. The result is that both SRFs have more funds available and the Division has seen increased demand for SRF funding particularly from larger municipalities. In addition, the funding programs were provided a substantial increase in funding levels through the Connect NC Bonds. The Fall 2017 round will be the last funding round in which Connect NC Bond funds will be available. Even with the infusion of the bond funds, demand for the funding program has exceeded funding availability.

Under the current budget, state appropriated grants this year will be approximately \$11 million with approximately \$5 million allocated to specific projects. Next fiscal year, subject to budget revisions, approximately \$10 million will be appropriated with \$2 million allocated. For the CDBG-I grants, the allocation this year was reduced from approximately \$26 million to \$21 million. These grant funding levels were discussed at the July 2017 Authority meeting. CWSRF funding in the spring of 2018 is projected to drop or remain the same. DWSRF funding levels are projected to remain the same but could receive a minor increase due to changes in the national allocation formula resulting from the latest EPA Needs Survey to be released soon.

Leveraging

DEQ will be exploring the possibility of leveraging for the SRF programs which is allowed under federal law for both SRFs. Most larger states where demand exceeds available funding leverage the SRFs. Leveraging involves the SRF issuing debt which is in turn used to fund projects. Loan repayments are then used to pay off the bonds (usually revenue bonds). Most SRF programs nationally that leverage are AAA-rated, standalone, and do not obligate the state. The programs are often housed in separate finance authorities that are completely responsible for the debt.

Federal law allows SRFs to invest these funds to earn interest to offset interest subsidies. SRFs can borrow from the federal Water Infrastructure Finance and Innovation Act (WIFIA) program. Congress may consider other approaches to address national infrastructure funding issues.

The Authority may wish to consider making recommendations to the General Assembly on additional grant funding and to specifically target these funds. For example, the Authority may wish to recommend additional funding for troubled systems, AIA grants, and projects that include resiliency. Should the Authority wish to make such recommendations or obtain more information, staff will use this discussion to bring additional information to the Authority at a future meeting.

The following topics were discussed by the Authority:

The best estimate of current needs in NC are included in the Master Plan – \$17 to \$26 billion over the next 20 years for both water and wastewater infrastructure. It is not clear how much this number will change, but larger utilities in NC have large projects on the horizon.

Leveraging should first be discussed with the larger utilities to get their perspective on the future use of large loans. Larger utilities may choose not to apply for SRF funding since they may not realize enough savings when they have very good bond ratings and can secure loans at competitive interest rates.

Mr. Gaskins noted that the issue of using the state's credit rating for LGUs with lower credit has been discussed; it is a policy issue at the state level and General Assembly members are concerned. When the state takes on a loan program, the state takes on additional risk. Currently, there are many competing proposals related to all types of funding situations. His personal experience with TIFIA was that the amount of complexity, time, and effort it required did not outweigh the benefits.

Future Funding Levels

The following topics were discussed by the Authority:

There was concurrence by the Authority members that funding for AIA grants, MRF grants, and troubled systems should be brought forward to the General Assembly soon because costs will only continue to increase. Through these programs, the state is assisting non-viable entities that, with some thoughtful work and funds, can be made viable. It is clear that current funding systems will not keep pace with needs. Non-viable systems will take considerable investment to make them viable. The legislature should be approached on a proactive basis, not a reactive basis.

Related to the AIA grants, it is important for utilities to understand that a full asset management plan (AMP) goes further than an AIA. Steps are needed to ensure that all grant money goes to utilities that will take proper care of its infrastructure going forward.

For the MRF grants, a likely roadblock is there are no incentives for viable entities to assist non-viable entities. As an incentive, funds will likely need to go to currently viable systems to make them whole if they take on non-viable systems. In addition, the lack of cooperation in some places is terribly frustrating.

The Authority might consider a second phase of funding for the MRF grants that may be used for implementation such as facilitated legal and financial assistance to set up the structure for the viable utility to manage and recover costs. It was noted that Authority may wish to reserve this for its own discretion.

