



March 2, 2020

UNC-EFC 2020 Finance Strategies Workshop

Legislation and Policy Impacts

Environmental Quality

Division of Water Infrastructure



Topics



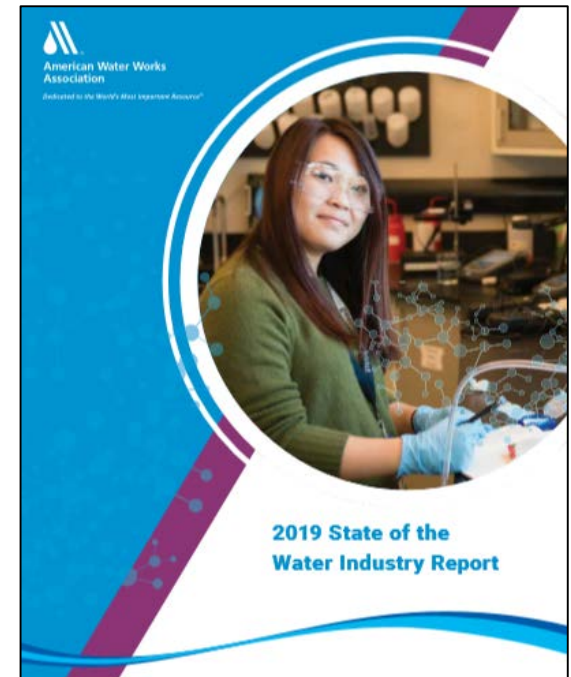
- National Issues
- Regional NC Issues
- Statewide Infrastructure Master Plan
- Proposed “Viable Utility” Legislation



AWWA's 2019 State of the Water Industry Report

Top 5 most important issues facing the water industry:

1. Renewal and replacement (R&R) of aging water & wastewater infrastructure (#1 last five years)
2. Financing for capital improvements (#2 last five years)
3. Long-term water supply availability (#3 or 4 last five years)
4. Public understanding of the value of water systems & services (#3 or 4 last five years)
5. Watershed/source water protection (# 6 last five years)



Federal Perspective for SRF Funding Programs

- National issues
 - Affordability
 - Pb
 - Emerging compounds
 - Resiliency / disaster relief
 - Regionalization
- Much of this also comes back as asset management planning and other organizational issues



Federal Perspective for SRF Funding Programs

- Annual appropriation bills
 - Continued strong support for SRF programs
 - May contain additional requirements as well ...
 - President's budget proposes significant cuts but congress may not use this as a starting point
 - Budget process mostly isn't working; continuing resolutions can actually help
- Water Resource Development Acts
 - Three consecutive WRDA bills already passed (2014, 2016, & 2018)
 - WRDA 2014 – WIFIA
 - WRDA 2016 (aka WIIN Act)
 - WRDA 2018 (aka AWIA)
 - WRDA 2020 Committee hearings starting

Federal Perspective for SRF Funding Programs

Water Infrastructure Improvements for the Nation Act – 2016

- Sense of the Congress that Congress should provide “robust” capitalization funding for the DWSRF and CWSRF
- \$60 million (authorized) each fiscal year over 5 years for Pb disadvantaged communities grants
- Voluntary Pb testing in schools grants – \$20 million (authorized)
- \$100 million over 18 months (authorized) for DWSRF where there is declared Pb disaster
- WIFIA amendments

Federal Perspective for SRF Funding Programs

America's Water Infrastructure Act – 2018

- “[M]ost comprehensive reauthorization of the Safe Drinking Water Act (SDWA) since 1996”*
- Study intractable DW systems
- DW disadvantaged system grants (\$4 million nationally)
- Capacity development strategy changes for states
- DWSRF changes (minor) including making
 - Davis Bacon (permanent)
 - American Iron and Steel (for 5 years)
- DWSRF \$4.4 billion over 3 years authorization
- Some SSO and stormwater items
- SWIFIA – SRF use of WIFIA funding

