

**Viable Utility Committee of the State Water Infrastructure Authority
North Carolina Department of Environmental Quality**

August 13, 2021

Note: This meeting was held via WebEx

Meeting Minutes

Viable Utility Reserve Committee Members Attending Meeting via WebEx or by Phone

- Ed Goscicki
- Leila Goodwin, Water Resources Engineer
- Maria Hunnicutt, Manager, Broad River Water Authority
- Jon Risgaard, Acting Director, Division of Water Infrastructure

Division of Water Infrastructure Staff Attending Meeting via WebEx or by Phone

- Cathy Akroyd, Public Information Officer
- Linda Culpepper, Viable Utility Utilities Unit
- Victor D'Amato, Supervisor, Viable Utilities Unit
- Christyn Fertenbaugh, Project Engineer, Viable Utilities Unit
- Susan Kubacki, Program Development Coordinator, Viable Utilities Unit
- Jennifer Haynie, Program Development Coordinator, Viable Utilities Unit

Item A. Call to Order

Acting Chair Risgaard called the meeting to order and reminded the members of the Viable Utility (VU) Committee of the State Water Infrastructure Authority (Authority) 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 VU Committee today is required to identify the conflict or potential conflict at the time the conflict becomes apparent.

Item B. Approval of Meeting Minutes

Acting Chair Risgaard presented the draft meeting minutes from the June 23, 2021 VU Committee meeting for approval.

Action Item B:

- Ms. Goodwin made a motion to approve the meeting minutes with modifications. Ms. Hunnicutt seconded, and the motion passed.

Acting Chair Risgaard stated that the House budget came out last week to go along with the Senate budget. Both budgets were very similar and include \$500 million to the Viable Utility Reserve (VUR) to support distressed local government units (LGUs). Fourteen projects were earmarked to the amount of \$68 million. The House budget increases funds to the State Reserve Program (SRP) to \$900 million. Of that \$900 million, \$300 million would be for at-risk LGUs, with responsibility for defining "at-risk" left to the Department of Environmental Quality (DEQ) to define. \$305 million would be earmarked for 57 projects. Additionally, \$80 million would be available for study grants through the SRP. This funding would also be opened up for

rate studies and training. Last, \$100 million would be dedicated to stormwater projects but would not be under Authority purview.

Item C. Process and Guidance for Rate Studies and MRF Studies

Victor D'Amato gave the presentation.

Summary

At the July Authority meeting, the Authority approved 15 Asset Inventory and Assessment (AIA) grants for LGUs designated as distressed under Identification Criterion #1. The Merger / Regionalization Feasibility (MRF) grant applications were deferred pending an identification of a lead LGU with a single application to be submitted per partnership. The recipient awarded these grants would assume primary responsibility for the grant application, award, management, and coordination of the authorized studies. There are logistical benefits to limiting the number of grants awarded to LGUs or partnerships.

Division staff made three recommendations:

1. Asset Inventory and Assessment grants and MRF grants should include associated rate studies, and the award of stand-alone rate study grants should be limited to situations where a LGU already has a relevant AIA or MRF completed or underway;
2. In many situations, distressed LGUs can and will conduct VUR-AIAs independent of regional partnerships; and
3. Merger / regional feasibility grants should yield reliable capital and recurring cost estimates for various options to be considered by participating LGUs. The cost implications associated with each option would then inform revised rate studies. A critical metric for selection of a recommended alternative would be its rate implications.

Discussion

Mr. Goscicki commented that it would be a staff and not a policy issue when discussing rate studies. There are two main elements, one being rate sufficiency and the other being rate structure. Equity issues, structure, and how new revenue requirements get distributed across the customer base are all factors. When looking at AIA and MRF grants, rate studies should be limited to the higher-level issues of total revenue and overall rate increases that might be required rather than getting into the details. Ms. Goodwin stated that a formal rate study conducted by the Town of Cary was very, very detailed due to the large size of the system. Most small LGUs would not have those details. A rate study could be more of a spreadsheet exercise that would include capital plans and the cash needed. It would be very important to consider what Division staff and the Authority would need from these studies. Mr. D'Amato agreed and stated that in terms of the scope for rate studies, there would be no need to get detailed. The feedback provided was very good and what was needed. Staff planned to pass the feedback to Raftellis, who is looking at developing a rate study tool. Mr. Goscicki offered to sit in on the conversation.

