

State Water Infrastructure Authority
North Carolina Department of Environmental Quality
July 10, 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
- Jennifer Haynie, Environmental and Special Projects Unit Supervisor
- Jessica Leggett, Environmental and Special Projects Unit Project Manager
- Anita Robertson, SRF Wastewater Unit Supervisor
- Vincent Tomaino, Acting State Revolving Fund Section Chief and SRF Drinking Water 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 April 9-10, 2019 Authority meeting for approval.

Action Item B:

- Ms. Goodwin made a motion to approve the April 9-10, 2019 Authority meeting minutes. Mr. Gaskins 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

Today we will seek Authority approvals for the April 2019 Spring funding round. The programs offered for funding during this round were CWSRF and DWSRF.

Mr. Colson stated that the deadline for applications for the Fall 2019 funding round is September 30, 2019 and that applications are being accepted for all the funding programs. The Division held CDBG-I training in May. The Division will hold "How to Apply" training for all programs in Sylva, Valdese, Kernersville, Winterville, Pembroke and Research Triangle Park later this month and the first full week of August.

The House and Senate budget was vetoed and discussions are continuing. Mr. Colson indicated the budget would be discussed more in the Viable Utility Grant agenda item.

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. Tomaino reviewed the funding methodology and decision order for this round which included applications for DWSRF and CWSRF programs. Applications received in April 2019 totaled \$321.2 million in funding requested. The materials provided to the Authority were reviewed. Mr. Gaskins asked for clarification on defining a green project. Ms. Robertson answered a project that reduces energy or is "green" by EPA standards such as stormwater best management practices, stream restoration and rainwater harvesting. EPA requires a reserve to be set aside for these projects. Mr. Gaskins stated there is no good definition of "green" in the finance industry.

Item G. Example Funding Scenario for Drinking Water Projects

Mr. Tomaino presented the potential funding scenario for the drinking water projects, noting that because of the increase in the DWSRF capitalization grant from EPA, there was an increase in principal forgiveness available. There were only 4 applicants eligible for principal forgiveness and, as allowed by the Intended Use Plan, the \$500,000 cap can be exceeded and then the grant percentage for which an applicant is eligible is applied. The following topics were discussed:

- Ms. Goodwin highlighted that it is unclear if an applicant has the opportunity to be awarded more than the \$500,000 principal forgiveness cap. Is there any way to manage the cap differently to average out over time? Mr. Colson answered principal forgiveness is similar to the overall project and indebtedness cap. Applicants are allowed to go beyond the cap if the funding is available.
- Mr. Stiles asked if unused funds roll over to the next funding round. Mr. Colson answered that the federal SRF funds can be rolled into the next cycle, including the principal forgiveness. However, when funds are moved to the next round, the federal capitalization grant cannot be closed out until the dollars are fully allocated.
- Mr. Colson added one reason there is more principal forgiveness available in DWSRF this year is that the EPA funds increased substantially due to the most recent Drinking Water Needs Survey. North Carolina's allocation increased from \$20 million to \$35 million and since principal forgiveness is a percentage of the EPA funds, the amount available also increased.
- Ms. Adams asked why some projects have few project benefit points. Mr. Colson stated that the prioritization system does not require a minimum point amount. Ms. Goodwin added that the Authority spent considerable time in the past discussing this and came to a level of comfort and understanding of this issue.

- Mr. Gaskins asked why the “percent grant verified” ranges from 0% to 100%? Mr. Colson stated that the grant percentage an applicant is eligible for is directly the result of the affordability criteria approved by the Authority.

Action Item G:

- Mr. Stiles made a motion to approve funding for Drinking Water Project Numbers 1-11. Dr. Pelissier seconded the motion. The motion passed unanimously.

Item H. Example Funding Scenario for Wastewater Projects

Ms. Robertson presented the potential funding scenario for the wastewater projects. Ms. Robertson noted that CWSRF funding could not exceed the \$500,000 principal forgiveness cap because funding this round utilized all of the principal forgiveness dollars before reaching the end of the prioritized funding list. Ms. Robertson also indicated one applicant, Charlotte Water, that has reached the \$100 million indebtedness cap. The following topics were discussed:

- Dr. Pelissier asked what happens to the applicants that indicate they require 100% grant but there is not enough funding available? Mr. Colson stated that the Division encourages applicants to be willing to take on more loan because if an applicant indicates it qualifies for 75% grant and won’t take any amount less, if only 50% grant is available, the Division does not recommend the application for funding and the applicant may miss a funding opportunity.

Action Item H:

- Mr. Vines made a motion to approve funding for Wastewater Project Numbers 1, 3, 5-9, 12-18 and 22. Ms. Goodwin seconded the motion. The motion passed unanimously.

