

State Water Infrastructure Authority
North Carolina Department of Environmental Quality
March 13, 2019
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

- Cathy Akroyd, Public Information Officer
- 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
- Amy Simes, Senior Program Manager
- Anita Reed, SRF Wastewater Unit Supervisor

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. Approval of Meeting Minutes

Mr. Colson presented the draft meeting minutes from the February 13, 2019 Authority meeting for approval.

Action Item B:

- Mr. Vines made a motion to approve the February 13, 2019 Authority meeting minutes. Ms. Goodwin seconded the motion. The motion passed unanimously.

Item C. Attorney General's Office Report

Ms. Weese asked the Authority to notify the Attorney General's office if aware of unethical pricing situations related to hurricane cleanup.

Item D. Chair's Remarks

Mr. Colson stated that the deadline for applications for the Spring 2019 funding round is April 30, 2019 and that the applications being accepted are for the DWSRF and CWSRF programs. The Division will hold "How to Apply" training in Hickory, Research Triangle Park and Mount Olive on March 22, 25, and 28, respectively; so far, 74 attendees have registered for these training sessions.

Governor Cooper's budget was recently released and contains a significant bond proposal that includes \$800 million to establish viable water and wastewater utilities, to fund resiliency projects and for other water and sewer infrastructure. The amount of funding for water or wastewater was not specified in the budget, giving the Authority the flexibility to use the funds to best address actual needs. Also included in the budget are the state funds required to match the Federal SRF funds, enabling the Division to obtain the funds from EPA as soon as they are available.

Item E. Communications Update

Ms. Akroyd, the Division's Public Information Officer, presented an update about the Division's activities including meetings, presentations, events and outreach.

Item F. Introduction to Funding Decisions for Fall 2018 Application Round

Mr. Robertson reviewed the funding methodology and decision order for this round which included applications for all funding programs. The materials provided to the Authority were reviewed.

Item G. Funding Recommendations for CDBG-I Grants

Ms. Cubeta presented the CDBG-I funding applications and allocations, noting that five communities with recommended projects have received CDBG-I funding for other projects in previous rounds and that notes on their performance are on the Authority's spreadsheet.

Mr. Gaskins noted that the Towns of Red Springs and East Spencer are on the LGC's Unit Assistance List and his staff has been working with these towns recently to help them address administrative issues. What ability does the Authority have to ensure that the towns administer the grant funds properly and to intervene if needed? Ms. Cubeta responded that the Division monitors all CDBG-I grantees for compliance with grant requirements and will closely monitor these two towns since they are aware of concerns with these towns. Mr. Colson confirmed that the performance of these towns will be closely scrutinized. Ms. Cubeta also described the required risk assessment process that is completed for each grantee.

Dr. Pelissier commented that for the Town of Parmele project, the cost per connection is almost \$100,000. Does the Authority set a cap on how much to pay per connection and are these older homes that were built with septic systems before it was known that not all areas are appropriate for septic systems? It appears that the town is seeking a solution that only addresses infrastructure and not long-term viability issues. Ms. Cubeta and Mr. Colson responded that the Authority has expressed concern in the past about the project cost per connection but has not established a cap because each situation is so different; also, the homes in this project are older. Mr. Colson stated that it is a difficult balance because these types of projects help improve public health and protect the environment, but the future viability of these towns is an important issue on which the Authority continues to focus. Ms. Goodwin stated that this highlights the need to evaluate alternatives because traditional water and sewer infrastructure may create future viability issues and noted that decentralized systems could be owned and operated by a unit of local government. Mr. Colson stated that the Division purposefully does not require an engineering report/alternatives analysis to be submitted as part of a funding application due to the cost that a town would have to incur without knowing if they would be approved for funding and reimbursed for the cost of the analysis.

The Authority will continue this discussion as part of Agenda Item L later today. The Division does not have a recommendation on how to address these situations and additional discussions are needed with counties and public health commissions related to onsite systems. Perhaps applicants can be asked to provide more information specifically addressing how the utility will become/remain viable with the additional cost to properly operate and maintain the infrastructure without future grants. The applications can be adjusted to require additional information without creating a burden on small systems.

Ms. Goodwin requested an explanation of the notes related to compliance issues and the magnitude of the concern. Ms. Cubeta responded that a violation of the “3-day rule” is the most concerning; the violation occurs when a town holds the funds received from the Division for longer than 3 days before dispersing to pay a contractor; it is a pattern of repeated violations of the 3-day rule that is of most concern. The Division is developing a policy for managing these types of violations.

For the Hyde County project, Mr. Gaskins pointed out an issue that occurs when the same entity does not provide both water and sewer services. Often, customers do not pay their sewer bill because they know that their water will not be turned off for non-payment of sewer; this issue can affect sewer utility viability. Legislation may be introduced that will deal with “chronically deficient” units of local government which are those that are repeatedly on the LGC’s Unit Assistance List. The biggest concern is what happens to the people in these communities; solutions are needed that address fundamental underlying problems.

