

State Water Infrastructure Authority
North Carolina Department of Environmental Quality
December 8, 2021
Meeting Minutes

State Water Infrastructure Authority Members Attending Meeting via WebEx or by Phone

- Melody Adams, Director, Rural Grants/Programs, Rural Development Division, NC Dept. of Commerce
- Sharon Edmundson, Deputy Treasurer, State & Local Finance Division; Secretary, Local Government Commission
- Shadi Eskaf, Chair, Director, Division of Water Infrastructure
- Bill Goins, Commissioner, Surry County
- Leila Goodwin, Water Resources Engineer
- Ed Goscicki
- Maria Hunnicutt, Vice Chair, Manager, Broad River Water Authority
- Dr. Bernadette Pelissier (via phone)
- Juhann Waller, Principal, JC Waller & Associates, PC

Division of Water Infrastructure Staff Attending Meeting

- Cathy Akroyd, Public Information Officer
- Linda Culpepper, Viable Utilities Unit
- Victor D'Amato, Supervisor, Viable Utilities Unit
- Jennifer Haynie, Program Development Coordinator, Viable Utilities Unit
- Susan Kubacki, Program Development Coordinator, Viable Utilities Unit
- Carol McDermott, Supervisor, Administrative Services Unit
- Jon Risgaard, Section Chief, State Revolving Fund Section
- Vincent Tomaino, Supervisor, Drinking Water Projects Unit

Department of Justice Staff Attending Meeting via WebEx

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

Agenda Item A. Call to Order

Chair Eskaf called the meeting to order and reminded all members of General Statute 138A which states that any member who is aware of a known conflict of interest or potential conflict of interest with respect to any matters before the Authority is required to identify the conflict or potential conflict at the time the conflict becomes apparent.

Chair Eskaf indicated that no one signed up to comment online and that audience members were invited to sign up to speak if they so chose.

Mr. Eskaf did a roll call. All members save for Dr. Pelissier, Mr. Goins, and Mr. Waller were present in person. He noted that Dr. Pelissier may call in later.

Agenda Item B. Approval of Meeting Minutes

Chair Eskaf presented the September 16, 2021 meeting minutes and asked for questions.

Action Item B:

- Ms. Hunnicutt made a motion to approve the meeting minutes. Mr. Goscicki seconded the motion. There was no discussion. The motion passed unanimously.

Agenda Item C. Attorney General's Office Report

Ms. Weese gave the Attorney General's Office Report. This year, Attorney General Stein has approximately \$3 million in Environmental Enhancement Grant (EEG) program money. The grants were awarded this past fall, and information is available on the DOJ web page. Approximately two dozen projects across the state received funding for projects to improve water and air quality. The money is part of the Smithfield settlement dealing with hog waste issues.

Agenda Item D. Chair's Remarks

Mr. Goins arrived.

Ms. Haynie read Bill Goins' Statement of Economic Interest and Oath of Office into the record. Chair Eskaf then welcomed Mr. Goins and asked him for introductory remarks. Mr. Goins is a retired educator. He was appreciative of the opportunity to serve on the State Water Infrastructure Authority (Authority). Chair Eskaf reminded him of any potential conflict of interest and to advise if one exists.

Chair Eskaf gave a brief summary of the funding of water and wastewater infrastructure funding in the state budget as well as through the Infrastructure Investment and Jobs Act (IIJA). The bill passed, and the Division will be receiving some of the funding in North Carolina. It provides a large influx of funds into the State Revolving Fund (SRF). There will be funding for loans and Principal Forgiveness. There will also be dedicated funding for lead service lines location and replacement as well as PFAS and emerging compounds remediation. The funding will begin in FY 2022 and will be much larger than what the Division has received in the past. Drawdown will depend on the state match.

Mr. Risgaard will be discussing the state budget later. The amount appropriated is historic and transformational. The Authority can do what has not been able to be accomplished before. Chair Eskaf encouraged the Authority to consider projects that would help to address long-term viability.

Chair Eskaf also noted Executive Order 12898, which created a Justice 40 initiative. It means that 40 percent of overall investment would go to disadvantaged communities. This data will be tracked. There will be more of an update in the future, especially in the way it impacts Division funding programs. The Priority Rating Systems and affordability criteria already provide priority for disadvantaged communities, so this will be an additional opportunity to address this issue.

