

State Water Infrastructure Authority
North Carolina Department of Environmental Quality

March 10, 2021

Note: This meeting was held via WebEx due to the COVID-19 pandemic

Meeting Minutes

State Water Infrastructure Authority Members Attending Meeting via WebEx or by Phone

- Kim Colson, Chair, Director, Division of Water Infrastructure
- Melody Adams, Director, Rural Grants/Programs, Rural Development Division, NC Dept. of Commerce
- Sharon Edmundson, Deputy Treasurer, State & Local Finance Division; Secretary, Local Government Commission
- Leila Goodwin, Water Resources Engineer
- Ed Goscicki
- Maria Hunnicutt, Manager, Broad River Water Authority
- Dr. Bernadette Pelissier
- Juhann Waller, Principal, JC Waller & Associates, PC

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

- Cathy Akroyd, Public Information Officer
- Linda Culpepper, Viable Utility Reserve Support
- Jennifer Haynie, Program Development Coordinator
- Susan Kubacki, Program Development Coordinator
- Jon Risgaard, State Revolving Fund Section Chief
- Amy Simes, Senior Program Manager

Department of Justice Staff Attending Meeting via WebEx

- Jill Weese, NC Department of Justice; Assistant Attorney General, Environmental Division

Agenda Item A. Call to Order

Chair Colson opened the meeting and reminded the members 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 Authority today is required to identify the conflict or potential conflict at the time the conflict becomes apparent.

Chair Colson noted that this meeting was being held via WebEx. All attendees except the members of the Authority were muted to reduce background noise. The PowerPoint slides for the meeting were visible via WebEx; video was not being used.

Agenda Item B. Approval of Meeting Minutes

Mr. Colson presented the draft meeting minutes from the Feb. 10, 2021 Authority meeting for approval.

Action Item B:

- Ms. Hunnicutt made a motion to approve the meeting minutes listed above. Mr. Waller seconded the motion. The motion passed unanimously.

Agenda Item C. Attorney General's Office Report

Ms. Weese stated the Attorney General has information on the Department of Justice website related to COVID-19 scams to share with friends and family.

Agenda Item D. Chair's Remarks

Mr. Colson stated that this meeting would consist of hearing about the Environmental Stewardship Initiative (ESI) program; discussions related to affordability; and to the Viable Utility Reserve (VUR) program. The affordability discussion may be a refresher for some of the original members but new to those who have joined more recently.

Agenda Item E. Additional Funds Consideration for Stanly County

Mr. Risgaard gave the presentation. In the Fall 2020 round, Stanly County applied for funding improvements to the Richfield sewer system. The County had previously taken over operation of the sewer system, and the project was eligible for 100 percent Principal Forgiveness or grant. Due to the grant percentage being based on the affordability calculator, the project was awarded 75 percent grant and 25 percent loan. Division staff recommended that the Authority fund the remaining 25 percent (\$303,800) so the entire project would be funded by grant.

Mr. Colson asked for discussion.

There was none.

Action Item E:

- Dr. Pelissier made a motion to fund the remaining 25 percent as grant. Ms. Goodwin seconded the motion. The motion passed unanimously.

Agenda Item F. Introduction of Proposed Priority Points Systems for Clean Water and Drinking Water State Revolving Fund Projects, Asset Inventory and Assessment and Assessment Grants, and Merger / Regionalization Feasibility Grants

Mr. Risgaard gave the presentation. As part of the requirements related to the State Revolving Fund (SRF) programs, the Division provides public notification to its stakeholders related to the Intended Use Plans (IUPs). The IUPs contain the Priority Points System, over which the Authority has purview. This agenda item was presented as an informational item, with the item to be an action item at the Authority's April meeting.

Mr. Risgaard presented information related to the following: the ESI program and potential synchronization of the Priority Points System with the VUR program. More information about the ESI program would be presented in Agenda Item G.

The existing Priority Points Systems support utility viability. The systems for construction projects support viable systems by giving highest priority under Project Purpose (Category 1) and also support viability through System Management (Category 3) by providing points for asset

management plans, capital improvement plans, and an operating ratio greater than 1. The Asset Inventory and Assessment (AIA) grant priority system also provides points for strong system management. The affordability criteria also identify those systems that have greater financial need. Agenda Item H discusses proposed changes to the affordability criteria.

Currently, Division staff will bring no changes to the Priority Points Systems as an action item at the April Authority meeting.

There was no discussion related to this topic.