* CRS Report R45656

Federal Perspective for SRF Funding Programs

- Providing Financial Assistance for Safe (PFAS) Drinking Water Act (*Introduced*)
 - Grants to implement treatment technology
 - \$500,000,000 for each of the fiscal years 2021 through 2025
- Providing Financial Assistance to States (PFAS) for Testing and Treatment Act of 2020 (*Introduced*)
 - \$1 billion per year for 10 years WTP and testing
 - \$1 billion per year for 10 years groundwater cleanup grants

Federal Perspective for SRF Funding Programs

- Water Quality Protection and Job Creation Act of 2019 (*Introduced*)
 - Re-authorize CWSRF (\$16+ billion over 5 years)
 - Shows strong support for CWSRF program and need for infrastructure
 - Technical assistance for small systems
- Further Consolidated Appropriations Act, 2020
 - DWSRF 14%, CWSRF 10% principal forgiveness
 - CWSRF 10% green projects
 - \$25 million disadvantage community grants (national)
 - \$26 million Pb testing
 - \$19 million for Pb reduction projects

Approaches in Other Areas

- **California: Safe & Affordable Drinking Water Program**
Stable, ongoing fund to help communities access safe drinking water; \$130 million to start
- **Louisiana: Prioritizing Consolidation**
Grants for full capital cost to consolidate struggling systems with more viable systems
- **Philadelphia: Income-Based Water Rates**
 - Monthly water & sewer bills based on household income for its most financially distressed residents
 - 60,000 households eligible
 - “Utilities being thrust into a social services role”

Sussex County, Delaware

- Failing community septic systems at end of useful life
- Repair/replacement expense by for-profit utility is not realistic
- 3 non-profit organizations (including SERCAP) formed a non-profit utility
 - Access to funding not available to for-profit companies
 - Private foundations & environmental justice funding
- Assets being transferred to new utility