Agenda Item E. Approval of Timing for Reassessment for Identification Criterion 1

Ms. Culpepper gave the presentation.

Summary

Identification Criterion 1 relates to the designation of a local government unit (LGU) as distressed once the Local Government Commission (LGC) has taken fiscal control. The designation of LGUs under this criterion is rare and does not occur on a regular or predictable frequency.

The Division proposed to recommendations for the Authority to take action related to designating LGUs as distressed under this criterion. They are as follows:

1. The Authority approve consenting to its designation of a distressed LGU upon the LGC approving designation of the LGU as a distressed unit under Identification Criterion 1; or
2. In any case in which the LGC exercises its statutory authority under N.C.G.S. 159-181 to assume full or partial control over the affairs of a LGU and designates its public water system or wastewater system as a distressed unit, the Authority adopts the LGC's designation of distressed unit.

Discussion

Chair Eskaf asked for questions.

Ms. Edmundson stated that the LGC has had to exercise this authority more often than anticipated. Most of the LGUs for which the LGC has assumed control have utilities. Going forward, if a LGU is already designated, the LGC will keep the existing designation. If a LGU is not designated, the LGC will exercise this criterion.

Ms. Goodwin stated that she had talked to staff earlier. The intent is that once the LGC takes the LGU over, the designation occurs automatically. She wanted to ensure that the Authority does what was intended. Chair Eskaf stated that the alternative language would bear that out.

Mr. Goscicki asked if the LGC takes over a LGU for financial considerations, did the LGC have the authority to designate a LGU as distressed. Ms. Edmundson stated that the Identification Criterion had been adopted by the LGC. Most of the time, LGUs have already been designated under Identification Criterion 3. Ms. Goodwin stated, that under the viable utility (VU) statutes, the LGC and Authority must designate LGUs as distressed. This language states that once the LGC designates an LGU as distressed under Identification Criterion 1, the designation occurs for the Authority automatically. The Authority's action happens at the same moment as the LGC. The criterion was adopted by both the LGC and Authority.

Action Item E:

- Ms. Goodwin made a motion that the following language be adopted for designating a LGU under Identification Criterion 1: In any case in which the LGC exercises its statutory authority under N.C.G.S. 159-181 to assume full or partial control over the affairs of a LGU and designates its public water system or wastewater system as a distressed unit, the Authority adopts the LGC's designation of distressed unit. Mr. Goscicki seconded the motion. There was no discussion. The motion passed unanimously.

Juhann Waller arrived.

Agenda Item F. Designation of Town of Spring Lake under Identification Criterion 1

This item was removed from the agenda as an action item due to the passage of the action item under Agenda Item E. This item is now an informational item. The Town received a designation as distressed under Identification Criterion 3. During its October meeting, the LGC voted to assume control of the financial affairs of the Town, which enabled staff to reclassify the Town from a designation under Identification Criterion 3 to a designation under Identification Criterion 1. The designation under this criterion allows the Town and any non-distressed partner access to grants under the Viable Utility Reserve (VUR).

Agenda Item G. Emergency Operations Grant for the Town of Pikeville

Mr. D'Amato gave the presentation.

Summary

The Town of Pikeville is part of the Wayne County partnership and in April was designated as distressed by the Authority and LGC under Identification Criterion 3. The LGC assumed control of the financial affairs of the Town on April 13, 2021. The Town needs an emergency operating grant (EOG) from the VUR to fund an estimated deficit resulting from the acquisition of goods and services required for internal management. The estimate assumes that revenues would be sufficient to fund other typical annual expenses for the Town.

Division staff recommended that the Authority approve an EOG award from the VUR of \$74,700 for the Town of Pikeville.

Discussion

Chair Eskaf asked for questions.

Ms. Goodwin noted that one of the main issues for the Town relates to the billing system. She asked if this was a common issue for small towns and if that was something where training and resources could be used. Ms. Edmundson stated that it was. Many towns are operating with old software that is outdated and has security issues. There is room for improvement in this area. The LGC has tried to find a common software to make available for LGUs to buy. There were so many roadblocks that it had to be set aside. The NC League of Municipalities is looking at something similar. Chair Eskaf stated that staff would note these issues as they work with distressed LGUs.

