

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

May 22, 2024

Note: This meeting was held via WebEx

Meeting Minutes

Viable Utility Committee Members Attending Meeting via WebEx

- Shadi Eskaf, Director, Division of Water Infrastructure
- Ed Goscicki, retired utility director
- Corey Gooden, Town Manager, Town of Edenton¹
- Leila Goodwin, Water Resources Engineer

Division of Water Infrastructure Staff Attending Meeting via WebEx

- Cathy Akroyd, Public Information Officer
- Tim Baldwin, Engineer, Viable Utilities Unit
- Victor D'Amato, Supervisor, Viable Utilities Unit
- Tony Dongarra, Environmental Program Consultant
- Jennifer Haynie, Program Development Coordinator
- Susan Kubacki, Program Development Coordinator, Viable Utilities Unit
- Matthew Rushing, Project Engineer, Viable Utilities Unit

Item A. Call to Order

Chair Eskaf called the meeting to order and reminded the members of the Viable Utility Committee (VUC) 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 VUC today is required to identify the conflict or potential conflict at the time the conflict becomes apparent.

Item B. Approval of Meeting Minutes

Chair Eskaf presented the draft meeting minutes from the January 30, 2024, VUC meeting for approval.

Action Item B:

- Mr. Goscicki made a motion to approve the meeting minutes. Ms. Goodwin seconded the motion, and the motion passed unanimously.

Item C. Approval of Minimum Criteria for Asset Assessment and Rate Study Requirements

Mr. D'Amato gave the presentation.

¹ Mr. Gooden arrived late to the meeting. His arrival is noted in the record.

Summary

G.S. 159G-45(b)(1) requires that any local government unit (LGU) designated as distressed complete an asset assessment and rate study, as directed and approved by the Authority and LGC. Staff requested that the VUC approve key elements of asset assessment studies and rate studies that are conducted LGUs designated as distressed. If the VUC approves these elements, then staff would take them to the Authority for full approval. Additionally, the Local Government Commission (LGC) must also approve these elements.

An LGU's asset management plan (AMP) should include the following elements:

- Asset inventory tables for significant assets (e.g., treatment works, storage tanks, pump stations, mains and laterals, valves, meters, and other appurtenances);
- Condition and criticality assessment for each asset;
- Replacement and rehabilitation (R&R) plans for each asset class;
- Operation and maintenance (O&M) program description; and
- Estimated costs and schedule for R&R and O&M.

Additionally, the AMP must have accurate mapping with geolocated assets identified.

The rate study must include a narrative that explains the goals, data sources, assumptions made, scenarios analyzed, and conclusions and recommendations. The study should utility at least one year of data, with three years recommended. The project expenses should be projected over five years (ten years recommended) and should include O&M, capital expenses (from the capital improvement plan [CIP]), reserve contributions, debt service, and factors that are used to increase or decrease projected values. Net surplus (deficit) and reserve fund balances impacts should be calculated for each year. The rate study report should present rate scenarios; estimate rate impacts to the average customer; include supporting documentation; and completed within two years to be valid for statutory compliance.

Any distressed LGU must provide assurances that its staff are appropriately engaged with the two studies. To verify this, Division staff will require that:

- The LGU assigns and provides lead staff for the assessment and rate study;
- The LGU staff presents the study results and rate recommendations to its governing board;
- The LGU's governing board takes action to accept the report and considers the rate study results and recommendations; and
- The LGU presents to the Division minutes from the meeting where the asset assessment and rate study were presented and the governing board took actions.

Staff Recommendation

Division staff recommended that the VUC approve the minimum criteria for approved asset assessments and rate studies as discussed in the staff report and refer to the Authority for adoption.

Discussion

Chair Eskaf asked for discussion.

