

State Water Infrastructure Authority
North Carolina Department of Environmental Quality
July 18, 2018
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
- Greg Gaskins, Deputy Treasurer, State & Local Finance Division; Secretary, Local Government Commission
- Leila Goodwin, Water Resources Engineer
- Maria Hunnicutt, Manager, Broad River Water Authority
- Dr. Bernadette Pelissier
- Cal Stiles, Cherokee County Commissioner
- Charles Vines, Mayor of Bakersville
- Juhann Waller, Principal, JC Waller & Associates, PC

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. Authority Members' Information Update

Mr. Colson welcomed Mr. Juhann Waller to the Authority. Ms. Leggett read Mr. Waller's Statement of Economic Interest into the meeting minutes.

- This is an excerpt from a letter dated May 30, 2018 addressed to the Honorable Roy A. Cooper, III, Governor of North Carolina, regarding the Evaluation of the Statement of Economic Interest filed by Juhann Christopher Waller:

“Dear Governor Cooper:

Our office has received Mr. Juhann C. Waller's 2018 Statement of Economic Interest as a prospective appointee to the State Water Infrastructure Authority (the “Authority”). We have reviewed it for actual and potential conflicts of interest pursuant to Chapter 163A of the North Carolina General Statutes (“N.C.G.S.”), also known as the Elections and Ethics Enforcement Act (the “Act”).

We did not find an actual conflict of interest or the likelihood of a conflict of interest. Mr. Waller will fill the role of professional engineer in the private sector on the Authority.

Pursuant to N.C.G.S. § 163A-159(c), when an actual or potential conflict of interest is cited by the Board under N.C.G.S. § 163A-189(e) with regard to a public servant sitting on a board, the conflict shall be recorded in the minutes of the applicable board and duly brought to the attention of the membership by the board's chair as often as necessary to remind all members of the conflict and to help ensure compliance with the Act."

Mr. Waller repeated the Oath of Office which was notarized on July 16, 2018. Mr. Waller thanked the Governor for the appointment and is looking forward to the work of the Authority. Mr. Waller introduced himself and each Authority member introduced themselves.

Mr. Colson stated that Ms. Goodwin, Mr. Vines and Mr. Stiles have been reappointed to the Authority.

Item C. Approval of Meeting Minutes

Mr. Colson presented the draft meeting minutes from the April 18-19, 2018 Authority meeting for approval.

Action Item C:

- Mr. Vines made a motion to approve the April 18-19, 2018 Authority meeting minutes. Ms. Goodwin seconded the motion. The motion passed unanimously.

Item D. Attorney General's Office Report

Ms. Weese had no items to report.

Item E. Chair's Remarks

The Authority will be approving projects for funding from the April 2018 application round. The Fall 2018 funding program application deadline is September 28, 2018. The Division will hold "How to Apply" training sessions at six locations around the state, between July 31 and August 10, in Hendersonville, Valdese, Research Triangle Park, Pembroke, Greenville, and Hertford. Over 90 attendees have already registered for the training. The Authority will receive presentations from the UNC School of Government Environmental Finance Center about challenges facing small water and sewer utility systems.

Item F. Legislative Update

Federal appropriations have been made for both the CWSRF and DWSRF programs with an increase of \$5 million for CWSRF and \$15 million for DWSRF. A large part of the DWSRF increase, which is in place for the next four years, is due to the state's response to the 2015 EPA Drinking Water Needs Survey which was coordinated by the Division in conjunction with the Division of Water Resources Public Water Supply Section. Due to the funding increase, the state match for the SRF programs also increased; the General Assembly provided the additional funds as non-recurring; these matching funds may be made recurring in the future.

The State Wastewater and Drinking Water Reserve Program was allocated \$10 million in recurring funds to be used for State Reserve construction loans and grants, Asset Inventory & Assessment Grants and Merger/Regionalization Feasibility grants. However, special appropriations were made by the General Assembly out of the \$10 million, resulting in only \$6.1 million available for the Authority to award. Because the maximum award amount is \$3 million, it is possible that the Authority will only be able to fund 2 projects this fiscal year. The Connect NC Bond funds have all been awarded as of this funding round. Mr. Stiles stated that he has spoken with legislators and the Office of the Speaker of the House regarding these special appropriations and that distribution of funds in this manner impacts the Authority's application of the criteria in its Priority Rating System and the Affordability Criteria in determining those economically distressed entities that are most in need of the scarce state grant funds. Mr. Colson said the Speaker's office is aware of this issue.

The legislature allocated \$2 million for a PFAS Recovery Fund to help local governments develop plans to connect parties affected by the chemicals with public water supplies, and a \$450,000 allocation to the Cape Fear Public Utility Authority for water quality sampling. These funds are not under the purview of the Authority.

The Legislative Research Commission's Committee to Study Rates and Transfers/Public Enterprises has scheduled meetings in August and September. The Division and the LGC have both made reports to the Study Committee; staff will continue to provide updates to the Authority.