Mr. Goscicki stated that this is an opportunity where the private utilities could play a role in this issue. These utilities have the ability to centralize operations for decentralized LGUs. He stated that third-party contracting could be provided as a service rather than a software. Chair Eskaf asked the LGC to let staff know if they knew of such providers.

Ms. Hunnicutt stated that several utility billing software systems out there that are very expensive from startup to annual expenses. The challenge is the link between billing and collections and accounting. Very few have an integrated accounting module. This is where things can be lost if items are not categorized appropriately. This is a constant struggle even for a medium-sized system.

Action Item G:

- Ms. Goodwin made a motion for the Authority to approve an EOG award from the VUR of \$74,700 for the Town of Pikeville. Ms. Hunnicutt seconded the motion. There was no discussion. The motion passed unanimously.

Agenda Item H. Request for Approval of Priority Rating System for the Viable Utility Reserve Capital Projects

Mr. Risgaard gave the presentation.

Summary

The proposed VUR Priority Rating System is the same as the SRF and State Reserve Program (SRP) Priority Rating System. The proposed Priority Rating System went out for public review from October 4, 2021 through November 1, 2021. The Division received nine comments for consideration. Additionally, a comment from Clean Water for North Carolina was sent directly to Authority members and received after the public comment period. Concerns raised in this letter were not specifically listed in the staff report but were addressed in responses to related comments.

Projects eligible for the VUR (found in N.C.G.S. 159G-32) relate to physical interconnections, infrastructure rehabilitation, decentralization into smaller viable parts, studies, other options deemed feasible, and EOGs. Studies and EOGs are not part of the proposed Priority Rating System.

The comments contained the following requests:

- Addition of priority to line items that support the provision of reliable water or wastewater services. Response: Points exist in the current Priority Rating System for improving reliability.
- Addition of priority to projects that come from capital improvement plans that were developed and implemented as part of asset management plans. Response: Future updates would be made on Priority Rating Systems for all funding programs.
- The Division to collect data from applicants related to race, color, and national origin of the service population. Response: The Division is coordinating with the Title VI and Environmental Justice Coordinator on supporting efforts by the NC Department of Environmental Quality (Department).
- Adjustment of priority to better match tiered enforcement levels used by the Department. Response: Construction projects that can address Notices of Deficiency or Violation are very similar, and the Division supports equal prioritization.
- Consideration of additional priority for projects that better address flood risk vulnerability. Response: The Division will continue to coordinate with the North Carolina Office of Recovery and Resiliency to support state resiliency efforts.
- Addition of prioritization for projects that provide protection to certain Water Classifications found along the coast that may not currently receive additional prioritization. Response: The Division needs additional time to evaluate alternatives and make recommendations. Any future updates would be made on the Priority Rating Systems for all funding programs.

- Consideration for alternative unemployment indicators. Response: The Division needs additional time to evaluate alternatives and make recommendations to Priority Rating Systems for all funding programs and affordability criteria. Any future updates would be made to all Priority Rating Systems.
- Consideration for additional priority for regional solutions that utilize public-private partnerships and / or selling systems to private utilities. Response: Identification and evaluation of potential alternatives are part of the MRF process. Identifying and requiring certain alternatives as part of the application process would significantly delay the application process.

Division staff recommended that the Authority approve the VUR Priority Rating System for capital projects as included in the staff report to match the Priority Rating Systems for the SRF and SRP programs.

Discussion

Chair Eskaf asked for questions.

He noted that Division staff brought the comments to the Viable Utility Committee.

Mr. Waller asked about the Division's timeframe to get back to the Department regarding the Environmental Justice initiative. Mr. Risgaard replied that the Division may bring the updated Priority Rating System to the Authority in February and bring a potential revised Priority Rating System back to the Authority in July. There are currently many pieces in motion with this, and the Division and Department want to ensure that the changes match the guidance the US Environmental Protection Agency will be issuing.

Action Item H:

- Mr. Goscicki made a motion to approve the VUR Priority Rating System for capital projects as included in the staff report to match the Priority Rating Systems for the SRF and SRP programs. Ms. Hunnicutt seconded the motion.