80 community
septic systems
serve 8,000
people

Outside reach
of municipal or
county systems



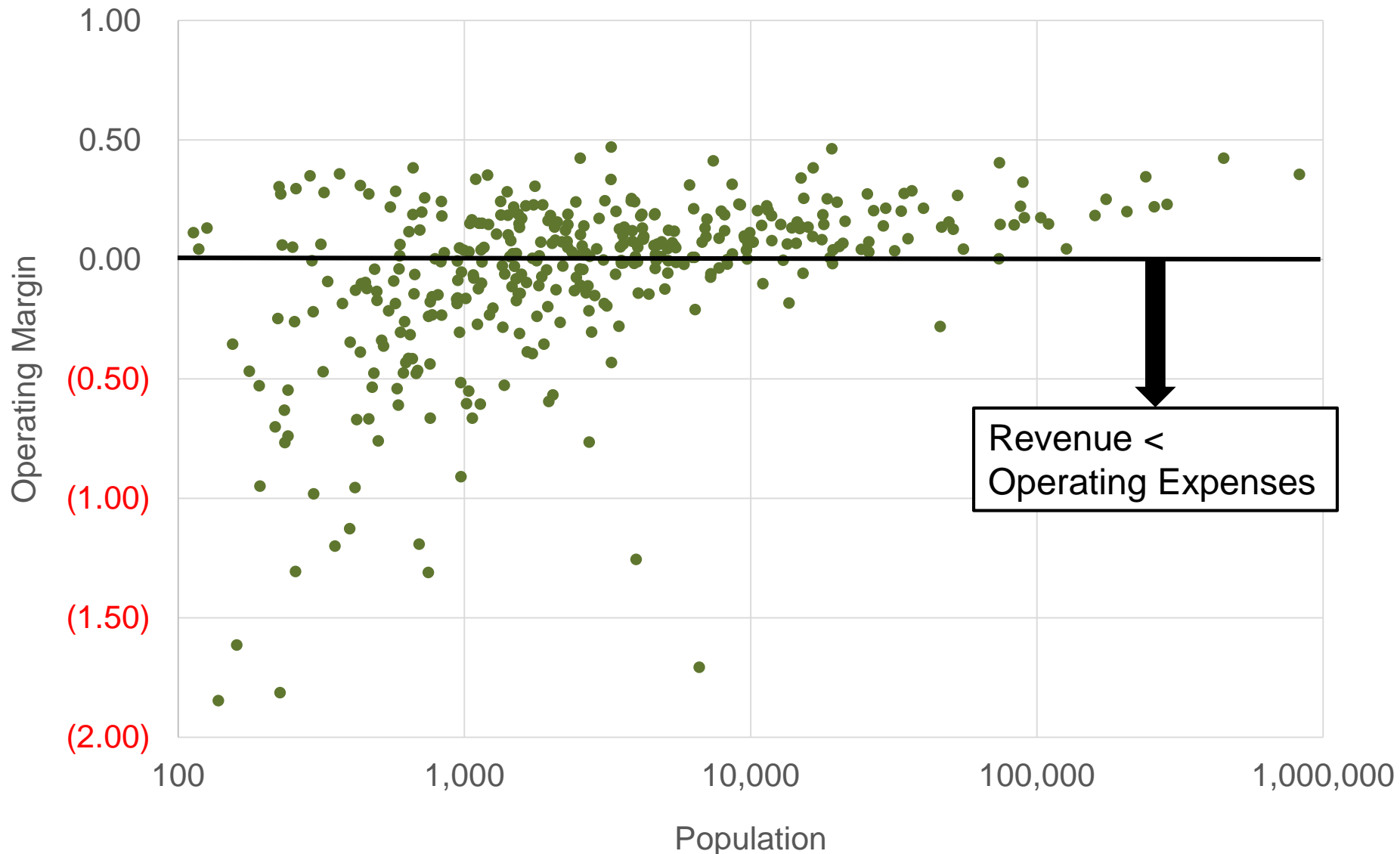
Regional NC Issues



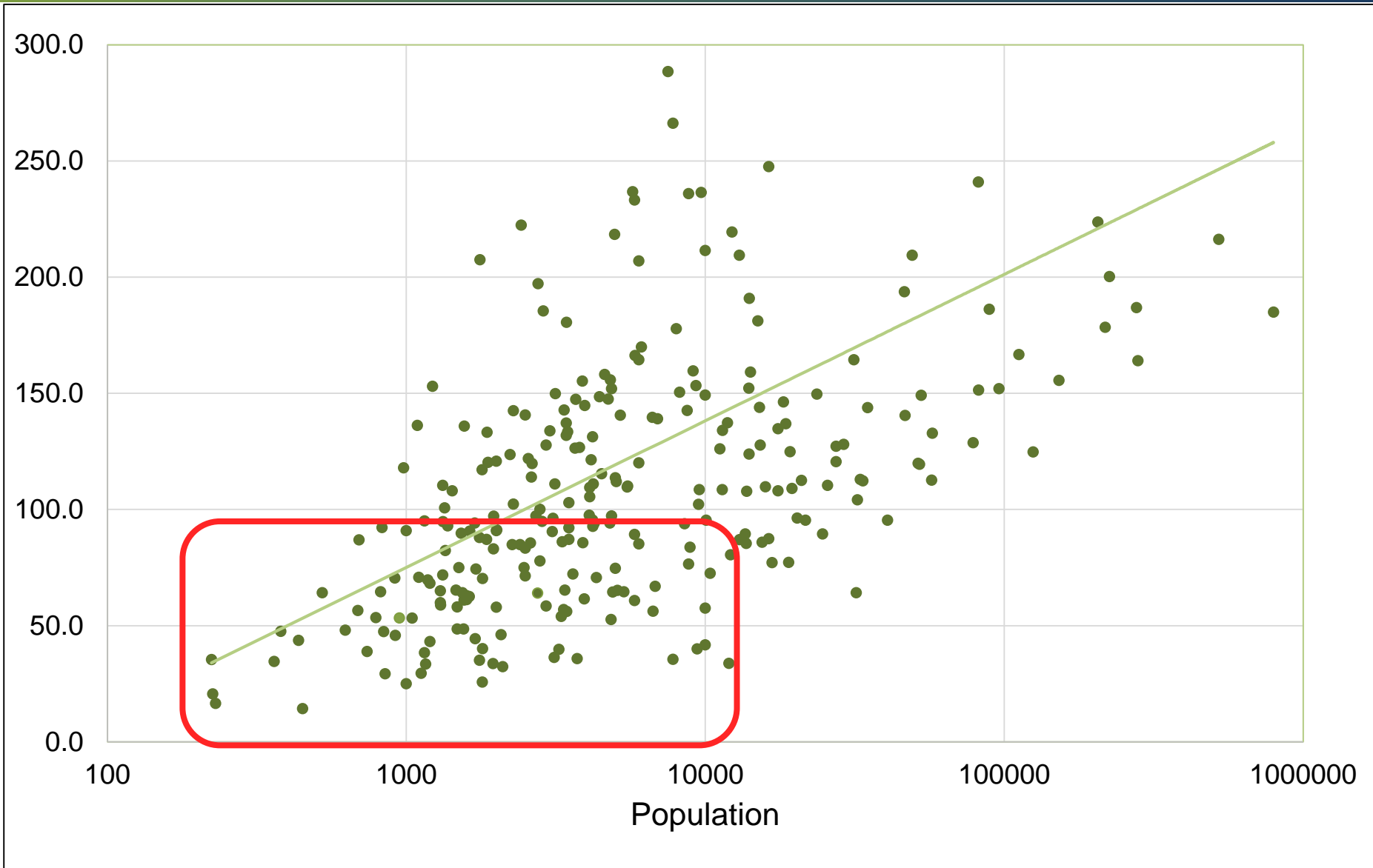
Issues Contributing to Utility Non-Viability