Item G. Communications Update

Ms. Akroyd, the Division's Public Information Officer, presented an update about the Division's activities including meetings, presentations, events and outreach. The Division is participating in Governor Cooper's Hometown Strong Initiative that seeks to address the needs of rural communities by creating a partnership between state agencies and local leaders. The effort leverages state and local resources, identifies ongoing projects and community needs, and implements focused plans to boost the economy, improve infrastructure and strengthen NC's hometowns. Many of these struggle with aging water and wastewater infrastructure.

Item H. Introduction to Funding Decisions for Spring 2018 Application Round

Mr. Robertson reviewed the funding methodology and decision order for this round which included the CWSRF, DWSRF and State Reserve programs. The remaining small amount of Connect NC Bond funds for drinking water and wastewater projects is recommended for award today. Applications received in April 2018 totaled \$175.7 million in funding requested. The materials provided to the Authority were reviewed.

Item I. Example Funding Scenario for Drinking Water Projects

Mr. Robertson presented the potential funding scenario for the drinking water projects. The Authority noted that in some of the applications, the line item for administration seems rather high, sometimes more than 5% of the total project cost. Mr. Robertson stated the staff closely evaluate each request for reimbursement to ensure that only reasonable amounts are reimbursed for all line items including administration.

Action Item I:

- Mr. Gaskins made a motion to approve funding for Drinking Water State Reserve Projects Numbers 1-3, 10, 12-13, and 17-18; and DWSRF Project Numbers Project Numbers 3-8, 10-11, 13, 15-16, and 18. Mr. Vines seconded the motion. The motion passed unanimously.

Item J. Example Funding Scenario for Wastewater Projects

Mr. Robertson presented the potential funding scenario for the wastewater projects and noted that the revision to the CWSRF list does not affect project ranking. The Authority noted that two relatively small projects were not funded because there are not enough grant funds, and could the top projects which are eligible for 50% grant funding be awarded a lower percentage of grant? Mr. Robertson stated that during application training, staff stresses that the willingness of an applicant to accept a grant amount of less than they may be eligible for, or willingness to move forward with a project without a grant is not "held against" applicants and that they will be recommended for the highest percent of grant funds for which they are eligible. Mr. Colson stated that this issue will be addressed during today's Agenda Item K.

Action Item J:

- Mr. Vines made a motion to approve funding for Wastewater State Reserve Projects Numbers 4, 7-8, and 12-13; and CWSRF Project Numbers Project Numbers 1-5, 9, 13, and 15-17. Dr. Pelissier seconded the motion. The motion passed unanimously.

Item K. Proposed Changes to the Funding Program Priority Rating Systems and Affordability Criteria

Mr. Robertson briefly reviewed the potential program changes discussed by the Authority at its April 18-19, 2018 meeting, as detailed in the staff report. At the April meeting, the Authority approved the Division to seek public comment on the recommended changes; the public comment period opened May 29, 2018 and closed June 26, 2018. The Division received 5 public comments which are detailed, along with responses, in the staff report. The following topics were discussed:

- Comment: During training, the AIA eligibility limit of less than or equal to 10,000 residential connections and how a larger system (greater than 10,000 residential connections) could apply to do the AIA for the smaller system should be explained, as this is an important tool for entities considering smaller and larger systems working together. Response: Staff noted that often if the smaller system is the applicant, the project may score higher because they can show more benefit and need; in addition, some level of assurance is needed that if a partnership did not work out, there would still be some benefit of the study to the smaller entity.
- Q: For the drinking water and wastewater projects, concern was expressed about lowering priority for small systems (where there is more need) by the decrease in points from 10 to 8 proposed in Category 4.A – Residential Connections. For those applicants with less than 1,000 connections in the State Reserve programs, would this have caused any change to the ranking of the last round of applications? A: The goal was to equate the two systems (State and SRF) by eliminating points that most would receive, but keeping the gap between any two projects the same. Staff evaluated the latest funding round under the new system, and project ranking remained the same, except that three wastewater projects had tied scores (all lower priority). This change will enable smaller systems to receive additional SRF points and should accomplish the Authority's objectives in making these changes.
- Q: How many more AIAs need to be completed statewide? A: The Authority has already funded approximately 150 AIA grants; there are roughly 300 wastewater utilities and 500 water utilities in the state.

Action Item K:

- Mr. Gaskins made a motion to approve the program changes as recommended in the staff report as follows:
 - Modifications to the project priority ranking systems for the SRF, State Reserve, and Community Development Block Grant – Infrastructure (CDBG-I) programs;
 - Modifications to eligibility for the AIA grants;
 - Modifications to affordability criteria for the State Reserve program to be implemented for the Fall 2018 funding round; and
 - For the CDBG-I program, to hold a public hearing for the proposed affordability criteria modifications, because this change necessitates a public hearing. This item will be brought back to the Authority for final approval following the public hearing.
- Mr. Stiles seconded the motion. The motion passed unanimously.
- Mr. Robertson noted that based on the approved changes to the SRF Priority Rating Systems, staff will amend the Intended Use Plans (IUPs) for both SRF programs.

Item L. Draft Fiscal Year 2017-2018 Annual Report

Ms. Durso presented the draft fiscal year 2017-2018 Annual Report that is required by the legislature on November 1st of each year. The report details the Authority's focus areas, significant accomplishments, issues identified, and next steps. Comments on the draft report should be made to staff by August 17, 2018.