Agenda Item G. Environmental Stewardship Program Overview

Summary

Ms. Marcia Allocco of the NC Department of Environmental Quality's Division of Environmental Assistance and Customer Service (DEACS) and Ms. Stephanie Scheringer, Division Manager of Wastewater Treatment of the City of Gastonia / Two Rivers Utilities gave the presentation.

The ESI program is an initiative that is a peer-to-peer promotion of environmental excellence. It is a DEQ recognition and leadership program that was started in 2002 and now has 94 members at 194 sites. Participation in the program is both free and voluntary. The ESI program provides several benefits, including each participant having a DEACS coach as well as having technical and compliance assistance and mentoring, to name a few.

The ESI program has three levels, going from a lowest level of partner to highest level of steward. Each level requires more commitment from participants. The City of Gastonia / Two Rivers Utilities Wastewater Treatment Division has facilities that are steward members. Other facilities across the state are partner members, including facilities of the Cape Fear Public Utility Authority, City of Shelby, and Water and Sewer Authority of Cabarrus County. All ESI members, including those previously mentioned, have recognized cost savings, reduced energy usage, reduced water usage, and reduced waste, including hazardous waste.

Ms. Allocco also discussed environmental management systems (EMS) that are part of the ESI program. The EMS provides a holistic approach to environmental activities and goals. ISO 14001 is the most common international standard. It provides an orderly, consistent way to address environmental concerns and can be a vehicle for positive change.

Ms. Scheringer gave a presentation on the City of Gastonia / Two Rivers Utilities (TRU) ESI program. The City of Gastonia had a high frequency of violations that, when joining the ESI program, has dropped steadily over the years. The ESI program covers all aspects of their business activities and as also allowed them to have an extensive outreach and mentorship program. The City of Gastonia also merged with the Town of Cramerton in 2011 to form TRU. Other mergers were completed, and cooperative work is ongoing between TRU and other nearby utilities.

Ms. Scheringer made suggestions for adding ESI to the Priority Points System (2 points) and reducing asset management points from 10 points to eight points.

Discussion

Dr. Pelissier asked about how DEACS advertises the ESI program around the state. Ms. Allocco replied that generally, DEACS attends a variety of events around the state. In 2020, DEACS presented at the annual American Water Works-Water Environment Association annual conference.

Other members have worked to promote the benefits of the program to other water and wastewater utilities around the state.

Ms. Goodwin observed that the program has a high degree of environmental focus. She asked about how closely the ESI program looks at financial management. Ms. Allocco replied that if an EMS is implemented, the leadership must put forth the resources necessary to ensure success; however, in terms of financial viability, that is not looked at as part of an EMS.

Mr. Colson asked about the history of TRU's merger with the McAdenville Wastewater Treatment Plant (WWTP). Ms. Scheringer replied that it was a 12-year process before it came about. The McAdenville WWTP had a series of significant compliance challenges related to operations and equipment issues that made it unsafe for TRU staff to work there. Due to those issues along with the location of the WWTP in a floodplain, TRU determined it was best for water quality to decommission the WWTP and send the flow to the Gastonia for treatment.

Note: The discussion below occurred during discussion associated with Agenda Item H.

Ms. Goodwin stated that she understood that Division staff were not going to propose any changes to the Project Priority Points System related to the State Revolving Fund (SRF) and State Reserve Projects (SRP), especially related to the ESI. Mr. Risgaard agreed. While staff think the ESI is a great program and generally supports items related to the ESI, staff had concerns related to the small number of utilities already in the program, especially as it would relate to incentivizing people to participate in the ESI. Regarding the revisions suggested by Two Rivers Utilities to modify the Project Priority Points System, Division staff did not think that any points needed to change to accommodate the ESI, or if ESI were added, the asset management plan points would not need to be changed, as the System Management category maxes out at 15 points.

Mr. Goscicki also pointed out that joining the ESI may pose a greater administrative burden on smaller systems. Additionally, many smaller systems simply do not have the resources to run an EMS.

Mr. Goscicki, Ms. Goodwin, and Ms. Hunnicutt all agreed that it would not be necessary for staff to propose changes in the Project Priority Points System for April.

Agenda Item H. Draft Revisions to Affordability Criteria

Summary

Mr. Risgaard gave the presentation related to draft revisions of the affordability criteria. This agenda item was presented as an informational item with an action item to go to public review to be presented at the April Authority meeting. He provided background related to the four elements of the affordability criteria (population, economic indicators, existing reviews, and comparison of monthly bills and project cost per connection). He discussed the aspects of the affordability matrix, which is the final determination of the amount of grant for which a system may be eligible.