- Decreasing population and water use
- Declining revenue (e.g., mfg. plant closings)
- Aging infrastructure
- Water loss / non-revenue water
- Increased rates needed
- Affordability issues
- Missteps with capital projects
 - Unknown needs that could have been planned for
 - Construction issues (e.g., I/I not reduced as expected)
 - Too much or too little capacity constructed
- Workforce recruiting and retention

NC Water & Sewer Utility Operating Margins



NC Sewer System Customer “Density”



Two Failed Utilities in NC

- No longer financially viable
- Both have been taken over by the Local Government Commission
 - “Band-aid” for the short-term
 - No long-term solutions
- Need to get ahead of future failures
 - Governor’s bond proposal
 - “Viable Utility Reserve” legislation



Division-Sponsored Work by UNC EFC

- Crafting Interlocal Water and Wastewater Agreements
- Consolidation of Water and Wastewater Systems: Options and Considerations
- NC Rates Dashboard
- Research on statewide needs



Informational Support for Interlocal Agreements

Crafting Interlocal Water and Wastewater Agreements: A Condensed Guide



B. Annexation and Growth:

Language addressing anticipated annexation:

"It is acknowledged by City and District that an area lies outside the perimeter of the corporate limits of the City of Dunn over which City, pursuant to N. C. Gen. Stat. §160A-360, exercises extraterritorial jurisdiction. City currently intends to annex into its corporate limits a portion of

E. Water Quality Concerns:

Basic language requiring water to meet a minimum quality standard:

"The water delivered into the other system will meet the Primary and Secondary Water Quality Standards as established by the State of North Carolina" (Winterville – Greenville, 5)

Language specifying a shift of water quality responsibility beyond point of delivery:

"It is distinctly understood and agreed by both parties hereto that the CITY'S obligation as to the bacteriological quality of water furnished only applies to the

Informational Support for Consolidation

Consolidation of Water and Wastewater Systems: Options and Considerations



1.1 Single municipality operating as a regional utility

Model At A Glance

- Multipurpose local government utility model with far reaching authority
- Governed by city council
- Prevalence in NC: Common, 10 to 15²
- Primary Authorizing Statutes: G.S. § 160A, Article 16

Pro

Can integrate general city management, planning, and economic development with utility operations