Agenda Item I. Update on Initial Education Component Training

Ms. Haynie gave the presentation.

Summary

The Authority approved the scope and delivery mechanism on July 14, 2021. In August, Division staff conducted a survey to garner interest by the distressed LGUs related to the initial education training. In September, various members of Division and LGC staff, plus Ms. Hunnicutt, recorded sessions for the on-demand platform of the training. In November, Division staff emailed LGU contacts for contact information and preference for training platform.

Regarding responses to the initial survey, slightly over half of the distressed LGUs responded. Approximately a third each of the LGUs responded that they would prefer in-person training, on-

demand training, or a mix of both. Approximately half each of the potential participants would prefer on-demand training (52 percent) and in-person training (48 percent).

On-demand training consists of an introduction, keynote, and four modules. Quizzes are at the end of each module. Upon completion of all modules, attendees would be required to attend a live webinar, tentatively scheduled to be in April or May. The cost for this training is \$72 per person, plus tax. Launch date was scheduled for December 6. As of December 6, 43 people were interested. The NC League of Municipalities is overseeing the onboarding and administration of this training platform.

In-person training will consist of approximately 6 hours of instruction and will contain pre- and post-class quizzes. Training is free. Launch date is the February to April timeframe. As of December 3, 32 people were interested. At that point, three in-person trainings would be needed.

As for next steps, the initial round of on-demand trainees would begin at their discretion. In January, staff will follow up with LGUs who did not respond to the initial survey. In February to April, in-person training will be completed. In May, the on-demand training will be completed. In July, staff will provide an update to the Authority.

Discussion

Chair Eskaf asked for questions.

Ms. Adams wanted to know if other LGUs could take the trainings, at least the on-demand. Ms. Haynie replied that most likely, non-distressed LGUs could take the on-demand training. Once the initial push is finished, staff would like to offer the training to others on a regular basis. Ms. Goodwin wanted to stay updated on the LGUs that have not responded. Ms. Haynie replied that hopefully, staff will be able to provide that update. Additionally, LGUs coming through the VUR for funding will have the education as part of their grant conditions. Chair Eskaf noted that this training is mandatory and is an overview training.

Agenda Item J. Summary of Fall 2021 Application Round

Mr. Risgaard gave the presentation.

Summary

The Division received approximately 225 applications for a total of \$947 million. The Division has approximately \$144 million available for award by the Authority.

Discussion

There was no discussion.

Agenda Item K. Hendersonville DWSRF Project Loan Increase Request

Mr. Tomaino gave the presentation.

Summary

In February 2017, the Authority awarded the City of Hendersonville a Drinking Water State Revolving Loan (DWSRF) of \$14,124,000. The City worked to reduce costs by removing the Mills River Intake from the scope, negotiating with apparent low bidders, and going to bid three times. However, the costs remained higher than budgeted, and the City requested an increase of \$9,390,035 to \$23,514,035. Division staff recommended approval of this increase on the grounds that (1) it does not reduce the current funding below the advertised funding availability and (2) it does not impact projections for future rounds from the DWSRF.

Division staff recommended that the Authority approve the City's request to increase its repayable DWSRF loan of \$14,124,000 by \$9,390,035 to \$23,514,035.

Discussion

Chair Eskaf asked for questions. There was no discussion.

Action Item K:

- Ms. Edmundson made a motion to approve the City's request to increase its repayable DWSRF loan of \$14,124,000 by \$9,390,035 to \$23,514,035. Mr. Waller seconded the motion. The motion passed unanimously.

Agenda Item L. Timeline and Plans to Award and Administer State Fiscal Recovery Funds (American Rescue Plan Act of 2021 [ARPA])

Mr. Risgaard gave the presentation.

