

State Water Infrastructure Authority
North Carolina Department of Environment and Natural Resources
July 23, 2015
Meeting Minutes

State Water Infrastructure Authority Members Attending Meeting

- Kim Colson, Chair; Director, Division of Water Infrastructure
- Leila Goodwin, Water Resources Manager, Town of Cary
- Robin Hammond, Assistant General Counsel, Local Government Commission
- Maria Hunnicutt, Manager, Broad River Water Authority
- Dr. Patricia Mitchell, Assistant Secretary, Rural Development Division, Department of Commerce
- JD Solomon, Vice President, CH2MHill
- Cal Stiles, Cherokee County Commissioner
- Charles Vines, Manager, Mitchell County

Division of Water Infrastructure Staff Attending Meeting

- Julie Haigler Cubeta, Supervisor, Community Block Development Grant – Infrastructure Unit
- Francine Durso, Project Manager, Special/Technical Issues Unit
- Jennifer Haynie, Supervisor, Environmental and Special Projects Unit
- Seth Robertson, Chief, State Revolving Funds Section
- Jessica Leggett, Project Manager, Environmental and Special Projects Unit
- Jeanne Fletcher, Administrative Services Unit

Department of Justice Staff Attending Meeting

- Phillip Reynolds, North Carolina 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 Minutes of May 2015 Authority Meeting

Mr. Colson presented the draft meeting minutes from the May 2015 Authority meeting for review and approval.

Action Item B:

- Dr. Mitchell made a motion to approve the May 21, 2015 Authority meeting minutes. Ms. Hammond seconded the motion. The motion passed unanimously.

Item C. Attorney General's Office Report

Mr. Reynolds had no items on which to report.

Item D. Chair's Remarks

The Authority and Division have been invited by the Buried Asset Management Institute – International (BAMI-I) to attend certification training classes in Raleigh on August 17-20, 2015. The Division will be holding six application training workshops across the state in the next few weeks in preparation for the Sept. 30th application deadline for the CWSRF, DWSRF and CDBG-I programs; 140 people have already registered to attend. Since the legislature has not approved a budget for fiscal year 2015/2016, it will not be possible to accept fall applications for the State Reserve programs.

The Chair noted that Agenda Items K and L would be presented next due to a potential time conflict with staff needing to be on a conference call when these items were originally scheduled.

Item K. 2015 Amended Intended Use Plans (IUPs) for CWSRF and DWSRF Programs

At its May 2015 meeting, the Authority approved staff to present the drafts of the fall 2015 application cycle CWSRF and DWSRF Priority Rating Systems at a June 15, 2015 public meeting. Written comments were received from Two Rivers Utilities and Johnston County. Many of the comments will be addressed in the respective guidance documents. Staff noted that a comment was received from the EPA Region 4 Program Manager for North Carolina that additional considerations may not be utilized in the ranking of DWSRF projects. The Authority requested that the Division put this question in writing to the EPA for a formal reply; Mr. Colson noted that the answer would not likely be received prior to the fall application deadline. Regarding Johnston County's comments, staff noted that the CWSRF and DWSRF procedures are not consistent regarding environmental review of categorical exclusions (CEs). The Division is working on a new comprehensive State Environmental Review Procedures (SERP) agreement with EPA in which the procedures will be finalized. Comments from Two Rivers Utilities centered on merger/regionalization and the specifics of how they are structured.

The Authority questioned the 2% origination fee charged for loans and whether this was competitive when compared with bond markets or banks. Mr. Colson noted that these fees are set in statute at 2% and that it is offset by the SRF programs not charging interest during construction, which differs from loans in which interest charges begin immediately, and there are also other expenses associated with the bond market.

Action Item K:

- Ms. Goodwin confirmed that changes would be made to the guidance documents as described by staff and then made a motion to approve the use of the new CWSRF and DWSRF Priority Rating Systems in the Amended 2015 IUP and to apply the new Priority Rating Systems to applications that will be received in Sept. 2015. Mr. Vines seconded the motion. The motion passed unanimously.

Item L. 2015 Changes to the CDBG-I Water Infrastructure Grant Program

At its May 2015 meeting, the Authority approved staff to present the draft of the fall 2015 CDBG-I Priority Rating System at a June 15, 2015 public hearing. Written comments were received from the Western Piedmont Council of Governments. Many of the comments will be addressed in the guidance document regarding the definition of a 'dry well' and whether a permit was required when the well was constructed, recognizing that many wells were installed before there were permit requirements.

