

State Water Infrastructure Authority
North Carolina Department of Environment and Natural Resources
September 17, 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

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
- Amy Simes, Project Manager, Drinking Water Projects Unit
- Jessica Leggett, Project Manager, Environmental and Special Projects Unit
- Matthew Rushing, Project Manager, Drinking Water 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 July 2015 Authority Meeting

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

Action Item B:

- Ms. Hammond made a motion to approve the July 23, 2015 Authority meeting minutes. Dr. Mitchell 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 application deadline for the CWSRF, DWSRF and CDBG-I programs is September 30. 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; these applications will be accepted in March 2016. The Division held six application training sessions around the state in July and August which were attended by over 130 people.

Item E. Legislative Update

The changes to NCGS 159G recommended by the Authority in its 2014 Annual Report have been included in the proposed House and Senate budgets with a change by the Senate to the proposed definition of affordability. Mr. Colson noted that the new grants for Asset Inventory and Assessment, and Merger/Regionalization Feasibility will replace the former technical assistance grants (TAGs) if passed. The draft budget for the State Reserve grants program includes an increase of \$5 million per year on a recurring basis, and non-recurring funds for the state grants program include \$2.4 million in 2015-2016, and \$5 million in 2016-2017 are proposed. The total amount of state grant funds that could be available over the biennium is \$27.4 million. The Connect NC bond bill appears to be moving forward and includes additional funding for water and wastewater infrastructure at this time.

Item F. Draft 2016 Meeting Schedule

Under the Authority's Internal Operating Procedures, prior to the first meeting of a calendar year it must approve a schedule of regular meetings for the subsequent calendar year. A list of potential meeting dates for 2016 was presented noting that the Authority has already approved the meeting date of January 21, 2016. Authority members will check for conflicts; approval of meeting dates will be an action item at the December 2015 meeting.

Item G. 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 have been evaluated, some of which are inherent to the local government unit (LGU) such as income, population change, and poverty rate; and some are under the control of the LGU such as days cash on hand, operating ratio, and utility rates. Considering a combination of these parameters provides balanced criteria. As the Division analyzes these parameters, it is using only information that is available from the Local Government Commission (LGC). Staff presented updated information on the criteria development. Question: do utilities operate with operating ratios less than 1? A: Yes, many do and if depreciation was factored in it is likely that number would be higher; currently the Division does not include depreciation because there are so many different ways that it can be calculated that it would not be comparable from one system to another. The Authority discussed and generally supported the proposed parameters; based on the discussion and additional research, staff will present updated information at the December meeting.

Item H. Asset Management Update

The House and Senate budget proposals both include the Authority's recommendation to provide State Reserve grant funds for infrastructure asset inventory and assessment work; these grants could potentially be implemented for the spring 2016 application round. Staff presented draft goal statements which the Authority supported with a few suggested changes which will be incorporated. Staff presented the potential process, deliverables, and criteria for applicant prioritization. The Authority

noted that the transition from the assessment stage to the project development stage will be very important; that the intent is for the CIP to be prepared with grant funds will be updated every two years; and that the affordability criteria that is being developed should be applied when considering the applicant's match. The Authority acknowledged the possibility of funding for two types of applicants: those that have done little to no asset-type work; and those that already taken some steps toward asset management. Regarding the application components, the Authority emphasized that a utility's budget for capital improvements and maintenance is needed so it can be compared with its actual expenditures and that trends were also important; and that it encourages applicants to search for partners for GIS or other capabilities which it may not have internally and to demonstrate how the inventory will be kept updated after the grant is completed. Based on the Authority's discussion and additional research, staff will present updated information at the December meeting.

Item I. Merger/Regionalization Feasibility Grant Update

The House and Senate budget proposals both include the Authority's recommendation to provide State Reserve grant funds for merger/regionalization feasibility studies; these grants could potentially be implemented for the spring 2016 application round. This is the first presentation of information by staff regarding the potential criteria and deliverables for this grant. The Authority generally supported the concept of a "business plan" as the deliverable to include life cycle costs and rates needed to support each of the alternatives explored, resulting in the preferred path forward and how the utility will fund the capital, operation and maintenance, reinvestment and reserves needed for the work. Based on the Authority's discussion and additional research, staff will present updated information in December.