General Comments

Ms. Goodwin asked about how the AIA and rate study fits with the short-term action plan (STAP) and long-term action plan. She was concerned about the short timeframe related to the R&R and costs. Mr. D'Amato replied that the way the statute is written, the STAP and LTAP are independent. Staff have been using status reports to populate the STAPs. One of the questions asked as part of the status report is whether an AIA and rate study have been completed, and if they have not been completed, then completion becomes part of the STAP. The LTAP is separate, and the asset management efforts would inform the LTAP. Diversions might occur if partnerships or other alternatives are being explored. Ms. Goodwin agreed, but she stated that this description would need to be in writing. Additionally, staff would need to define the terms, what they mean, and where/when they come into play.

Mr. Goscicki added that an AMP, Fiscal Master Plan (FMP), and a water/sewer master plan feed together. An AMP and FMP all feed the fiscal plan. The way it is written, the statute is limited in what it is saying. This all feeds into an AMP, which goes beyond looking at the existing asset assessment and requiring costs to be added. Those results would then feed into the FMP and rate model. The third element would be the LTAP to say what the utility would do. The pieces are there and should be laid out since it would not be intuitive to all people. Mr. D'Amato added that the guidance would delve into these questions.

Asset Assessment Guidance

Chair Eskaf asked for specific comments pertaining to the asset assessment guidance.

Mr. Goscicki stated that there is a significant difference between asset assessments between above-ground infrastructure and belowground infrastructure. Wastewater treatment plans (WWTPs) and water treatment plans (WTPs) can be assessed by walking through the facilities, but it is a significant undertaking to assess belowground infrastructures. The guidance should create some differentiation between the two types.

He also stated that he had concerns related to the O&M plan being included in the asset class since it was more of a maintenance management program. O&M describes how a system is run and is not a part of the AMP. He recommended a maintenance management description.

Chair Eskaf stated that the benefit of having assets geolocated is for the retention of knowledge as staff turns over. While it is best practice to have a GIS, it should not be required.

Mr. D'Amato stated that HDR developed an Asset Inventory and Assessment (AIA) document for the Division that covers what was discussed. Also, staff do ask applicants how LGUs will manage the data and keep it updated. The guidance does require a GIS map. Mr. Goscicki replied that many consultants want to do state of the art, but the reality is that most of the distressed LGUs do not have the sophistication to work on a GIS. The purpose of the AIA is to give leadership a management tool to make good decisions on how to spend money to keep their utility functioning. Keeping data and systems as simple as possible was the key to success.

Mr. Gooden joined the meeting.

He stated that the minimum criteria are like a ten-year plan because most CIPs align with that length of time. For some small towns, what staff described could be the long-term plan. Mr. Goscicki added that rate projections, fiscal plans and asset assessments can all be done on spreadsheets. However, many consulting firms use more than spreadsheets, and he had concerns regarding LGUs buying expensive software. Also, he voiced concerns that there is no market to do simple AIAs. Chair Eskaf clarified that staff was not recommending anything related to software; however, he suggested that staff could add to the guidance that work could be completed on a spreadsheet.

Rate Study Guidance

Chair Eskaf asked for specific comments related to the rate study guidance.

Mr. D'Amato clarified that the statute has both rate study and long-term financial plan (LTFP) requirements. As LGUs go through the rate study process, the numbers will show whether they could continue on their own or should consider partnering with others.

Mr. Baldwin stated that the goal of the rate study is to have enough verbiage in the rate study so as to provide a framework and context, which would enable the LGU to understand how the rate study was put together. Mr. Goscicki suggested that the level of service should be kept in mind. Ms. Goodwin added that the rate study should discuss what the assumptions are and why the assumptions are being made. The study should have at least one scenario that works, and other scenarios might not be needed. The scenarios should go out for 30 years.

Chair Eskaf suggested that the goal of the rate study would be to have sufficient revenues within three to five years. Estimates get less meaningful out to 20 years, but Ms. Goodwin wanted to show 30 years because LGUs would have to complete the initial fix, then plan out for the next time a fix would be needed. Mr. Gooden added that the CIP could address what would be needed within five to ten years and could help inform the 30-year period.