Con

Can be difficult to balance obligations to city residents with needs of customers outside city limits

Multiple cities in North Carolina manage utilities that serve customers outside their boundary. It is a common practice for a municipal utility to extend their lines slightly outside their boundary and to charge “outside customers” different (typically higher) rates. Although less common, some cities have followed a more regional strategy that has involved



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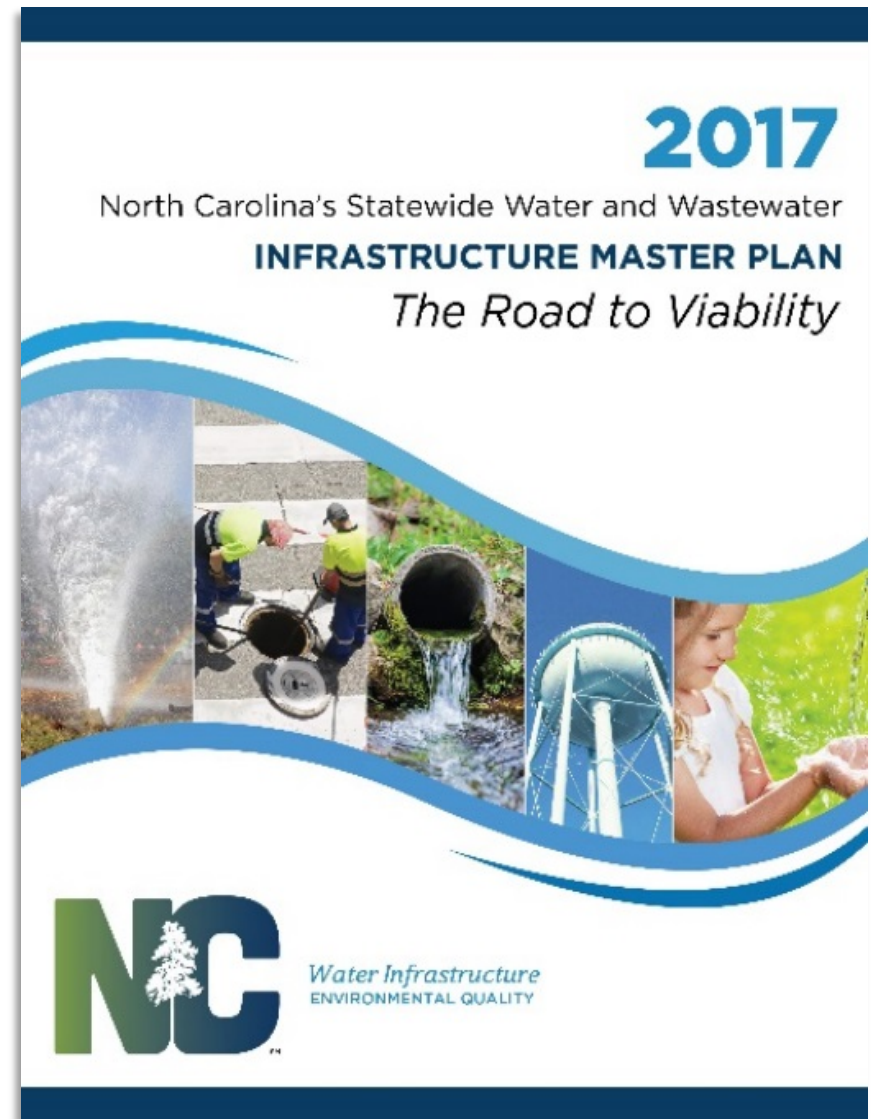