Staff observed that no changes were needed to Steps (Elements) 1 to 3. For Step 4, the monthly bill to project cost comparison utilizes monthly bill data from 2015; the values should be updated. Additionally, the Drinking Water State Revolving Fund (DWSRF) program routinely struggles to meet the minimum Principal Forgiveness requirements of the federal grant. Two factors have contributed

to this issue: a low number of applications eligible for Principal Forgiveness and generally lower drinking water monthly utility bills, which leads to lower Principal Forgiveness eligibilities.

Generally, the values at the 50, 70, 85, and 95 percentiles, which form the bright lines between grant / Principal Forgiveness eligibilities, are lower than the current boundaries when considering drinking water utilities only and higher than the current boundaries when considering wastewater utilities only.

Division staff thought that a combined water and sewer monthly utility bill would be a more appropriate measure of affordability compared to individual utility bills. Staff evaluated application data from the Fall 2016 to Spring 2020 drinking water and wastewater applications and recalculated grant / Principal Forgiveness eligibilities utilizing combined monthly utility bills. Overall, eligibility increased 12.9 percent for drinking water utilities and decreased 6.4 percent for wastewater utilities. Division staff also reviewed impacts of utilized 2020 data for monthly bills for matrix bright lines. These bright lines increased due to utility bills increasing over the years.

Also, when considering systems that are single-utility providers, Division staff determined that combined rates are on average 40 percent drinking water and 60 percent wastewater. An applicant would be able to calculate a projected combined rate to use in the affordability matrix.

Division staff also reviewed project cost per connection and determined that cost per connection may not easily relate to the potential impact on a utility bill. Staff reviewed project cost per connection per month, which is easily related to current rates and more easily understood by residential users.

As a result of the analysis, Division staff determined that (1) a combined monthly utility bill and (2) a combined monthly bill plus project cost per customer per month with the combined monthly utility bill being emphasized more would incentivize utilities to raise rates.

Division staff sought input from the Authority on the following:

- The use of the combined monthly utility bill
- Use of project cost per connection per month

Discussion

Mr. Goscicki and Ms. Goodwin expressed a concern related to using a factor related to single utilities to increase a single provider utility bill to be on a level with LGUs who provide both water and sewer service. Ms. Goodwin did not like the idea of adding an assumption to the calculation and had no problem with using different numbers for water and sewer. She asked about the burden on the Division related to utilizing different bright lines for different system types (water vs. sewer). She suggested having separate graphs for single provider utilities to avoid penalizing them. Ms. Hunnicutt agreed that introducing a factor as another variable is not the best. Mr. Risgaard replied that Division staff will bring this information to the April Authority meeting; however, looking at just single utility providers would be very difficult. It is possible when using all of the data (e.g., all drinking water data for drinking water parameters and all wastewater data for wastewater parameters).

Mr. Colson added that the rates database contains more data than the information used for the distressed systems. The database is broken into rates for drinking water and rates for wastewater.

Most of the LGUs within the state provide both; a few are single-system providers. All of those rates are factored into the current percentiles.

Ms. Hunnicutt asked if both inside and outside rates were incorporated. Mr. Colson replied that the Division used inside rates only. This is because there is a lot of variability in how outside rates are established.

Mr. Goscicki asked if a consideration was given to utilizing a percentage of the mean and updating it on an annual basis rather than rather than giving hard dollar amounts that require Authority approval and public input. Dr. Pelissier and Ms. Goodwin also agreed that parameters would need to be updated on a periodic basis. Mr. Risgaard agreed and replied that the Division would be looking into that as part of the work for the April Authority meeting.

Mr. Goscicki also expressed concerns on the potential of small, distressed or similar LGUs not being able to get Principal Forgiveness or a grant because they would be unable to get a rate increase of what they need. Mr. Colson replied that when the affordability criteria were originally developed the Authority wanted to recognize, by using percentiles of what people were already paying, those LGUs who had already made decisions to raise rates.

Dr. Pelissier asked how Division staff came up with the project cost of \$80 per connection per month for the upper limit of project cost per connection per month. Mr. Risgaard replied that it was the highest point of data Division staff had related to this parameter. Staff are continuing to work through this issue and whether it is appropriate to make such a large project eligible if the LGUs rates are low. Ms. Goodwin added that she would be interested in seeing a more specific project cost per connection per month.