Summary

The American Rescue Plan Act of 2021 allocations (ARPA) in the final state budget (S.L. 2021-180) are broken out into various pots of money. North Carolina will receive a total of \$1.69 billion in ARPA funds. Of that, \$456.4 million will go to the VUR for distressed LGUs; direct appropriations from this VUR portion will amount to \$89.7 million. For "at-risk" LGUs (to be defined by the Department), \$317.4 million has been allocated to the SRP, with \$116.6 million of that directly appropriated. In the SRP program, \$732.5 million would be appropriated for LGUs that are not distressed or do not meet the "at-risk" definition. For studies from the SRP, \$80 million have been reserved. This also allows funding for training. There will also be a new fund of \$103.6 million for local assistance for stormwater infrastructure investment, of that \$18.5 million is directly appropriated. The Division is working directly with those LGUs who have received direct appropriations, as they do not fall under the purview of the Authority. Overall, approximately \$754 million will be awarded in addition to the regular SRF programs. The Priority Rating Systems are in place (except for Local Assistance for Stormwater Infrastructure Investment funds) along with funding processes. The Division does plan to take the administration plan out to public review.

To be eligible for ARPA funds, the projects must be SRF-eligible projects. Any ARPA funds coming from the VUR must be limited to rehabilitation and replacement, regionalization, decentralization, studies, and any other projects that can demonstrate long-term viability. Funds from the SRP are for project construction grants and planning grants for public water and wastewater LGUs. All funds must be spent (reimbursed) by December 31, 2026.

Regarding distressed LGUs, there are currently 95 LGUs that have been designated as distressed by the Authority and the LGC. In April 2022, the Assessment Criteria associated with Identification Criterion 3 will be evaluated with the potential designation under this criterion.

The Department has proposed that at-risk LGUs, which will be released for public review, consist of the following:

- An Assessment Criteria score of six or greater (and not designated as distressed) and meets three of five LGU indicators; or
- Service population of less than 2,000 and meets three of five LGU indicators.

Currently, 169 LGUs meet these criteria (not including LGUs already designated as distressed). As mentioned above, the Assessment Criteria will be evaluated again in April 2022. Also, LGUs, that are not “at-risk” as a whole could have projects that qualify for “at-risk” community consideration if the project is primarily to connect residences in disadvantaged, underserved areas within or adjacent to an existing service area for a water / wastewater utility and covers the cost of connecting to the home and could include connection fees. The disadvantaged and underserved areas are to be defined.

- The Division does plan to take the administration plan out to public review. Funds will be administered in the following manner. The phases are as follows:
- Phase I(a) would include projects that are appropriated in the budget (126 projects for \$840 million). No Authority actions are needed for these projects. Recipients have been contacted, and the funding process has begun. Bid and design material must be submitted by August 2022 with construction contract(s) executed by May 2023.
- Phase I(b) would replace existing SRF-awarded loans for distressed LGUs’ projects with funds from the VUR. Note that debt cannot be replaced, so eligibility will be limited to projects not yet under construction. Approximately 32 projects (approximately \$44 million) in distressed LGUs are funded with SRF loans. With the Fall 2021 awards, additional projects will be identified. All recipients would need to accept the change in funding. The Authority and LGC would need to take action on or after February 2022 since these are funds from the VUR.
- Phase I(c) would consist of up to \$2,000 per distressed LGU for training expenses. This would require LGC and Authority action.
- Phase II would consist of competitive funding for water and wastewater project funds, not including stormwater. Initial awards would be up to \$15 million per applicant (LGU) with additional funds provided in \$5 million increments until funds are exhausted. Initial funding limits for LGUs include direct appropriations and any loans replaced in Phase I(b). Funds (approximately \$675 million) would be advertised with the first round of applications due on May 2, 2022. Awards could be as early as July 2022. Future rounds (September 2022 and April 2023) would be used for remaining funds. Note that the Priority Rating Systems are in place for the Spring 2022 funding round. The next Priority Rating System update is scheduled for the Spring of 2022, which will make them effective in the Fall 2022 and Spring 2023 funding rounds.

- Phase III would consist of the Stormwater Infrastructure Fund development. This is a new Department special fund (“Local Assistance for Stormwater Infrastructure Investments Fund”). The Division will develop the funding program and match the funding process to existing programs. A stormwater Priority Rating System for construction and study grants will be developed with public review in the Spring of 2022 with Authority approval in July 2022. The first round of applications would be due on September 30, 2022 with awards in February 2023. Future rounds will be used for any remaining funds.