The state needs to use current information more effectively to determine which local governments are most likely to become troubled. The LGC is using its data now to model and predict situations but the issue is knowing what can be done to prevent them from becoming troubled.

Item M. Key Program Metrics

The Division seeks guidance from the Authority about the types of information that would be useful when considering potential future changes to the project priority point systems and/or the affordability criteria, and to shape potential future changes to criteria. At the Authority's April 2018 meeting, the Division will review metrics associated with the current priority points system, like the January 2015 metrics review. The impact of the affordability criteria on grant recipients will also be reviewed.

The Authority and Division implemented new priority point systems in the Fall 2015 funding round, and in the Spring of 2016, implemented new affordability criteria to help stretch the use of limited grant

funds. The application methodology was also modified so that applicants could apply for a type of construction project (either water or wastewater) with the Authority awarding funds using the new funding hierarchy. These changes were implemented with the Fall 2016 funding round, which coincided with the first round of the Connect NC Bond funding. Since synchronizing the construction priority points systems, the Division has accepted applications for multiple rounds of funding in all programs.

The Authority also launched the Asset Inventory and Assessment (AIA) grant program in the Spring 2016. Demand for funds from this program have far outstripped the supply. Three rounds of applications for AIA grants have been accepted (Spring 2016 and Fall of 2016 and 2017).

As the Authority reviews the Fall 2017 funding applications, let staff know of any questions that may arise related to the metrics being applied.

The Authority suggested the possibility of a questionnaire to recipients of the AIA and MRF grants to learn if they find the process valuable. Metrics on the breakdown of loans versus grants would be helpful. Key metrics from the Master Plan would be useful but acknowledged that it won't be possible to measure these changes for another 10 years.

Item N. Potential Legislative Changes

The Chair presented a list of topics for the Authority's consideration for possible recommendations for legislative changes during the long session of the NC General Assembly. The following topics were discussed by the Authority:

1. It will be key to approach the legislature with very specific requests.
2. The Authority must remain active with troubled systems, which are going to remain troubled unless the state can provide solutions. The legislature must understand that it will take considerable funds to resolve the issues of troubled systems.
3. The Authority needs to find ways to help fund the next steps and projects that may result from the MRF grants.
4. The Legislative Research Commission has been tasked to study two items: to ensure that utilities provide proper funding for their water and wastewater infrastructure including operations, maintenance, and setting aside reserves; and to ensure that utilities regularly monitor the condition of their aging water and wastewater infrastructure. The Commission will likely be seeking recommendations for these items, possibly from the LGC and the Division.
5. Instead of funds being earmarked, the Authority needs to be able to provide recommendations to the legislature about creative solutions that could provide much more benefit than the funding alone and help permanently resolve some of the long-term issues that a recipient may have.
6. Qualifications-based selection is interesting but can be confusing to utilities since they are used to using price-based (low-bid) selection. Failed projects can still result even when using a qualifications-based process.
7. Authority members stated that they need to learn more about stormwater and leveraging before making recommendations.

Item O. Informal Comments from the Public

Chair Colson stated that public comments could be made at this time with the reminder that in accordance with the Authority's Internal Operating Procedures, comments must be limited to the subject of business falling within the jurisdiction of the Authority and should not be project specific. There were no informal comments from the public.

Item P. Concluding Remarks by Authority Members, Chair, and Counsel

Authority members stated that they are very interested in hearing about the local governments that have received the AIA and MRF grants to understand what has been accomplished and what sort of impacts they have made on the grant recipients. It is important before continuing to fund AIAs for the Authority to know it is receiving what it intended when it approved these grants.

Members also stated that the One Water concepts are linked to many of the issues that the Authority discusses and is actively working on.

Division staff will poll the Authority members regarding the two-day meeting in April 2018.

The next Authority meeting will be on February 28, 2018 at the Archdale Building in downtown Raleigh.

Item Q. Adjourn – The meeting was adjourned.