Ms. Goodwin stated that the purpose of the rate study is not to show when an LGU will be viable. It needs to show how the LGU will pay for their expenses. Ms. Goodwin suggested 30-year horizons. Mr. Gooden stated that Edenton forecasts out to 30 years, but he did not know if other places used that horizon. He suggested that projecting out ten years is good, with 20 years recommended.

Action Item C:

- Mr. Goscicki recommended that the VUC approve and send to the full Authority the minimum criteria for asset assessments and rate studies, as presented, with further clarification for timeline horizons as itemized. Mr. Gooden seconded. The motion passed unanimously.

D. 2024 Distressed LGU Assessment Update

Ms. Kubacki gave the presentation.

Summary

The latest assessment was underway. 493 LGUs are currently in the master list. Staff are awaiting the updated Unit Assistance List from the LGC to complete the final assessment. Staff will then conduct additional QA/QC work.

There were 18 LGUs “first year” undesignated LGUs from 2023, and staff anticipated that two to eight of those would be above the threshold and recommended for designation. Thirteen LGUs that were not already designated had two consecutive years of missing audits. The LGC would consider those for designation. If designated by the LGC, those would be automatically designated by the Authority. Five LGUs were above the threshold for the first time and would receive “first year” notices and the option to request designation. Approximately 40 LGUs were within three points of the threshold. Final determinations for those would be dependent upon UAL status.

Related to the criteria, based upon Authority approval, staff added “Action Level Exceedances” for lead and copper for the Drinking Water Compliance parameter. This created no change to scoring. Staff also eliminated the population per mile parameters. This resulted in 153 LGUs not scoring two points and 168 LGUs not scoring one point. Staff also increased the high rate thresholds. This reduced the number of LGUs scoring points for this parameter from 148 to 61.

Staff hoped to finalize results by the end of May. Once QA/QC is completed, staff would send first-year notices and also provide recommendations at the July Authority meeting. The LGC would make their designations at their August meeting. Staff noted that first-year LGUs might need additional time related to passing resolutions requesting to be designated. Staff planned to develop recommendations to modify the designation process and would present those at a future Authority meeting.

Discussion

Chair Eskaf asked for discussion. There were no questions.

E. Tracking Completion of Viable Utilities Initial Education

Mr. Dongarra gave the presentation.

Summary

Division staff offer the Best Utility Management Practices (BUMP) training twice a year. For in-person training, staff utilize data in geographic information systems (GIS) to determine the best place for training so that participants are within a one-hour drive of the venue. On-demand training is also available via the NC League of Municipalities. For completion, distressed LGUs have to have at least two elected officials, one financial representative, and at least one technical or utility staff representative trained. Once the entire delegation is trained, staff issue a completion certificate to the LGU.

Currently, 57 percent of LGUs have completed training, with 33 percent partially complete and ten percent not started. However, staff have become aware of significant turnover of trained LGU staff. To mitigate this issue, staff proposed invoking GS 159G-45(b)(3) to direct LGUs to provide continuing education for governing boards. Staff would require that the LGU be responsible for maintaining a minimum delegation of trained personnel. If staff discovered turnover, they would add an action item to the STAP requiring replacement training to be accomplished within one year. If a trained delegation degrades to 50 percent and replacement training is not completed within one year, then the certification of completion would be revoked and the LGU notified. These changes were based upon Authority and staff comments and concerns.

Staff will continue to notify all distressed LGUs of BUMP training opportunities, regardless of status. Reminder emails will be sent out after local elections. Staff will also continue to improve BUMP training and will maintain good communication with LGUs.

Discussion

Chair Eskaf asked for discussion. Ms. Goodwin stated that the presentation captured the training well.

F. Concluding Remarks by Committee Members

Mr. Goscicki would not be at the July Authority meeting. Mr. Gooden and Chair Eskaf thanked staff for their work.

G. Adjourn – The meeting adjourned at 4:07 p.m.

DRAFT