Ms. Weese reminded the Authority that all group discussion must take place in a public forum and for that reason, comments should be sent by email only to staff and not to other Authority members. Staff will make changes and send revised report for final approval by the Authority at the September 2018 meeting. The following topics were discussed:

- Comment: In Figure 2 (Amount of Funding Awarded), depict the amount of Federal SRF dollars that were awarded as principal forgiveness, as well as the amount of State Reserve funds that were awarded as grants.
- Q: When AIA applications are received from an entity that has done its own assessment work and received points under Category 3 – System Management (Line Item 3.B) for drinking water or wastewater project funding, is that tracked? A: Staff has that information but it is not formally tracked. When the Authority originally developed awarding points in Category 3 – System Management, the information needed for those points was purposefully made rather broad and based on the best information available at the time. However, in an AIA grant, a more thorough analysis is performed. Therefore, the asset management information provided for Category 3 points is much less detailed than the information required to be developed in an AIA grant, and for this reason, the Division may recommend funding an AIA grant for an entity even though it may have some type of asset management plan.
- Q: Should the Legislative Research Commission’s Committee to Study Rates and Transfers/Public Enterprises be mentioned in the Annual Report since the Authority may eventually be involved in implementation of the outcome of the study? A: The timing of the Committee report and the Authority’s Annual Report don’t quite coincide. However, since the Master Plan is very similar to what the Committee is working on, it would make sense to include general mention of it in the Authority’s Annual Report.

Item M. Draft 2019 Authority Meeting Schedule

Ms. Durso presented a proposed schedule of 2019 SWIA regular meeting dates. The Authority discussed possibly meeting during a different week or day of the week. Staff will poll Authority members and propose 2019 meeting dates at the Authority’s Sept. 2018 meeting.

Item N. Master Plan Outreach Activities Update

Ms. Durso updated the Authority on presentations about the Statewide Infrastructure Master Plan, including meetings with the 16 Councils of Government (COGs) at their regularly scheduled meetings which are typically attended by elected officials. The COG presentations are the primary vehicle for Master Plan outreach this year, along with presentations at professional society meetings and conferences. Ms. Hunnicutt stated that it would be helpful to include some discussion of real situations and risks versus rewards regarding water infrastructure issues.

Item O. Fair Bluff/Fairmont Initiative Update

Ms. Durso and Ms. Leggett presented a status update and information that has been presented to Fair Bluff and Fairmont in the past several months: the UNC Environmental Finance Center’s data about water and wastewater trends (customer base, revenues, and billing) in Fair Bluff and Fairmont; condition of and photographs showing the existing infrastructure as assessed by HDR Engineers; and the potential drinking water and wastewater options being evaluated. The team is continuing analysis on the options to present to the Towns in September. There are only approximately 1,600 customers in the five towns that are covered in this initiative. Ms. Goodwin asked if decentralized systems should be an option and if not, then it should be explained in the report. Mr. Colson stated that most of these towns have challenges due to the high groundwater table and that centralized sewer was installed in the early 2000’s to replace failing septic tanks.

However, for other communities in the state with suitable soils and declining populations, it might be a good option.

Item P. Presentations by UNC Environmental Finance Center

Tom Roberts, Community Assistance Manager with the UNC Environmental Finance Center, presented on the regionalization study that they are conducting for the Towns of Grover and Kings Mountain. Grover was awarded a wastewater Merger/Regionalization Feasibility grant in July 2016. Mr. Roberts presented lessons learned in the process, potential options and associated rate impacts.

Erin Riggs, Project Director with the UNC Environmental Finance Center, presented on Consolidation Considerations. Ms. Riggs provided research and tools as well as ways to begin consolidation conversations among entities. Under contract with the Division, the EFC is developing two new guideline documents that entities can use to identify and address key issues that often become problematic during consolidations and even with shared services partnerships.

Item Q. 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.

Mr. Bobby Blowe, P.E., Municipal Engineering Services Company, P.A. commented on the scoring for the AIA grant program. The review of the AIA grant applications is subjective rather than objective, and because 75% of the points are subjective, it is difficult to determine how to improve an application if it isn't funded.

Item R. Remarks by Authority Members, Chair and Counsel

Authority members stated that the presentations made by the Environmental Finance Center were very helpful and timely, and looks forward to hearing from more of the Merger/Regionalization Feasibility grant recipients.

The next Authority meeting will be held on September 19, 2018 in Raleigh.

Item S. Adjourn – The meeting was adjourned.