The administration plan will be released later in December with comments due early in January 2022. In late January / early February 2022, the Department will finalize the administration plan, announce funds, and open application. The Authority will also award funds for the Fall 2021 round in February. In February or April 2022, the Authority and LGC will award VUR funds to replace existing SRF funds for distressed LGUs and award training grants for distressed LGUs. On May 2, 2022, the first round of water / wastewater / study grant applications will be due. In July 2022 (planned), the Authority will award the Spring 2022 funding funds for the SRP programs and ARPA (Phase II). In January through July 2022, the Authority would develop the Stormwater Priority Rating System and reviews it. The Division will then open funding for stormwater applications, which will be due on September 30, 2022. In February 2023, the Authority will make awards from the Fall 2022 for the regular SRP, SRF, VUR, and CDBG-I funds (as available), plus stormwater infrastructure funds (Phase III) and any remaining Phase II funds.

Dr. Pelissier joined the meeting via phone.

Discussion

Mr. Goscicki asked if “spent” is appropriated or spent to the LGU? Mr. Risgaard replied that funds must be spent. He added that there is an appropriation deadline of December 31, 2024. Chair Eskaf added that the timelines of projects will be driven by this deadline. Division staff are encouraging LGUs to apply for projects that they know can be completed in a short timeframe.

Ms. Goodwin asked how many of the 169 LGUs that may be at-risk meet either of the two criteria. Chair Eskaf added that there is a lot of overlap in the two bullets. Chair Eskaf stated that 115 LGUs would meet the first criterion and 126 LGUs the second criterion due to overlap.

Ms. Hunnicutt asked if the opportunity could be used to increase the amount of Principal Forgiveness in the SRF programs or the criteria for Principal Forgiveness to assist LGUs that cannot afford a loan. Mr. Risgaard indicated the plan is to fully fund projects up to the limit. If a project cannot be fully funded, then it would have to be paired either with an SRF or SRP loan. Staff were not planning on using affordability criteria for ARPA funds; only for prioritization would affordability be used. LGUs can mingle SRP with ARPA; however, if ARPA does have minimal requirements and if any SRF funds are involved, then the entire project will need to go through the federal requirements. It adds to the complexity for LGUs.

Ms. Goodwin asked if there was consideration of replacing funds for “at-risk” LGUs. Mr. Risgaard replied that it got complicated quickly and become a lot more projects for a lot more money, reducing the competitiveness of the rounds. Local government units could de-obligate and apply for

ARPA funds. Ideally, that loan money freed up would not be available that round. Any project with awards can apply.

Ms. Adams asked if the Division had received all of the federal guidance needed. Mr. Risgaard replied that it is ongoing. An interim final rule exists, and staff will adapt as possible. Staff are also working through the reporting requirements related to the recipients. Division staff will be assisting them. Funds will be coming from the U.S. Treasury, so that poses its own challenges, especially since it relies on eligibilities from EPA programs. Chair Eskaf also added that the Division is coordinating with the North Carolina Pandemic Recovery Office (NCPRO) related to the reporting requirements since they already do a lot of reporting.

Mr. Goscicki stated that he keeps going back to the timeframe, a little over two years for planning, permitting, design, contracts, etc. He hoped that staff was engaged with outreach to LGUs that are distressed or potentially distressed. He expressed concerns that this is a lot for LGUs who have difficulty with planning and implementation. Mr. Risgaard stated that outreach is ongoing. Chair Eskaf added that the Division is working on developing an outreach and communications plan that will be implemented to spread the message quickly.

Ms. Goodwin acknowledged the amount of work and thought put into the plan. She expressed concern that the project will still go to the easiest, quickest projects that will wind up needing to be rehabilitated in 20 years. Chair Eskaf agreed that it was a valid concern. Staff are stressing the need for long-term projects. With distressed LGUs, there is a lot of one-on-one work that needs to be done, and staff will be working with them along with resource agencies. In an ideal world, there would be no expiration date, but due to the timelines, two things must be done at the same time.

Agenda Item M. Stormwater Funding and the Need for a Stormwater Funding Committee

Chair Eskaf made the presentation.