Item O. Ensuring Viable Utilities Work Session

Item O was moved to earlier in the meeting. Mr. Colson reviewed key topics discussed by the Authority at prior authority meetings including the need for independent and trusted analyses, 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. Mr. Colson stated that input from the Authority is critical in the development of the process. The Authority discussed the following topics:

- The statutes broadly define a distressed unit is and enable the SWIA and LGC to define the specifics. This will involve significant effort on the part of SWIA and the LGC.
- The grant process and process to review local government units are two separate processes.
- Through the budget process, the Viable Utility Reserve (VUR) funding is now proposed as recurring rather than non-recurring. The proposed annual \$9 million will not accomplish much and consideration of using the regular funding programs in addition to VUR funds will be important.
- The five keys to management success and ten attributes of effectively managed utilities may be a good starting point in developing the viable utility process and distressed criteria.
- The SWIA and LGC may wish to consider a scoring system because there may be many units that will qualify as distressed.
- The LGC will lead development of the financial distressed criteria and the Division will lead the infrastructure and organization criteria development.
- Staff training and retention is important because often violations are a result of key staff not being in place.
- Some utilities may be distressed due to outside circumstances such as industry or population loss. It will be difficult to plan for and address these issues.

- In some cases, a good option may not be obvious. This will require additional effort on the part of the local government unit, but also SWIA and the LGC. These situations may also take much longer to resolve.
- Mr. Gaskins stated that the LGC knows why many units are in financial difficulty and often it is because of the water and sewer enterprise funds. The concepts of OneWater acknowledge that water is not geographically bound but local governments often are. The historic charter process that he has mentioned in the past would reduce the burden on towns and help them meet the needs of their citizens more efficiently.
- There is no “one-size-fits-all” solution to these issues.
- Some distressed units may not want to change the way they operate at the local elected official level. Mr. Colson stated that in some cases, the change needed will be painful for the local government unit and its elected leaders, but also for the SWIA and LGC.
- Elected officials often do not want to place the burden of increased water and wastewater rates on their citizens, especially many that are on fixed incomes. Education of the elected officials is key for this reason and a structured plan is needed so that they understand their responsibilities.

Mr. Colson continued the discussion by asking for the Authority member’s thoughts about the process component of the viable utility reserve:

- There is interest in the Authority having input from others and perhaps an opportunity for a focus group or roundtable with some communities. It will be essential for communities to understand their true situation.
- Is a different process needed if a community is determined to be nonviable instead of distressed? The Authority commented that this process must be managed carefully as it might not be evident to a community.
- If SWIA and LGC are aware of a troubled system, can they proceed quickly with managing the situation? Mr. Colson answered that for many systems there may not be enough information available to accurately document their existing situation and determine the best long-term solution. In addition, the amount of funding needed may not be available.
- Mr. Colson added that SWIA may need to consider packaging funding from the regular funding programs but there are ramifications because it will limit what SWIA can fund for other systems. The Authority noted it must be careful in using regular funding as it would likely impact applicants to the other funding programs due to less funding available.
- Dr. Pelissier stated that the ability to ensure that the long-term action plan is implemented and leads to viability will be key.
- Ms. Goodwin stated that a “long-term” CIP may need to be as long as 30 to 50 years, which would be needed to know how much funding and what type of work is needed well into the future.
- Mr. Vines stated that input from the LGC is critical and must be taken into consideration as to which communities have the most severe needs.
- Ms. Goodwin asked if funding from the Viable Utility Reserve would be a loan or a grant? Mr. Colson stated it is set up as a grant-only program but the grants could be supplemented by SRF loans. Mr. Gaskins stated it is all grant money because there is concern that communities that are distressed may not be able to fund the work needed to become viable.
- Mr. Colson asked for thoughts about phasing funding. If the long-term solution is for an entity to “get out of the business” but a solution is not identified, should an amount of funding for construction be allocated ahead of time? Should SWIA consider the ability to pre-obligate money

knowing it may not be used for several years? Mr. Vines stated that a reserve fund could be set up to be able to bank funds for future needs.

- Ms. Goodwin stated that public involvement should be required regarding the long-term plan and possibly elected officials reporting to their citizens; this could lead to more support for the elected officials. Information regarding decentralizing systems is also needed.
- It will be important to know which of the potentially distressed communities have already received AIA or MRF grants and understand the outcomes of these studies.
- Ms. Adams stated that with only \$9 million per year to address \$350 million in needs, it will be critical to identify and prioritize the local governments units with which to work. SWIA will need to be able to report to the General Assembly with a logical plan in order to seek increased VUR funding.

Item N. The Local Government Commission's Unit Assistance List

Sharon Edmundson, Director of the Fiscal Management Section in the State and Local Government Finance Division with the NC Department of State Treasurer, presented on the Local Government Commission's Unit Assistance List. The list is a working document used to track units that need more attention from the State and Local Government Finance Division staff and includes a brief summary of data about units' status. LGC staff compiles the list based on the annual audits submitted by a local government unit. The following topics were discussed:

- Mr. Stiles asked if any of the data points or measures are weighted. Ms. Edmundson stated they are all weighted equally.
- Ms. Goodwin asked if late audits are usually due to internal control issues. Ms. Edmundson stated the reason why the audit is late is usually the local government units are not ready on time for their audit to be prepared by an auditor.
- Ms. Edmundson stated that the LGC has been offering a non-credit community college course for finance officers. The course is available at all 57 community colleges but only if the college finds someone to teach the course. It is designed to be hands-on for a beginning finance officer. The LGC would like to expand the program to include seminars on water/sewer finance and capital improvement planning.
- Ms. Edmundson stated in the future the LGC hopes to make a standard accounting system available to small local government units that would meet all GASB requirements. The unit would need to buy the system but it would be cloud-based and the LGC could interact with finance officers remotely.