State Water Infrastructure Authority
North Carolina Department of Environmental Quality
September 19, 2018
Meeting Minutes

State Water Infrastructure Authority Members Attending Meeting via Conference Call

- Kim Colson, Chair; Director, Division of Water Infrastructure
- Melody Adams, Director, Rural Grants/Programs, Rural Development Division, NC Dept. of Commerce
- Greg Gaskins, Deputy Treasurer, State & Local Finance Division; Secretary, Local Government Commission
- Maria Hunnicutt, Manager, Broad River Water Authority
- Dr. Bernadette Pelissier
- Cal Stiles, Cherokee County Commissioner
- Charles Vines, Mayor of Bakersville
- Juhann Waller, Principal, JC Waller & Associates, PC

Division of Water Infrastructure Staff Attending Meeting

- Francine Durso, Special/Technical Issues Senior Program Manager
- Seth Robertson, State Revolving Fund Section Chief
- Jennifer Haynie, Environmental and Special Projects Unit Supervisor
- Amy Simes, Senior Program Manager
- 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 163A 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. Fiscal Year 2017-2018 Annual Report

Ms. Durso addressed the comments that were received from the Authority on the State Water Infrastructure Authority's Fiscal Year 2017-2018 Annual Report. Two comments were received and addressed as follows:

1. Added information about the "Study of Rates and Transfers/ Public Enterprises" in the "Next Steps" section of the Annual Report, on Page 15
2. Revised Figure 2 on Page 3 of the Annual Report (Funding Awarded by Program). The graphic was revised to show the amounts awarded by the Authority for SRF Principal Forgiveness, state grants, and loans.

Action Item B:

Mr. Vines made a motion to approve the State Water Infrastructure Authority's Fiscal Year 2017-2018 Annual Report. Dr. Pelissier seconded the motion. The motion passed unanimously.

Item C. Ensuring Viable Utilities

Chair Colson described the work of the Legislative Research Commission (LRC) of the NC General Assembly. The LRC has powers and duties that include: Pursuant to the direction of the General Assembly or either house thereof, or of the chairmen, to make or cause to be made such studies of and investigations into governmental agencies and institutions and matters of public policy as will aid the General Assembly in performing its duties in the most efficient and effective manner.

In November 2017, the General Assembly authorized a “Committee to Study Rates and Transfers/Public Enterprises” under the auspices of the LRC. The Co-Chairs of the Committee are Senator Newton and Representative McGrady. The Committee has been consulting with the Local Government Commission, the UNC School of Government, the Department of Environmental Quality (DEQ), the NC League of Municipalities, and the NC Association of County Commissioners.

Chair Colson and Mr. Gaskins have met with and presented to the Committee several times on the work of the Authority and the work of the Department of State Treasurer concerning the long-term viability of water and sewer utilities in North Carolina. The Committee Co-Chairs have requested potential triggers and approaches to address non-viable utilities, from both DEQ and the Department of State Treasurer.

DEQ is drafting language to support potential grant funding specifically to ensure the establishment of viable utilities. The Department of State Treasurer is drafting similar language. At the October 17, 2018 Authority meeting, these topics will be fully discussed, and the Division will be seeking the Authority’s input and guidance.

Item C. 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 D. Concluding Remarks by Authority Members, Chair and Counsel

Authority members stated they look forward to the discussion about ensuring viable utilities at the October 17, 2018 Authority meeting, as well as receiving an update on the Fair Bluff and Fairmont Initiative.

Ms. Weese stated if Authority members are aware of Hurricane Florence-related price gouging, they should contact the Department of Justice. The law in NC protects against businesses charging unreasonably excessive prices and the Attorney General is taking a proactive stance on such activities.

Chair Colson stated that DEQ has the statutory authority to make emergency loans from the state loan program and the Division is currently working on one related to Hurricane Florence. However, there are limited funds in those state accounts. If a situation should arise such that it will be necessary to offer an emergency loan from one of the SRF programs, the Authority would need to award the funding; this could be handled by conference call which would be scheduled if needed.

The next Authority meeting will be held on October 17, 2018 in Raleigh.

Item E. Adjourn – The meeting was adjourned.

State Water Infrastructure Authority
Meeting Date: October 17, 2018
Agenda Item G – Draft 2019 Authority Meeting Schedule

Division of Water Infrastructure Staff Report

Background

Under the Internal Operating Procedures for the North Carolina State Water Infrastructure Authority, adopted by the Authority on February 20, 2014, Article III, Section 2 provides that prior to the first meeting of each calendar year the Authority shall approve a schedule of regular meetings for the subsequent calendar year (regular meetings).

Note, however, that after the year’s schedule has been approved, the Chair is authorized under Article III, Section 2 to make changes to the meeting dates if required with at least 7 calendar days’ notice.

The Authority is required to meet at least four times per year according to NCGS 159G-70.(e).

Planning for 2019 Meetings

Staff suggests that the Authority approve one of the following schedules of regular meetings for the calendar year 2019:

Proposed Dates of Regular Meetings in 2019				
2ND Wednesdays		OR	3RD Wednesdays	
February 13	Meeting will be held on only one of these dates		February 20	Meeting will be held on only one of these dates
March 13			March 20	
April 9 – 10 OR April 10 – 11	Tues & Wed OR Wed & Thurs		April 16 – 17 OR April 17 – 18	Tues & Wed OR Wed & Thurs
July 10			July 17	
September 11 – 12	Wed & Thurs		September 18 – 19	Wed & Thurs
October 9			October 16	
December 11			December 11	2nd Wed to avoid holiday conflicts

State Water Infrastructure Authority

Meeting Date: October 17, 2018

Agenda Item J – Ensuring Viable Utilities

Division of Water Infrastructure Staff Report

Background

In the Authority's first Annual Report to the legislature in 2014, the Authority made significant recommendations to the North Carolina General Assembly to help move North Carolina water utilities toward viability. Specifically, the Authority recommended that "Incentives should be provided to encourage water and wastewater utilities to become more proactive in the management and financing of their systems."