Summary

Currently, the Authority awards stormwater quality projects through the CWSRF and SRP program (Wastewater Reserve). A new Department special fund: "Local Assistance for Stormwater Infrastructure Investments Fund" has been created to provide grants for projects that will improve or create infrastructure for controlling stormwater quality and quantity. Eligible entities include a City or County with documented stormwater quality or quantity issues and that would experience hardship in raising the revenue needed to finance stormwater management activities. A Council of Government (COG) or nonprofit entity that partners with a City or County would also be eligible. Construction grants would have a \$15 million limit while planning grants would have a \$500,000 limit. Where feasible, nature-based solutions would be allowed.

Chair Eskaf went through the Authority roles (§159G-71) related to awarding stormwater funds, including determining the rank of applications (1); establishing priorities for making loans and grants (2); developing guidelines for making loans and grants (4); assessing and making recommendations on the role of the State in the development and funding of infrastructure programs (6); and reviewing the application of management practices to determine best practices (9).

The proposed timeline would be as follows:

- Establish the Stormwater Funding Committee in December.
- From January to July 2022, develop and approve the Stormwater Priority Rating System with committee work, public review, and Authority approval as part of the process.
- From July 2022 through September 2022 advertise the stormwater funds.
- The first round of applications would be due on September 30, 2022 with awards as early as February 2023.

Discussion

There was no discussion.

N. Overview of Pilot Project for Funding of Onsite Wastewater Systems

Mr. Risgaard and Mr. Fowlkes gave the presentation.

Summary

Mr. Risgaard began the presentation.

The Division and the NC Department of Health and Human Services (DHHS) Onsite Wastewater program support efforts to scale up support for decentralized wastewater treatment (e.g., on-site septic systems). Additionally, it complements efforts being undertaken by other assistance programs such as US Department of Agriculture grants administered through the Southeast Rural Community Assistance Program (SERCAP). Last, it could provide direct funding for decentralized projects to areas of the state that need it the most by engaging Counties and non-profits operating in the region.

Mr. Fowlkes continued the presentation.

Approximately 50 percent of North Carolinians use septic systems compared to 25 percent across the rest of the nation. Currently, there are very few funding sources for this type of infrastructure. North Carolina has the highest number of new septic system installations in the United States. Nearly 2.17 million septic systems serve about half of the state's population. Dependence on septic systems has remained constant for over 20 years. The average lifespan of a septic system is approximately 15 to 40 years. From 2010 to 2019, approximately 30 percent of septic system installations were to repair failing systems. Since 2019, repair permitting has greatly increased.

Very few funding programs are available to repair septic systems. North Carolina statute currently precludes the Clean Water State Revolving Fund (CWSRF) from loaning directly to private and non-profit entities. Across the United States, 23 states already utilize the CWSRF for septic system funding. In April 2020, a Request for Proposals for technical assistance was put out. The proposal was one of two selected, and the pilot project commenced. The DHHS is planning on moving forward with a pilot project in Halifax County with SERCAP assisting.

The Division suggested that a pass-through lending program would be the most feasible approach to consider. A partner organization would serve as a bridge that connects the CWSRF funding to the

loan recipient. The partner would be responsible for the payments of the loan. A third-party organization would provide assistance in administering the loans.

The reimbursement process would be similar to what is currently underway. The property owner would incur the cost and would make the request from the recipient. The recipient would then make the request from the CWSRF program. The repayment process would be where the property owner repays the loan to the recipient, and the recipient would repay the loan on their own amortization schedule. There would be no direct contact between the property owner and the CWSRF.

- The Division would need to establish programmatic requirements, and the Authority would need to consider additional subsidies. A potential schedule would be as follows:
- In February or April 2022, an updated Priority Rating System and Intended Use plan would be established for public review.
- In July 2022, the Authority would approve Priority Rating System and programmatic changes.
- In August 2022, the Intended Use Plan would be submitted to the EPA.
- On September 30, 2022, applications would be due.

Discussion

Chair Eskaf asked for questions.

Ms. Goodwin stated that the discussions in the past have included a broader selection of decentralized systems than septic systems. Mr. Risgaard stated that the pilot program is not specifically for that issue. Other decentralized systems would most likely be funded through the VUR. There remains a lot of work that would be worked out with the LGU decentralizing bearing the cost rather than the individual homeowner. Ms. Goodwin added that a lot of times, people go from centralized to septic systems with no in between.