Agenda Item I. Discussion of Viable Utility Reserve

Summary

Mr. Colson gave the presentation. Regarding the VUR Priority Points system, Division staff are considering two categories, with Category 1 being the highest priority and consisting of those LGUs for whom the Local Government Commission (LGC) has taken control. These applications would be funded before any in Category 2.

Category 2 LGUs would be all of the other distressed LGUs. Within Category 2, staff are considering how to further split out who would receive priority, whether it be based on bins related to assessment scores with further granulation related to certain parameters or whether it would be a points-based system. Staff are also considering how to account for regional aspects related to the VUR program.

Discussion

Ms. Goodwin pointed out that when considering those systems that are or will be designated as distressed, several would be distressed, as shown on the diagram Mr. Colson presented. Mr. Colson agreed. The challenge would be if a nearby system was just below the line for distressed.

Ms. Goodwin stated that this is very similar to the Merger / Regionalization Feasibility (MRF) work where the larger LGU could apply for funding on the smaller LGU's behalf; however, if the regional provider is unwilling to take on the smaller system, there would be no solution. She wanted to know about what the natural progression would be once systems are designated distressed. Ms. Goodwin

suggested that the VUR should be a separate fund provided for capital projects that are in a plan generated by the LGU.

Ms. Hunnicutt expressed concern in moving forward with a priority system when there are a large number of LGUs potentially being designated as distressed and a small amount of funding available. When there is no possibility of providing funding and assistance to systems further down on the list, there can be potential issues related to creating more of a problem than a benefit.

Relating to categories, Ms. Edmundson suggested that there might be the possibility that using funds that are not in the VUR program could possibly be incentivizing people the wrong way. She mentioned that as a consideration.

She acknowledged that people have been upset related to the letters received, but it has become a way to start educating people. People did voice concern related to parameters out of their control; however, while she understood the root of their concern, it remains a factor that must be considered. Ms. Hunnicutt added that part of where the message is being lost occurs when the people trying to communicate the message have never operated the system. The State is working to use the data to evoke change and decisions that are emotionally driven. There is a story behind the data, and the story drives the emotion, and the emotion drives the decision. To date, the message communicated is so factual that the emotion behind the decision has been missed. Many people have begun to feel like this is an unfunded mandate. Ms. Goodwin stated that since only eight systems are designated as distressed, we do have the ability to recalibrate.

Ms. Goodwin commented on the need to change up terminology since the term Category is already used in the distressed criteria, as Category 2 in a previous meeting related to those systems that are behind on their audits. Ms. Edmundson stated that LGUs which are behind on their audits have significant internal control issues. Mr. Colson added that being distressed is not only a financial issue but could entail other issues.

Mr. Goscicki stated that the Authority does not want to fund Band-Aid-type projects. If the LGC takes over a system, then they are keeping the system afloat until there could be another project like a regional solution. Dr. Pelissier asked how much money would be involved related to the VUR. Mr. Colson replied that while there is no exact dollar figure, it is currently less than \$9 million with the idea that more would be appropriated in July. Dr. Pelissier replied that the main concern is what to do with the less than \$9 million. She preferred to hold on to be able to use the money for something useful. She suggested holding some of the money over to the next fiscal year.

Ms. Goodwin observed that the VUR program will require more discretionary decision-making than the other programs, especially since the funding currently available is small compared to the need. Distressed systems will need to look hard at their systems, their rates, and then formulate a plan to become non-distressed. She clarified that she meant both construction projects and the planning grants. She suggested using the existing distressed criteria used to score systems.

Note: Ms. Adams left the meeting.

Ms. Edmundson stated that for any LGUs under LGC control, the intent is to get them to a place where they are either viable or to help them close out. For example, for the Town of Eureka, millions of dollars could be spent, and it could remain nonviable, so the goal would be to find another solution for them such as revoking the charter for them; their charter is currently suspended. Cliffside Sanitary District is another LGU for which a solution does not exist; the LGC will

not turn them loose without a solution. Ms. Goodwin stated that Eureka is a good example because it would involve LGUs who could utilize the funding to do whatever studies and / or capital projects would be needed to provide a regional solution. The difficulty rests in if the larger system is unwilling to undertake a regional solution.

Mr. Colson asked if the Authority was willing to bring forward additional LGUs to be recommended as designated as distressed. The members agreed.

Ms. Goodwin asked about the status of communications with the LGUs and any feedback.