The General Assembly supported and acted on the Authority's recommendations, bringing about several important changes to the water infrastructure funding programs. First, affordability criteria replaced the high-unit cost threshold to determine an entity's eligibility to receive grants and to specify the percentage of grant funding that could be awarded. This has helped move utilities toward financing more of their infrastructure if it has sufficient revenue or can generate more revenue by adjusting rates. Second, two new grant programs were established to help utilities move toward proactive approaches of system management: Asset Inventory and Assessment (AIA) and Merger Regionalization Feasibility (MRF) grants.

In 2017, the Authority issued North Carolina's Statewide Water and Wastewater Infrastructure Master Plan: The Road to Viability (Master Plan) with a specific vision that the state's water utilities are, or are on a path to be, viable utilities. The Master Plan addresses three key integrated focus areas, all of which must be addressed to move toward utility viability: infrastructure, organizational, and financial management. The Authority has discussed the challenges that many smaller systems have in becoming viable systems and heard directly from several systems at the April 2018 meeting. In today's Agenda Item I, staff will present specific information about the challenges that five towns face: Fair Bluff, Fairmont, Cerro Gordo, Boardman, and Proctorville.

Viable Water and Wastewater Systems

A viable system is one that functions as a long-term, self-sufficient business enterprise, establishes organizational excellence, and provides appropriate levels of infrastructure maintenance, operation, and reinvestment that allow the utility to provide reliable water services now and in the future

Today's Discussion

This discussion item is focused on two key questions for the Authority:

- Are utilities across the state moving toward viability in accordance with the Master Plan?
- If not, are there other steps to be taken?

Attached to this staff report are several charts that were recently presented to the Legislative Review Commission's Committee to Study Rates and Transfers/Public Enterprise Systems. Attachment 2 demonstrates that many systems, particularly those serving populations of less than 10,000, do not generate sufficient revenue to cover operating expenses (which includes depreciation). On this chart, the red dots are systems that have an operating margin less than 1.0. In many cases, this lack of sufficient revenue is not related to low rates. There may be many reasons behind an individual system's

situation including capital projects that created problems, investments that were made in the wrong projects, deferred maintenance, etc.

As shown in Attachments 3 and 4, in some cases, it may be simply a function of the number of customers and the amount of infrastructure (linear feet) for which each customer is responsible.

For viable utilities that issue bonds to cover capital project expenses, the bonds require that certain performance requirements (bond covenants) be maintained to ensure the utility will be able to meet the debt obligation. Many of the financial parameters associated with bond ratings and covenants are the same or similar to those that may be used to measure whether a system is financially troubled.

Possible Solutions & Discussion

The Department of State Treasurer's (DST) staff and the Department of Environmental Quality (DEQ) staff have been reviewing these issues and looking for possible solutions. DST staff have been working on a predictive model for utilities and legislative ideas that will be presented today. DEQ proposes, for discussion purposes only, the development of a reserve grant funding program to establish viable utilities. The grants would be used not only for interconnections, when interconnections are the best approach, but also to rehabilitate/renew existing infrastructure issues that may interfere with utility mergers. These grants could also be used to form new utilities that would have sufficient customer bases to generate revenue for capital and operation and maintenance of the system without the need for grants. However, to ensure that the new utility would in fact be a viable system, the grants would require financial performance measures similar to bond covenants.

Potential grant covenants could include:

- No transfers out of enterprise fund allowing only documented expenses to be paid (this is currently an application requirement, but not an ongoing operational requirement).
- Bill all customers and establish a collection policy.
- Establish and maintain utility rates in order to meet:
 - Minimum number of days of cash on hand
 - Capital reserves
 - Operating ratio
 - Other

However, in some cases, the rates required to ensure compliance with these types of covenants may not be affordable. That is, there may be some systems that need long-term grants as they can only be approved for loans to cover a portion of capital needs. If grants are provided to consolidate utilities, what is the next step for those that have no viable options?

For discussion purposes, following are some key questions for which staff is specifically seeking input from the Authority. Staff notes that this discussion may lead to more questions and discussion.

- Are utilities across the state moving toward viability in accordance with the Master Plan? If not, are there other steps to be taken?
- Is consolidation supported by grants a possible solution? If so, what should be some of the conditions of obtaining those grants?
 - Should grants be used to improve infrastructure in the larger utility?
 - Should grants be used for capacity fees?
 - If there is a merger with a large utility, should any grant conditions apply to the larger utility? What is a large utility?

- Should viable utility grants be used when there is no proposed consolidation?
 - Providing funds, with conditions, to “reset” the same utility?
 - De-centralization including providing septic tanks on private property?
- If additional appropriations are not provided, what are other potential solutions?