Dr. Pelissier stated that a lot of times, at least in Orange County, homebuilders take advantage of minority communities by building septic systems where they should not be built, especially if they were built a long time ago. Knowing why septic systems fail, how do we assure that LGUs would not continue practices where septic systems would fail. Mr. Fowlkes replied that of now, for anyone who submits an application for a septic system, a repair area must be present unless a lot was in place prior to a certain date. A problem DHHS runs into is that sometimes a septic system put in 30 or 40 years ago probably never should have been installed. DHHS staff use best professional judgment for repairs to see if they would work. Sometimes, nothing will work, and it goes into the legal system for a judge to determine what happens.

Mr. Goscicki stated that money should not be put into septic system repair and replacement if it does not lead to long-term viability. He asked about what issues were being considered beyond getting money to LGUs who need it. This does not need to be answered but would need to be addressed. Ms. Goodwin stated that counties are responsible for septic systems, yet they do not take ownership of the systems. When looking at funding programs, the recipient would need to do training. Mr. Fowlkes stated that the counties themselves are not responsible for operations and

maintenance; instead, it is the responsibility of the owners. Ms. Goodwin stated that the counties are responsible for public health even if they do not have responsibility for upkeep. This would be an opportunity for people to take responsibility for upkeep.

Ms. Adams stated that since it would be a loan program, is there any concern that those who could not get a loan could participate. Mr. Fowlkes replied that people may not make enough money for a loan or make too much. Mr. Risgaard added that other states' models use typical indicators that banks would look at. The levels for evaluation would be determined. A lot of the risk would be on the recipients since they would have to repay the loan. A lot of feedback is important, especially related to the Principal Forgiveness aspect of it. The more awarded would mean it would be easier for an individual to default on a loan. Ms. Adams stated that in Halifax County, 49 percent are on septic systems and 27 percent are in poverty. It would be something to think about.

Chair Eskaf asked, if in other states, the loan terms would be different if grants would be available. Mr. Risgaard agreed.

Mr. Randy Welch with SERCAP commented. Related to affordability, if a homeowner does not qualify or have the appropriate income to meet the loan portion offered, the money would be "granted" upfront, but a lien would be put on the property, so if the property would be sold, then at closing the payment would be collected. Related interest, in other states, one-percent loans would be offered for up to 20 years. Payment would be around \$20 a month. There has been a zero-default rate to individuals. Staff will work with the homeowner to ensure that they stay financially viable in their homes. Related to training, SERCAP offers free training to homeowners for repair and maintenance of septic system but with very few participants. It would be good to attach training as a requirements for acceptance of loan.

O. Informal Comments from the Public

Chair Eskaf asked for informal comments from the public.

There were no online requests.

Ms. Leah Martin of the City of Claremont offered a comment. Ms. Martin favored the pilot project, especially related to her experience in rural areas over the years. The education piece of the program would be great. This is worth looking into.

P. Remarks by Authority Members, Chair, and Counsel

Chair Eskaf asked for closing remarks. He appreciated all of staff's work leading up to this meeting. It is good to have funding now to address the needs mentioned in the Master Plan. With the funding from the budget as well as the IJJA, it is a good opportunity that will require a lot of communication. He also thanked the Authority members for their work and their input during the meeting.

Ms. Hunnicutt thanked staff and acknowledged the work related to preparing for the meeting. Additionally, being in the industry for the past 15 years, there are so many resource partners. The North Carolina Rural Water Association is also a good partner.

Ms. Goodwin thanked staff as well. The Division and Authority are headed in a new direction that can be daunting. She asked for when they could provide input and for staff to ask when needed. This is the biggest thing taken on.

Mr. Waller echoed the same sentiments. This is a real interesting and fun time in the infrastructure industry. He looked forward to the upcoming stormwater infrastructure group.

Mr. Goins appreciated the opportunity to serve on the Authority. The County is actually helping to pay for a waterline because it sees the importance of it.

Ms. Edmundson echoed about the work of staff. From the local government perspective, a large part of their issues are related to the utilities.

Ms. Adams thanked both LGC staff and Division staff. She was excited about the innovation presented as well as the training.

Mr. Goscicki thanked everyone.

Ms. Weese wished everyone a happy holidays.

Agenda Item Q. – Adjourn