Mr. Risgaard reported that he had spoken with three or four LGUs, mainly with mayors and town managers. Many were seeking information about what is going on with the VUR program, where the data area coming from, and what the Division would consider changing if they could provide updated information. Another LGU was looking for ways to be more sustainable, and another wanted to know about how the program could help them. Most of the conversations were positive. Ms. Kubacki reported that she had been emailing with LGUs to provide them with a better understanding of where the data are coming from so that they could respond. Ms. Simes reported that she had talked to 12 LGUs. Conversations ranged from a mayor who did not believe their LGU had problems and to those who know they are distressed and wanted to meet to discuss further. Overall, most wanted a listening ear. Ms. Edmundson reported she had had conversations ranging from one extreme to the other.

Ms. Hunnicutt asked about who would review the narrative and determine if the information provided was correct. Mr. Colson replied that staff would summarize the information and bring it forward for discussion at the April meeting. Once that information is received, the Division will be in a better position to make a recommendation. The four letters for the LGUs designated as distressed went out, and the remaining 110 received letters requesting comment.

Note: Ms. Edmundson left the meeting.

Agenda Item J. Educational Component Required Under Session Law 2020-79

Summary

Ms. Haynie gave the presentation. The initial education program is required by state statute. The basis of the education is training that was developed in conjunction with the North Carolina League of Municipalities that was intended for elected officials. The training was mothballed in 2020 due to the pandemic. This base training will be adapted to fit the needs of the VUR program. For the VUR program, the audience for the initial training is elected officials and utility staff, which is utility management staff and the finance officers.

The goal of the training is to provide an overview of utility management before delving further into “first steps” that align with the best practice areas found in the Master Plan. Assessment of knowledge will be from pre- and post-class quizzes. Training will consist of the following:

- An introduction and keynote speaker;
- An overview of the VUR program;
- Utility management basics;
- The value of water and Master Plan basics; and

- Modules related to the best practice areas of the master plan, including first steps, ways to take second steps, and case studies / discussions.

Training may be shortened depending on Authority input and results of Ms. Haynie's Certified Public Manager® (CPM) project work.

As part of the CPM program, Ms. Haynie is looking at education delivery mechanisms and effectiveness as her project. There are many challenges related to education delivery, including the number of systems, the best days / times for training, and the method of training. She conducted 16 interviews as part of her work and spoke with elected officials, LGU staff, and resource agency staff.

Continuing education will also be important. In conjunction with resource agency partners, Division staff intend to develop "second steps" education focused in the best practice areas and will develop a course catalog of trainings offered by resource agencies.

The next steps will be to create a final education product, which will be presented as an action item at the July Authority meeting. Once approval is given, then initial education will proceed later in the calendar year. Additionally, staff will provide an update on the progress of continuing education.

Division staff asked for input related to the following:

- Manner to determine effectiveness of education;
- The proposed length of training;
- Best days / times for training;
- The content of the training;
- The method of training.

Discussion

Ms. Hunnicutt asked about the themes Ms. Haynie heard during her interviews. Ms. Haynie replied that the middle of the week tends to be better for most people. Also, people tend to have other issues that compete for their attention in training. Also, the knowledge needs are echoed in the outline provided. Building trust, using facts, and leading with empathy are ways to build and keep the trust of those being trained. Ms. Hunnicutt added that keeping people engaged through breakout time is also a way to foster communication.

Mr. Goscicki asked who would be providing the training. Ms. Haynie replied that Division staff as well as most likely resource agency partners. The Division will not charge for training, and staff want systems to come with minimal expense. Mr. Goscicki replied that no one in the state is a utility manager. He suggested looking to the American Water Works Association, the NC Rural Water Association (NCRWA), and others for potential instructors. They may have training ready to go and would have a better chance of getting other utility management people in front of attendees to speak as a manager rather than a regulatory agency. Ms. Haynie replied that the partners the Division is working with include the NCRWA, NCLM, Councils of Governments, and the Southeast Rural Community Assistance Project. Additionally, involving regionally trusted people would add legitimacy. Finally, people are familiar with the Division. Ms. Haynie would be happy to provide a copy of her CPM paper when it is finished.

Agenda Item K. Overview of Division History

This agenda item was tabled until the July Authority meeting.

Agenda Item L: Concluding Remarks by Authority Members, Chair, and Counsel

Authority members expressed their appreciation for the work that Division staff did. Members voiced appreciation for staff patience and engaging those involved in this process.

Agenda Item M. Adjourn – The meeting was adjourned.