Agenda Item J – Attachment 1 – Legislation

In November 2017, the General Assembly authorized a “Committee to Study Rates and Transfers/Public Enterprises” under the auspices of the Legislative Review Commission (LRC), as follows:

III. Committee to Study Rates and Transfers/Public Enterprises

Pursuant to Section 24.3 of S.L. 2017-57, the Committee shall study the issues raised therein and make recommendations to the General Assembly on:

1. Fee and charge setting by units of local government in the operation of a water or sewer system, including collection rates of those fees and charges;
2. Proper accounting controls to ensure transparency in budgeting and accounting for expenditures and interfund transfers of public enterprise services by units of local government;
3. Legislation that may be necessary to ensure proper funding of infrastructure maintenance and improvements for the provision of water and sewer services, including whether regionalization could facilitate financially healthy systems with lower fees and charges to customers; and
4. Legislation that may be necessary to ensure that units of local government monitor aging water and sewer infrastructure to ensure proper maintenance and repair, including how this responsibility impacts the financial health of the public enterprise.

As part of the study, the Committee shall consult with the Local Government Commission, the School of Government, the Department of Environmental Quality, the North Carolina League of Municipalities, the North Carolina County Commissioners Association, and others.

Note that for this Study Committee, the Commission is to make an interim report to the 2018 Session of the General Assembly prior to its reconvening in 2018 and shall make a final report to the 2019 Regular Session of the General Assembly.

Senate Members		House Members	
Sen. Rabon	Ex Officio	Rep. Lewis	Ex Officio
Sen. Newton	Chair	Rep. McGrady	Chair
Sen. J. Davis		Rep. Ford	
Sen. Tarte		Rep. Brawley	
Sen. Tucker		Rep. Goodman	
Sen. Smith-Ingram		Rep. Hanes	

Referenced Session Law

As referenced, Section 24.3 of Session Law (S.L.) 2017-57 follows:

STUDY RATES AND TRANSFERS / PUBLIC ENTERPRISES (from budget)

SECTION 24.3.(a) The General Assembly finds that the ability of a city or county to efficiently and effectively provide public enterprise services, particularly water and sewer services, is challenged by that local government opting to use revenues of the public enterprise for purposes other than:

- (1) Paying the costs of operating the public enterprise.
- (2) Making debt service payments.
- (3) Investing in improvements to the infrastructure of that public enterprise.
- (4) Reimbursing the unit of local government for actual direct services provided to the public enterprise.

SECTION 24.3.(b) The General Assembly further finds that any excess net revenues should be used to lower rates, advance fund debt service, and fund infrastructure improvements of that public enterprise.

SECTION 24.3.(c) The Legislative Research Commission shall study the issues raised in this section and make recommendations to the General Assembly on:

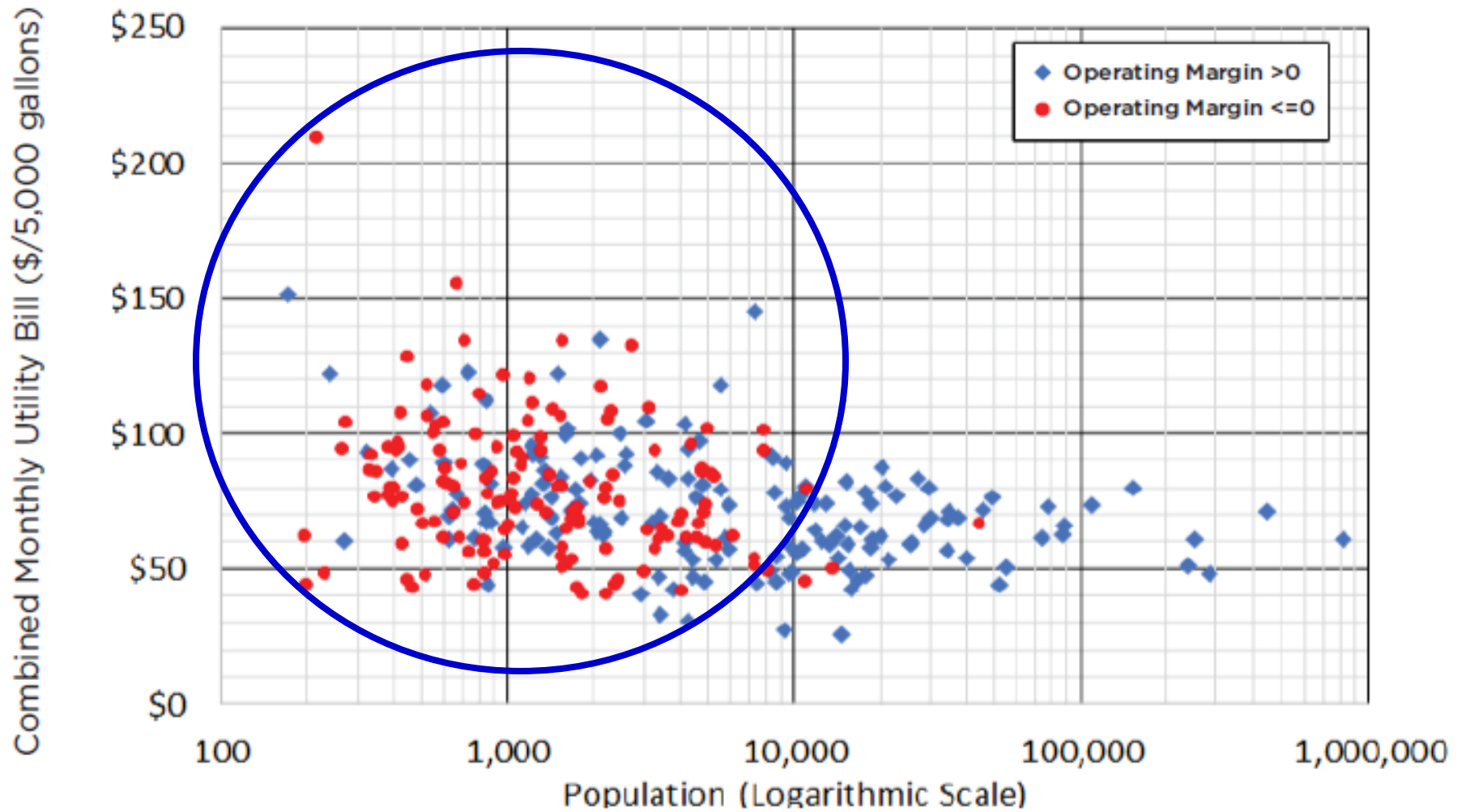
- (1) Fee and charge setting by units of local government in the operation of a water or sewer system, including collection rates of those fees and charges.
- (2) Proper accounting controls to ensure transparency in budgeting and accounting for expenditures and interfund transfers of public enterprise services by units of local government.
- (3) Legislation that may be necessary to ensure proper funding of infrastructure maintenance and improvements for the provision of water and sewer services, including whether regionalization could facilitate financially healthy systems with lower fees and charges to customers.
- (4) Legislation that may be necessary to ensure that units of local government monitor aging water and sewer infrastructure to ensure proper maintenance and repair, including how this responsibility impacts the financial health of the public enterprise.