Ms. Goodwin asked about Goldsboro. She asked how a larger LGU and smaller LGUs associated with it pay for rates if a merger happened. When the Town of Cary merged with the Town of Morrisville, Cary's rates did not go up, but Morrisville's rate did not go down until the revenue collected from those rates had paid off the improvements. Mr. Goscicki stated that the goal was to look at the sources of revenue and how and / or when rate increases would occur. He agreed that a rate study at high level would need to be done as part of the initial analysis.

The VU Committee did not think an action item was necessary.

Item D. Partnership Leads for Rate Studies and MRF Studies

Victor D'Amato gave the presentation.

Summary

The Viable Utilities Unit (VUU) has three project managers who divide the distressed LGUs by Council of Government (COG) district as a way to organize who will be responsible for each LGU. In terms of partnership leads, for the Town of Robersonville partnership, the lead is currently the Martin County Water and Sewer Authority (MCWASA). For the partnership needed for the Towns of Eureka and Pikeville in Wayne County, Goldsboro might serve as the lead. For the Town of Kingstown partnership within Cleveland County, Cleveland County Water is serving as the lead partner.

Discussion

Acting Chair Risgaard asked if the goal was to bring these potential partnerships to the full Authority in September with a lead LGU identified. Mr. D'Amato replied that these applications could be brought to the Authority out of cycle due to LGUs being identified under Identification Criterion #1. Ms. Goodwin asked if Division staff needed to bring the grants back to the Authority to award them. Acting Chair Risgaard replied that his recollection was that the Authority approved only the VUR-AIA grants and took no action on the MRF grants. Staff would review the minutes from the July meeting to confirm.

E. Discussion on Prioritization for Viable Utility Reserve Project Funding and Relationship with the American Rescue Plan

Acting Chair Risgaard gave the presentation.

Summary

The Priority Rating System for the State Revolving Fund (SRF) and SRP contains four categories that address project purpose, project benefits, system management, and affordability. Additionally, the House budget recommendations for the VUR provide funds for the VUR for 14 specified projects as well as projects for distressed LGUs. However, the American Rescue Plan Act (ARPA) funds contain three restrictions: (1) the projects would have to be SRF-eligible; (2) the funds would have to be obligated by December 31, 2024; and (3) the funds would have to be spent by December 31, 2026. Regarding SRF eligibilities, projects under the Clean Water State Revolving Fund (CWSRF) are very broad (e.g., wastewater collection and treatment

projects, habitat protection and restoration, agricultural best management practices) while the eligibilities under the Drinking Water State Revolving Fund (DWSRF) are much narrower and focused on addressing and preventing violations of health-based drinking water standards. Additionally, the VUR is limited by statute on what it can fund (e.g., physical interconnections, rehabilitation of existing infrastructure, studies, emergency operating grants).

Items to consider related to prioritizing VUR capital projects are the ARPA funds, eligibility and the way prioritization could lift up certain project types. Other eligibility requirements might include a commitment to complete construction by no later than December 31, 2026, the distressed designation, and the status of completed studies (e.g., AIA, MRF, rate studies) as well as the other requirements of the VU program.

Discussion

Mr. Goscicki asked how DEQ would reconcile the permitting process, which could take up to five years, with the time limits related to the funding. Acting Chair Risgaard replied that the DEQ is looking at ways to streamline the permitting process. Also, a new wastewater discharge might not be the best option for the ARPA funds whereas other projects would have better timelines. The Division of Water Resources has concerns as well, as they want funded projects to move through the process to construction.

Ms. Goodwin stated that the spend-by date seemed to be the issue. She suggested utilizing the current Priority Rating System if the projects would improve viability. In her mind, the action plans would play a vital role to avoid winding up in the situation where LGUs were in 2013. Mr. Goscicki added that the challenge seemed to be more about economic stimulus than viable utilities, as the deadlines place a big priority on getting the work done and keeping funds moving. The question related to whether or not the work could be completed by the deadlines. The Authority would need to place the money in the right places but avoid becoming a roadblock to implementation.

Acting Chair Risgaard stated that Division staff agreed that it was helpful to go back to projects that would be eligible in the VUR. There would need to be a way to rehabilitate infrastructure that does not set a LGU up for failure but instead helps them to work through the VU process. Ms. Goodwin stated that the goal should be for LGUs to manage their systems so they would not be returning to the Authority in 20 years for more money. Currently, she did not see a lack of incentive for long-term viability as the issue but more of a labor issue as well as attaining parts from overseas.