Action Item G:

- Ms. Goodwin made a motion to approve funding for CDBG-I Project Numbers 1- 16. Mr. Stiles seconded the motion. The motion passed unanimously, with Dr. Pelissier noting that she reluctantly voted yes.

Item H. Example Funding Scenario for Drinking Water Projects

Mr. Robertson presented the potential funding scenario for the drinking water projects. Mr. Gaskins noted that the Town of Roper has been on the Unit Assistance List although there are no currently active issues. Mr. Gaskins also stated that the Brunswick County project is the subject of a lawsuit. Mr. Colson noted that the project is being funded in part through EPA WIFIA funds. Mr. Robertson stated that the project has to do with an emerging contaminant, PFAS. There are not enough funds available this application cycle in the drinking water program to fund many projects, including the Brunswick County project.

Action Item H:

- Mr. Vines made a motion to approve funding for Drinking Water Project Numbers 1-19. Dr. Pelissier seconded the motion. The motion passed unanimously.

Item I. Example Funding Scenario for Wastewater Projects, Asset Inventory and Assessment Grants, and Merger/Regionalization Feasibility Grants

Mr. Robertson presented the potential funding scenario for the wastewater projects, Asset Inventory and Assessment (AIA) projects, and Merger/Regionalization Feasibility (MRF) projects.

Mr. Gaskins noted a situation with the Town of Landis, which the LGC is investigating, in which it appears that there has been some wrongdoing by employees.

Action Item I:

- Mr. Gaskins made a motion to approve funding for Wastewater Project Numbers 1-6, 10-17, 19-22, and 24; Asset Inventory and Assessment Project Numbers 1-23, 25, and 27-34; and Merger/Regionalization Feasibility Project Numbers 1-10. Mr. Vines seconded the motion. The motion passed unanimously.

Item J. Utility Partnerships, Management, and Debt Capacity in North Carolina

Mr. Jeff Hughes, Director of the UNC School of Government Environmental Finance Center (EFC), Mr. Shadi Eskaf, EFC Senior Project Director, and Ms. Erin Riggs, EFC Project Director, presented to the Authority on the following topics:

- Utility Partnership Resources: Interlocal Agreements and Consolidation Considerations
- Small Utility Management Practices Survey Results
- Debt Capacity of Local Government Utilities to pay for Future Infrastructure Needs
- Updates on Other Work

Utility Partnership Resources

The EFC is developing two new guidance documents drawing on their involvement in national regionalization work with the American Water Works Association, National Association of Clean Water Agencies, Water Research Foundation, EPA's Environmental Financial Advisory Board, EPA's Office of Water and Office of Wastewater Management, and the US Water Alliance. The documents are informed by examples of challenges and struggles and will focus on key considerations and new approaches balanced with past practices.

- Water and Wastewater Interlocal Agreements: Key focus areas of this document include dealing with excessive inflow/infiltration, non-revenue water, challenges in collecting payment for wastewater when water service is from a different provider, and reselling water or capacity.
- Consolidation of Water and Wastewater Systems: Key focus areas of this document include types of consolidation, incentives and disincentives for consolidation in NC, existing regional models in NC, and lessons from other states.

Small Utility Management Practices Survey Results

In 2017-2018, the EFC in collaboration with the NC League of Municipalities, conducted a water and wastewater management survey that included questions about financial planning, asset management, capital planning, emergency/resiliency planning, reviewing rates, current revenues and billing practices. The presentation focused on responses from utilities that serve approximately 10,000 people; 150 utilities of this size responded to the survey. The survey results demonstrate that, statistically, for the same size utility, those with a utility director fare better financially than those without.

Debt Capacity of Local Government Utilities to pay for Future Infrastructure Needs

The information gathered about local government utility debt was provided by the State and Local Government Finance Division of the North Carolina Department of State Treasurer. As of June 30, 2018, there were 490 units of local government in NC carrying \$7.7 billion in water and wastewater debt; an additional 109 were carrying no debt. Half of the \$7.7 billion is carried by Charlotte, Raleigh, Winston-Salem, Cary, Greensboro, Cape Fear Public Utility Authority, and the Fayetteville Public Works Commission. The remaining half of the \$7.7 billion is carried by the other 483 local government utilities. Five methods were reviewed as potential ways to generate new revenue to cover debt, and it is possible that a combination of these may be most practical:

1. Add a fixed monthly capital improvement fee to bills
2. Annually raise the monthly capital improvement fees
3. Raise the rates of low-charging utilities to match higher-charging utilities' rates
4. Raise the rates to a specified threshold
5. Maintain current/peak existing debt service payments into the future