SECTION 24.3.(d) In making the study provided by this section, the Legislative Research Commission shall consult with the Local Government Commission, the School of Government, the Department of Environmental Quality, the North Carolina League of Municipalities, the North Carolina County Commissioners Association, and others.

SECTION 24.3.(e) The Legislative Research Commission shall make an interim report to the 2017 Regular Session of the General Assembly prior to its reconvening in 2018 and shall make a final report to the 2019 Regular Session of the General Assembly.

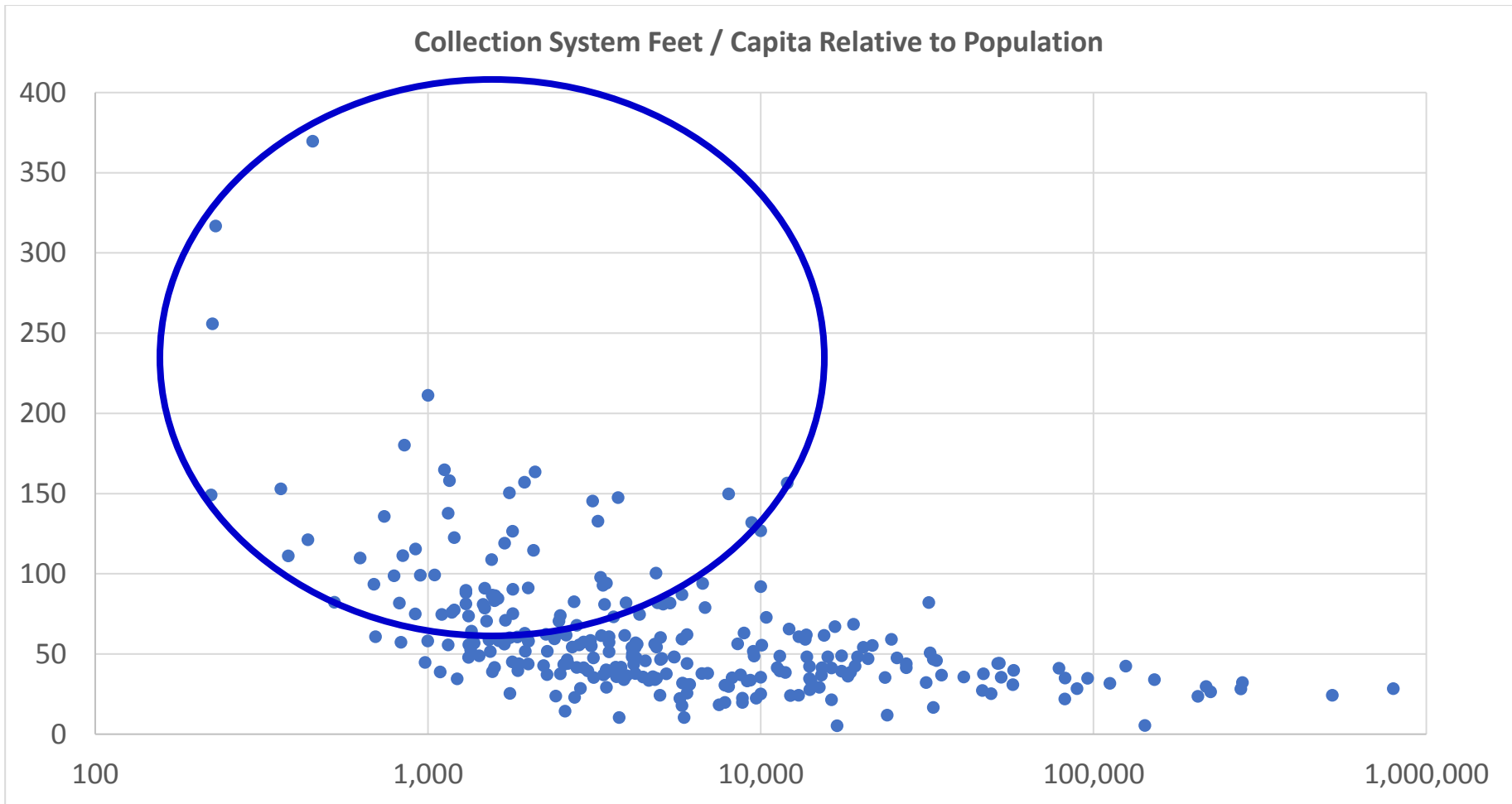
SECTION 24.3.(f) This section is effective when this act becomes law.