Action Item L:

- Dr. Mitchell made a motion to approve the use of the new CDBG-I Priority Rating System in the 2015 Annual Action Plan and to apply the new Priority Rating System to applications that will be received in Sept. 2015. Mr. Stiles seconded the motion. The motion passed unanimously.

Item E. Legislative Update

Mr. Colson resumed with Agenda Item E and presented the differences in the House and Senate NER/ANER Budgets with respect to the Division. The Department had made a verbal presentation to the conference committee but did not specifically address this item which will instead be addressed in a written document of technical issues. It was noted that the Authority cannot make a loan or grant that would result in an interbasin transfer (IBT); the Environmental Management Commission (EMC) approves IBTs.

Item F. Overview of Active Work Items

This item was a brief overview of the discussion topics for Agenda Items G through J.

Item G. Master Plan Committee Report

Master Plan Committee Chair Hunnicutt summarized the work of the Committee. The overall direction of the Plan will be to set the short- and longer-term vision for infrastructure, identify the gaps to get to the vision, identify tools needed to close the gaps, and to ensure that the Plan will be a living document that will continue to be worked on over time. The gap in funding of water and sewer infrastructure needs in the state is not truly known, partly due to the fact that the industry has not been encouraged to look ahead and do the planning needed to adequately quantify needs. There was concern that including a dollar value of needs in the Master Plan would give the impression that all the needs are known and quantified which is not the case. Division staff will discuss with the UNC-CH School of Government Environmental Finance Center (EFC) their potential ability to provide data analysis to at least begin to develop a possible range of needs, acknowledging the uncertainty around the numbers, and based on information that is already available.

The Authority generally supported using the term “viable” to describe the vision for infrastructure systems and that viability may be expressed in terms of organizational, financial and technical capacity. The message of working to become viable, taking responsibility for becoming self-sufficient, and not expecting grant funds to support a utility is key to the Plan. It was noted that while the LGC does not define viable, per statute the LGC can take over a system’s enterprise fund if it lacks positive working capital, lacks a positive quick ratio, and if it has a net loss of revenue; these three components indicate the system may not be financially stable.

There was also general agreement that it is difficult for local decision-makers to set aside funds for future needs unless there is some issue prompting them to begin this practice and the Master Plan should encourage this type of planning. The need to engage stakeholders as the plan is further developed was discussed. The Committee will report to the Authority again in September.

Item H. Affordability Criteria Development

The House and Senate budget proposals both include the Authority’s recommendation to use affordability criteria as a way to pair a grant with a loan offer thereby maximizing the current funding resources. The pairing of funding could potentially be implemented for the spring 2016 application round. A number of parameters that could be considered had been vetted with subject matter experts (SMEs) with the LGC, the EFC, and the USDA Rural Development NC office. Some parameters are inherent to the system (such as income, population, and poverty rate) and some are set by the LGU (such as net debt, operating ratio and utility rates). Considering a combination of parameters would provide a balanced approach to developing the criteria but the parameters must be independent and not overlapping. The Authority completed a quick ranking exercise for 12 system parameters and 10 LGU parameters. Division staff will compare the Authority’s results with the SME’s results and will

prepare a narrowed list of parameters for discussion and potential weighting at the September Authority meeting. The concept of definitive versus graduated boundaries was presented and will be also be discussed in September.

Item I. Troubled Systems Protocol Update

One of the Authority's statutory responsibilities is to assess the need for a troubled systems protocol. Division staff has observed similarities between being a troubled system and being a system that is not viable; therefore three potential components of troubled systems may also be expressed in terms of organizational, financial and technical capacity as discussed in Agenda Item G. The Authority generally concurred that the issues may be similar. Division staff will present more information at the September Authority meeting.

Item J. Asset Management Update

The House and Senate budget proposals both include the Authority's recommendation to provide State Reserve grant funds for utilities to identify and assess its water/sewer infrastructure. Division staff is developing the criteria for applicant prioritization and the deliverables of the grant. Offering these grants could potentially be implemented for the spring 2016 application round. Information was presented about the criteria, funding levels and match requirements used by several states providing asset management type funding. The Authority noted that affordability might be a consideration when determining the need for matching funds. Division staff will present more information at the September Authority meeting.

Item M. Informal Comments from the Public

Mr. 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 N. Concluding Remarks by Authority Members, Chair, and Counsel

The next Authority meeting dates were confirmed for September 17 and December 10, 2015. Mr. Colson requested that the date of the January 2016 Authority meeting be established at this time; the Authority agreed to meet on January 21, 2016. A draft schedule for 2016 meetings will be presented in September.

Item O. Adjourn – The meeting was adjourned.