Updates on Other Work

- Stormwater Fees and Practices – In 2018, the EFC conducted a survey of 88 local government units that charge stormwater fees. Respondents expressed interest in another survey that would cover stormwater management practices.
- System Development Fees – Legislation was changed in July 2018, and systems are developing their schedule of fees, assessment methods, and basis for charges. Some entities are raising their wastewater fees because they have found that it costs more to provide wastewater services.
- 2019 Water and Sewer Rates Survey and Dashboard – the EFC maintains the Rates Dashboard; it was just updated in Jan. 2019 and includes nearly 500 water and/or sewer utilities. The link is: <https://efc.sog.unc.edu/resource/north-carolina-water-and-wastewater-rates-dashboard>
- Utility Regionalization Workshop – sponsored by the EFC to be held on April 29 and will cover the interlocal agreement and consolidation information discussed earlier in this presentation.

Item K. Fair Bluff/Fairmont Initiative Update

Representatives of the five towns that are part of the Initiative (Boardman, Fair Bluff, Cerro Gordo, Fairmont and Proctorville) will be meeting to discuss their potential path forward and will report back to the Division. The project team's next steps depend on the Town's decisions.

The Town of Fair Bluff was recently awarded \$2.5 million in grants and loans to continue recovery from Hurricanes Matthew (2016) and Florence (2018). A portion of the funds will be used by the Town to pay the outstanding debt on a USDA loan on the WWTP that was decommissioned when the Town joined the regional WWTP. \$2 million in loans will be used to enable the Town to pay for rebuilding, elevating or buying out properties; because FEMA operates on a reimbursement basis, the state provided these funds as a 0% interest loan which the Town will repay to the state once it is reimbursed by FEMA.

Item L. Ensuring Viable Utilities Work Session

Mr. Colson reviewed the topics discussed by the Authority at the viable utilities work session at the February 2019 meeting: independent and trusted analyses are crucial; need for elected official education; the importance of economic and social situations in overall viability; and linking potential funding to a process that includes grant conditions and monitoring by the Authority and the LGC. The following topics were discussed by staff and the Authority:

- Mr. Gaskins stated that legislation will be introduced based on the work of the Legislative Research Commission's Committee to Study Rates and Transfers/Public Enterprises and it may give the Authority and the LGC greater ability to accomplish the Master Plan goals. The LGC is looking for software that might be made available to local governments to use to better understand and manage the finances of their water and sewer systems. He has discussed training with the NC Government Finance Officers Association including potential internship programs in which people could work with a larger local government unit and then take those skills back to use in their hometowns.
- Ms. Adams stated that the Authority needs to harness the available data to look at a system's performance over a long period of time and that perhaps there are some administrative dollars available for this. Mr. Gaskins stated that the LGC hopes to get funding to place this information in a database.
- Dr. Pelissier stated that smaller utilities should be asked if they depend on one large water or sewer user for most of their revenue and what they would do if they lost that user; because of such a loss, some systems may not be financially stable.

- Mr. Vines stated that small rural communities have utility system issues because they don't care for their systems, but it is often because they have no population growth or are losing population due to lack of jobs and industry. The Town of Bakersville tries to increase water and sewer rates to generate additional revenue but it is difficult to take care of the infrastructure when the population is dwindling.
- Mr. Colson stated that grants to help systems become viable aren't necessarily the answer for all communities and grants are certainly not the complete answer. Other states have created a statewide utility to manage small, isolated systems.
- Mr. Stiles stated that the LGC and the Authority need to impress upon local elected officials that it is their responsibility to properly operate their systems and to understand the ramifications of what may happen in the future if they keep their water and sewer rates too low.
- Mr. Jeff Hughes with the UNC EFC was asked if there are states that have taken a broader approach to come up with a solution. Mr. Hughes answered that states are trying different things, but no state thinks it has been fully successful yet. Some states have experimented with an incentive approach accompanied by a regulatory approach and some can mandate utility consolidation.
- Ms. Goodwin stated that it might be helpful for the state to take a more active approach in managing septic systems and consider proactive steps to determine the issues that might be seen in 20 years.
- A possible grant condition could be that a grantee must demonstrate how it will pay for the long-term operation, maintenance, and renewal/ replacement of funded infrastructure.

Mr. Colson stated that this discussion will be continued at the next Authority meeting.

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

Ms. Goodwin stated that she has been invited to be a keynote speaker at the NC Rural Water Association's Annual Conference in May. She asked the Authority for examples of small communities that are doing things right.

Mr. Gaskins stated that the state's capacity for debt is about \$2 billion if its unfunded liabilities are included, and about \$10 billion without the unfunded liabilities. This is a severe problem facing the NC General Assembly.

The next Authority meeting will be held on April 9-10, 2019, in Boone, NC.

Item O. Adjourn – The meeting was adjourned.