Item P. Fair Bluff/Fairmont Initiative Update

Mr. Colson stated that he, along with Jeff Hughes and Erin Riggs from the UNC Environmental Finance Center, met with the Town Managers and representatives from each of the 5 towns. The towns prefer to form a wastewater authority or a water and wastewater authority. Primarily, they are interested to know how to start this process. The following topics were discussed:

- The towns are less open to a water and wastewater authority because they believe that their water systems are "making money" while the wastewater systems are not.
- Mr. Colson stated the towns will not consider an interconnection with Lumberton but that SWIA and the LGC may consider funding a different permanent solution that is viable for all the towns.
- The Authority questioned if the Viable Utility Reserve grants could be made available to hire experts (i.e. qualified staff on loan) to help local governments start an authority or other process? Mr. Colson stated that such a contract could be managed by the Division but that a town would still likely need a full time manager to be in place to move the work forward.

Item I. Priority System Modifications for the 2019 Intended Use Plans (IUPs) for CWSRF and DWSRF Programs

Mr. Tomaino presented the potential modifications to the CWSRF and DWSRF Priority Rating Systems as well as the comments received during the public comment period and the division's responses. The following changes were proposed to and discussed by the Authority at its April 2019 meeting:

- Add a new line item for projects that address emerging compounds in drinking water.
- Revise Line Item 1.A (which currently addresses failed drinking water systems) to more broadly address consolidation of nonviable drinking water or wastewater utilities.
- Renumber several line items in both the Drinking Water and Wastewater Priority Rating Systems to clarify the relationships between them.

Comments were received during the public comment period from The Conservation Fund (TCF). The comments received and responses provided were:

- Comment: TCF would be interested in engaging with the Authority and others to see if nonprofits could be eligible for funds from the State Revolving Funds.
 - Response: The Division will not revise the draft IUP at this time because NCGS §159G-31 excludes such non-profits from the list of eligible applicants.
- Comment: For CWSRF, TCF would like to have a conversation regarding restoration work on a larger scale than what can be done with the Division of Mitigation Services
 - Response: This is a request for discussion rather than a request to revise the draft IUP. The Division notes that restoration work is CWSRF-eligible and can receive priority under Line Item 1.F.
- Comment: For DWSRF, TCF would like to participate in DWSRF funding for watershed protection.
 - Response: This is a request for discussion rather than a request to revise the draft IUP.

The following topics were discussed:

- Ms. Goodwin questioned if the terminology used should be "nonviable" or "distressed." Mr. Colson stated that there is a difference between distressed and nonviable; this will be discussed with the Authority as work moves forward on the Viable Utility Reserve program.

Action Item I:

- Mr. Vines made a motion to approve the CWSRF and DWSRF Priority Rating Systems for use in the 2019 Intended Use Plans. Mr. Stiles seconded the motion. The motion passed unanimously.

Item J. 2019 NC Rural Water Association Keynote Address

Ms. Goodwin provided an update on her keynote address: "What You're Doing Right" from the 2019 NC Rural Water Association annual conference. Ms. Goodwin graphically displayed the impact of the Authority's implementation of the affordability criteria. More projects are being funded with combination grant/loan than would have been funded if only 0% or 100% grant funding options were offered.

Item K. 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 have been the primary vehicle for Master Plan outreach this year, along with presentations at professional society meetings and conferences.

In August, the Division will next participate in a regional roundtable sponsored by the Southeastern Economic Development Commission which covers 12 counties within 3 COGs.

Item L. Draft Fiscal Year 2018-2019 Annual Report

Ms. Durso presented the draft Fiscal Year 2018-2019 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 emailed to Ms. Durso by August 2, 2019. Staff will make changes and send the revised report for review.

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.

Two suggestions were made for changes to the draft report:

1. Include a recommendation that the Authority be provided with the flexibility to establish conditions in any grant under its purview.
2. State that the Authority is concerned about the General Assembly's actions to award grant funds to projects through its budget process, which essentially bypasses the Authority's prioritization and award processes.

Ms. Durso stated that the two items would be included in the next draft of the annual report, to be presented to the Authority at its September 2019 meeting.

Item M. Draft 2020 Authority Meeting Dates

Ms. Leggett presented the proposed 2020 Authority meeting dates. This is an information item and will be an action item to approve the meeting dates at the September 2019 meeting. Ms. Leggett asked Authority members to let her know of any potential conflicts for the proposed 2020 meeting dates.

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. There were no informal comments from the public.

Item R. Concluding Remarks by Authority Members, Chair and Counsel

Authority members thanked staff for information provided before and at the meeting. Authority members also expressed concern that our funding program dollars are being earmarked and could potentially affect the Authority's viability. Authority members expressed interest in including this concern in their annual report.

The next Authority meeting will be September 11, 2019 in Hickory, NC.

Item S. Adjourn – The meeting was adjourned.