Item J. State of the States: Water Loss Management in the US

Mr. Will Jernigan, PE and Mr. Tory Wagoner, PE with Cavanaugh Associates gave a presentation about water loss management policies in the US. Most states have either no policies or require basic water loss reporting; North Carolina requires basic reporting in its local water supply plans. A few states require annual water loss reporting using the AWWA free water audit software; Georgia, Texas and California are the most stringent requiring this method along with a validation of the submitted audit. The presenters noted that drastic droughts in Georgia and California spurred these requirements. One of the key messages is that water loss/ unaccounted for water as a percentage of supply is not an indicator of performance because it does not segregate loss into its components for effective management. A key topics was the importance of linking the volume of non-revenue water to its monetary value because there is little understanding of the degree to which loss can affect a community's finances – potentially millions of dollars in revenue is not realized from water and sewer billings. Other topics included the common occurrence of finished water meters that fail required testing and the realization by utilities that "the more money/water we find, the less we may need to borrow for capital projects." The Authority discussed the inclusion of these concepts in the master plan and the potential to incentivize improved water loss management by including it in future priority criteria for grants. They appreciated Cavanaugh's presentation.

Item K. Troubled Systems Protocol Update

A discussion of the challenges faced by small systems was held with the Mayor of the Town of Eureka, the Honorable Mr. J.D. Booth, and the Town Administrator of the Town of Fremont, Ms. Barbara Aycock. The purpose of the discussion was for the Authority to gain insight into infrastructure issues faced by small systems which it can then consider as it develops the troubled systems protocol. Each town gave an overview with focus on sewer issues. Some themes that emerged included lack of personnel to maintain their infrastructure, lack of funds to hire someone to provide maintenance, and construction-

related problems possibly due to lack of adequate inspection/oversight. Neither town had a plan to save funds to be able to address renewal work that will be needed in the future. The Authority thanked Mr. Booth and Ms. Aycock for their openness and willingness to discuss these issues.

Staff had analyzed information provided by the LGC to look for factors that may be common to potentially struggling LGUs. Key issues appear to be organizational and financial such as internal controls, audited financials, low cash balances, etc. for 28 of the same LGUs that the LGC has contacted about these issues for the past three to four years. The Division identified that nearly 80% of these LGUs have several common characteristics:

- Populations of 2,100 people or less (ranges from 300 to 6,000 people);
- A median household income of about \$37,000 which is below the state average of \$45,300 (ranges from \$16,000 to \$55,000); and
- Four months or less of cash on hand (ranges from 0 to 24 months).

The Authority discussed that such information is helping frame the range and magnitude of the troubled systems problem and there may be a need to be able to fund some type of planning to help the LGUs define their problem and next steps for them to become viable, which could involve a merger/ regionalization. Based on the Authority's discussion and additional research, staff will present updated information in December.

Item L. Master Plan Committee Report

Master Plan Committee Chair Hunnicutt summarized the work of the Committee and presented the Committee's draft Master Plan Vision. 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. The Authority discussed and supports the following as the vision statement:

The State will best be able to meet its water infrastructure needs by ensuring utilities are, or are on a path to be, viable systems. A viable system is one that functions as a business enterprise, establishes organizational excellence, and provides appropriate levels of infrastructure maintenance, operation, and reinvestment – including reserves for unexpected events – that allows the utility to provide reliable water services now and in the future.

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. Division staff discussed 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. It is anticipated that the draft plan will be completed in the spring of 2016 and the Division will then seek stakeholder input. Based on consideration of the input by the Authority, the plan will be revised. Staff continues to draft the plan and the Committee will report to the Authority again in December.

Item M. Draft 2015 Authority Annual Report

Staff presented the draft of the Authority's Annual Report which is due to committees of the legislature by Nov. 1. The Authority supports the content of the draft report and provided comments. Staff will revise the report and discuss finalization with the Authority during a Special Meeting by Conference Call to be held on Oct. 15; a second conference call may be needed on Oct. 22 based on further comments.

Item N. 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 O. Concluding Remarks by Authority Members, Chair, and Counsel

Mr. Solomon stated that he had submitted an abstract for the AWWA-WEF Utility Management Conference in Feb. 2016 in which he would present information about the Authority and its work. The next Authority meeting dates were confirmed for December 10, 2015 and January 21, 2016. A draft schedule for 2016 meetings will be presented as an action item in December.

Item P. Adjourn – The meeting was adjourned.