Mr. Goscicki stated that the challenge is to spend \$500 million in a finite amount of time where it could do the most good long term. Any funding that could be spent for a viable, long-term solution should go to the top of the list. Ms. Goodwin added that she did not think the Authority would need to revise the Priority Rating System. She asked if training and planning could still be required due to a LGU's distressed status. Acting Chair Risgaard agreed.

Ms. Hunnicutt stated that she desired to see LGUs "set up" for success in terms of work with AIAs and projects. If the purpose would be to disburse funds quickly, then the Authority could

do everything they could to fund “smart” projects. The timing and spending limits will help ensure the success of those projects. Mr. Goscicki agreed. The AIA term is a great term to use because it is an upfront term—what is in a system and its condition. The assessment would need to be done, not asset management, which construes selling software.

Item F. Approval of Timing for Reassessment of Distressed Designations for Identification Criteria 1 and 2

Linda Culpepper gave the presentation.

Summary

Currently, the Local Government Commission (LGC) and Authority have four Identification Criteria under which they may designate a LGU as distressed. Criterion 1 is when a LGU is under LGC control. The VU Committee had recommended that the Authority approve this designation automatically when such an action occurs. Criterion 2 is when a LGU misses submitting its annual audit to the LGC two years in a row. The VU Committee recommended that the designation happens automatically by the Authority when the LGC notes that an LGU is missing two annual audits in a row. Criterion 3 related to designation by the Authority and LGC via an Assessment Criteria score. Criterion 4 related to designation by the Authority and LGC based on other information.

Staff recommendations were as follows:

- Identification Criterion 1 – LGU fiscal control – The VU Committee recommends that the Authority approve automatic designation of an LGU as distressed upon the LGC approving designation of the LGU as distressed under Identification Criterion 1.
- Identification Criterion 2 – Missing Audits – The VU Committee recommends that the Authority approve automatic designation of an LGU as distressed upon the LGC’s designation of the LGU as distressed under Identification Criterion 2.

Discussion

Ms. Goodwin stated that the recommendations were good. She wanted to ensure that the staff report was consistent to state that the LGC, if they saw no need for designation, would not have to designate an LGU as distressed. Ms. Culpepper agreed. The conversation with Jill Weese occurred after submittal of the staff report to the VU Committee. The action item to be presented to the Authority in September will be consistent with what was shown in the presentation.

Action Item F:

- Ms. Goodwin made a motion to send the language as recommended above to the full Authority for approval. Ms. Hunnicutt seconded. The motion passed unanimously.

G. Reassessments Using FY 2019 Financial Audit Data and Consideration of Designation

Linda Culpepper gave the presentation.

Summary

Under Identification Criterion 3, initial assessments were conducted using FY 2019 audit data that had been submitted to the LGC by December 1, 2020. At that point, several LGUs had not submitted their audits, including the City of Goldsboro and Town of Magnolia. Since then, the City of Goldsboro submitted its audit and requested that their assessment be completed using their FY 2019 data, which increased their score to 9. This score enabled them to meeting designation threshold. The two options were to request a distressed designation or be put in the “Hold” category with the other LGUs.

Discussion

Ms. Goodwin asked if the Town of Magnolia and City of Goldsboro had had any communication with the Division. Ms. Culpepper stated that due to the missing data placing them below the threshold, they had received no communication. Ms. Goodwin stated that the designation should be in the hands of the City of Goldsboro to either ask for designation or wait. Regarding the Town of Magnolia, they have not asked for designation. She did not expect staff to reevaluate data as it trickles in throughout the year. Acting Chair Risgaard agreed. The first year has been different due to the way LGUs have been communicated with and onboarded. In April 2022, designation will occur as outlined with no interim review of data.

H. Concluding Remarks by Committee Members

Acting Chair Risgaard stated that Shadi Eskaf’s first day as Division Director is on August 16. Additionally, the Division is in the process of hiring for a number of vacancies within the Division.

Ms. Goodwin thanked Division staff for an organized discussion. Mr. Goscicki echoed Ms. Goodwin’s comments and complimented Acting Chair Risgaard on a job well done. He asked if the Authority meeting was still scheduled for in-person in September. Acting Chair Risgaard replied that it was. Ms. Hunnicutt stated that she had nothing additional to add.

I. Adjourn

Meeting was adjourned.