Agenda Item J – Attachment 2

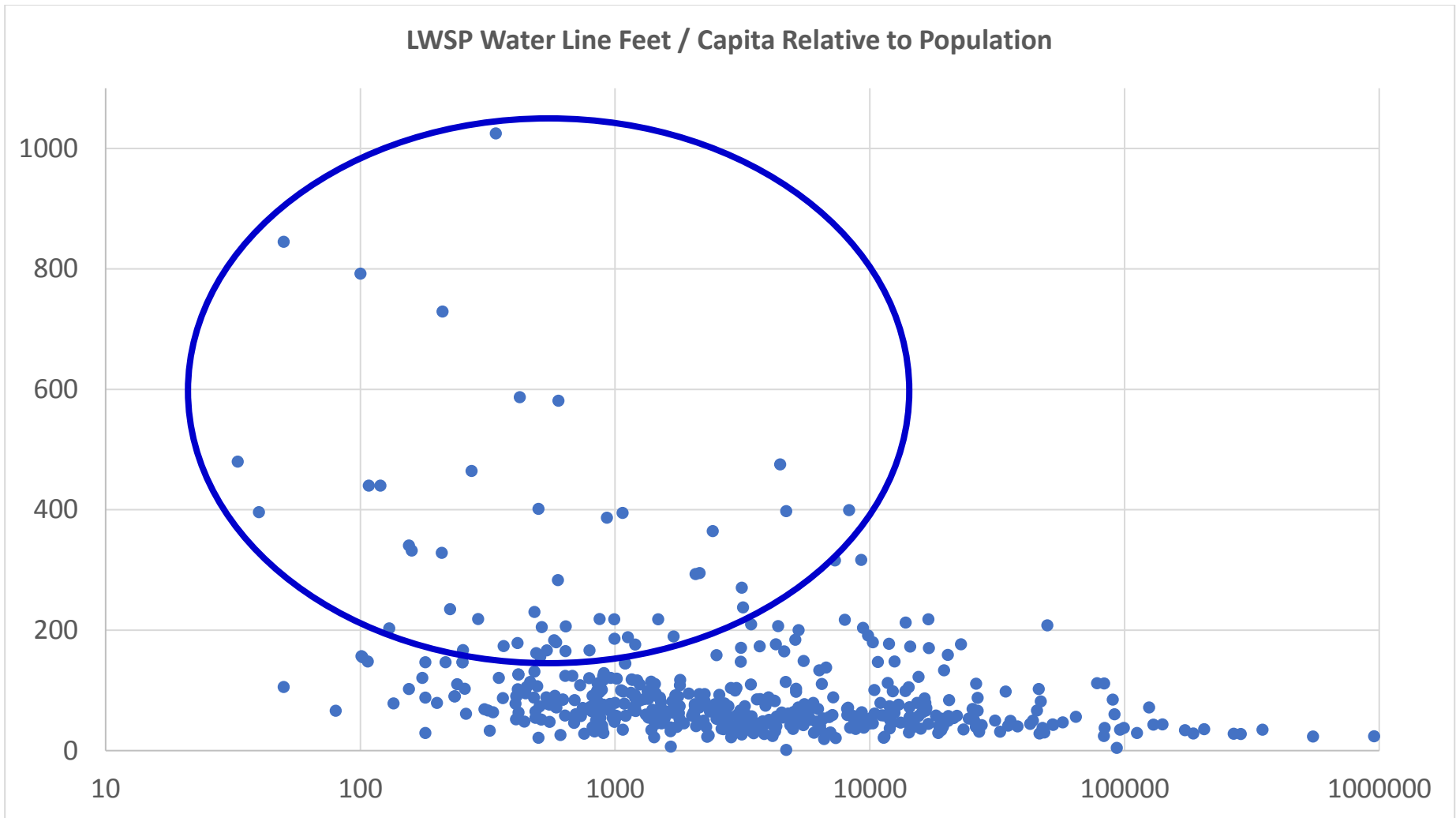


Operating Margin = Total Operating Revenue—Operating Expenses

Agenda Item J – Attachment 3



Agenda Item J – Attachment 4



Agenda Item J – Attachment 5

Source: UNC-EFC: Results of the 2017-2018 North Carolina Water and Wastewater Utility Management Survey