Statewide Water & Wastewater Infrastructure Master Plan



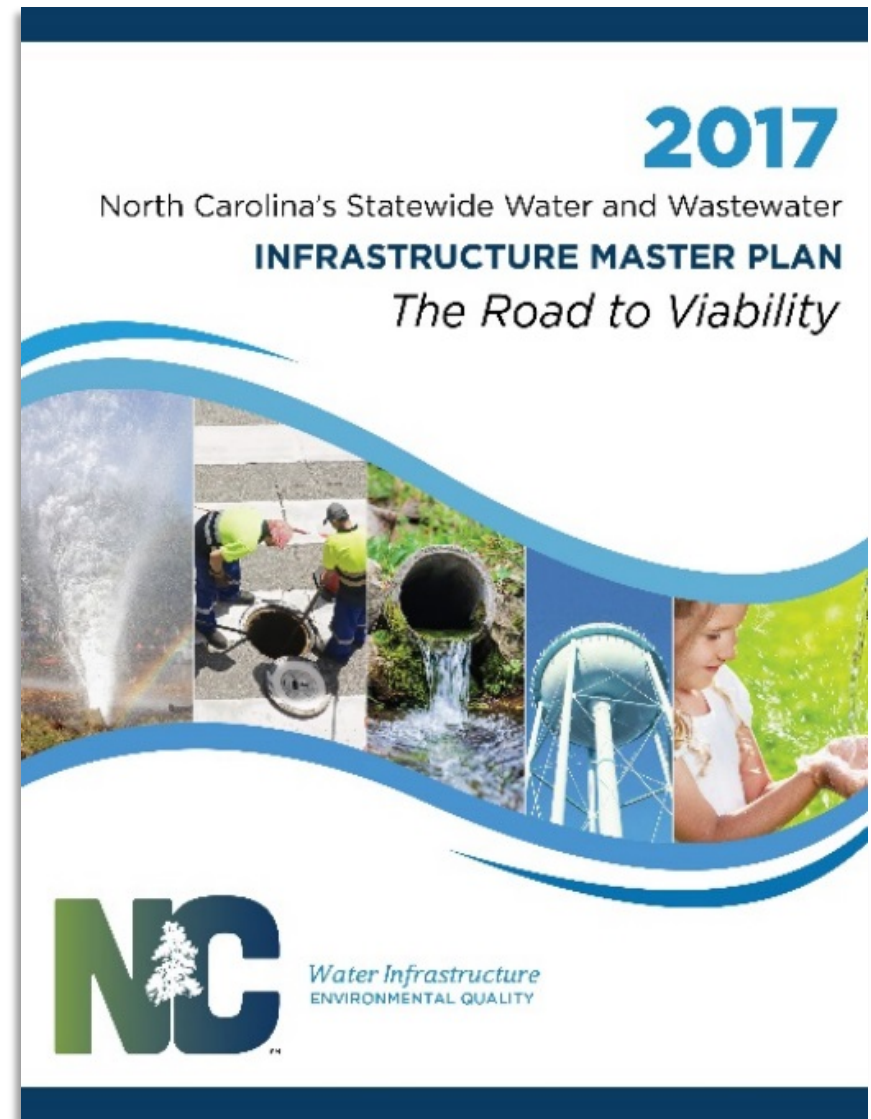
Statewide Infrastructure Master Plan

The State Water Infrastructure Authority finds that North Carolina will best be able to meet its water infrastructure needs by ensuring individual utilities are, or are on a path to be, **viable systems**



Statewide Infrastructure Master Plan

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



Statewide Infrastructure Master Plan

State Water Infrastructure Authority's focus is **long-term** water and wastewater utility viability in 3 areas of management:



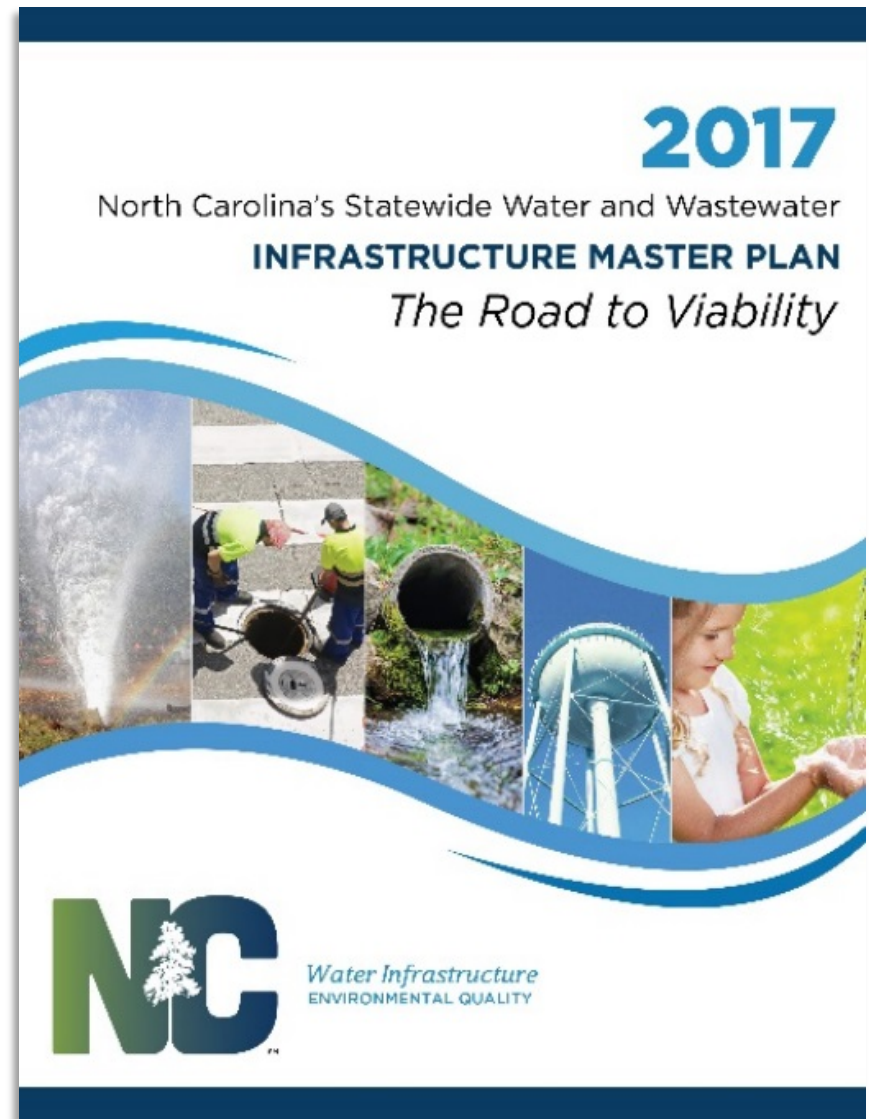
Infrastructure



Organizational



Financial



Statewide Infrastructure Master Plan



Infrastructure

- CIP with appropriate levels of investment, renewal & replacement



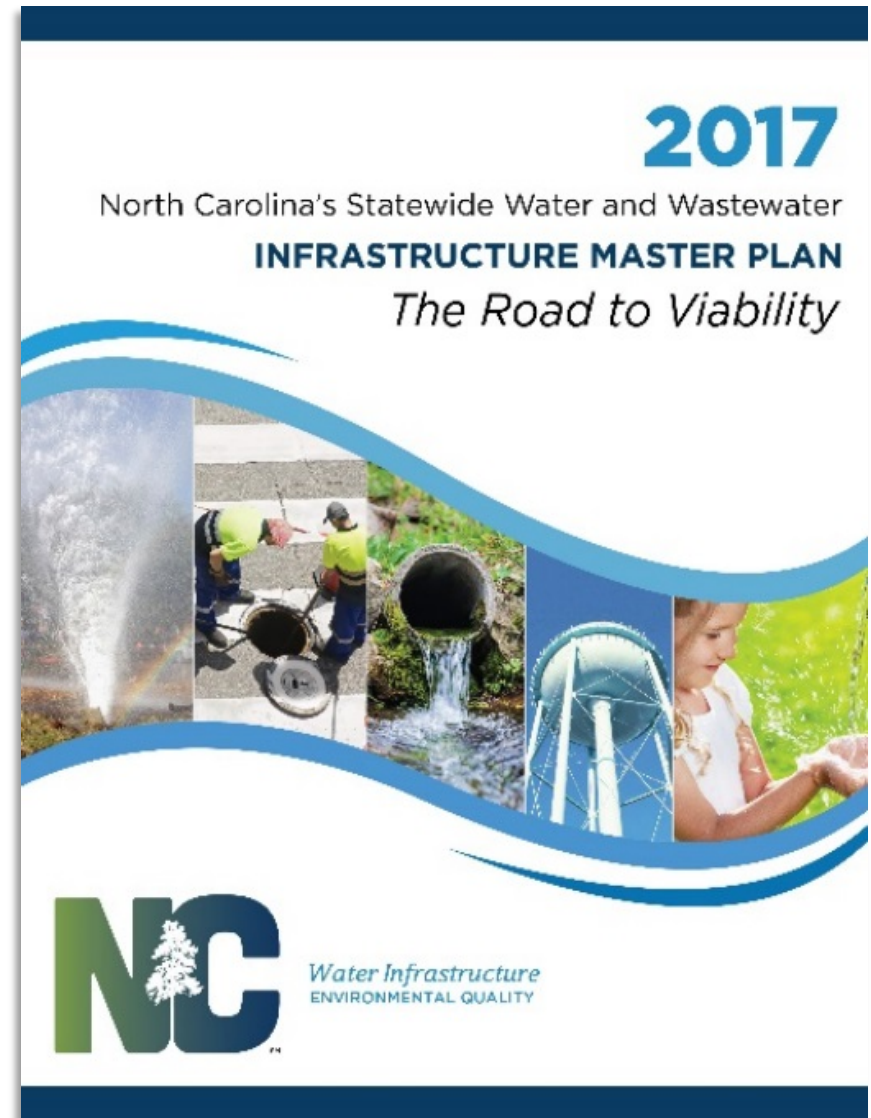
Organizational

- Governing board involvement and support of utility needs



Financial

- Long-term self-sustaining business enterprise





Proposed “Viable Utility” Legislation



Proposed “Viable Utility” Legislation

- Outcome of several years of DEQ, Dept. of State Treasurer and UNC-EFC working with legislature and a Legislative Study Committee
- Governor proposed in FY 2020 budget
- House/Senate proposed in Conference Budget
- Same language – without appropriation – is in other House and Senate bills



Proposed “Viable Utility” Legislation

Criteria to determine if a unit is “distressed”

- Serving < 10,000 customers
- Is repair & maintenance program adequately funded
- Fund transfer in last 2 of 5 years:
 - Were funds moved out of utility without adequately funding O&M, capital projects & debt service
 - Were funds moved into utility to fund O&M, capital projects & debt service
- Is annual debt service disproportionate to revenue
- Additional criteria to be developed by State Water Infrastructure Authority & Local Government Commission

Proposed “Viable Utility” Legislation Requirements

Requirements if “distressed”

- Asset assessment
- Rate study
- On-going education for governing boards, finance officers, and operations staff
- Short-term action plan
- Long-term plan action plan
- Long-term financial management plan



Proposed “Viable Utility” Legislation

- Could lead to funding with “Viable Utility Reserve” grant but not assured
- Grants may contain on-going performance measures
- Proposed funding limits in legislation
 - \$15 million for a single local government unit
 - \$30 million for two or more local government units
- Proposed funding in budget – only \$9 million in recurring funds in each of next 2 fiscal years





Emergency Operating Funds



Emergency Operating Funds

- Session Law 2019-226
 - Allows emergency funding from State Drinking Water and Wastewater Reserves
 - To cover operating deficits incurred by certain public water and wastewater systems
 - Effective October 1, 2019
- Requirements
 - Local Government Commission has assumed full or partial control of the unit of local government or the water/wastewater system, OR
 - The charter of the unit of local government has been suspended or revoked



Partnerships



Partnerships

NC Resource Agencies

- Many see the same issues
- Many offer training for elected officials and finance officers
- Areas of overlapping services and gaps in services



NORTH CAROLINA
DEPARTMENT OF STATE TREASURER



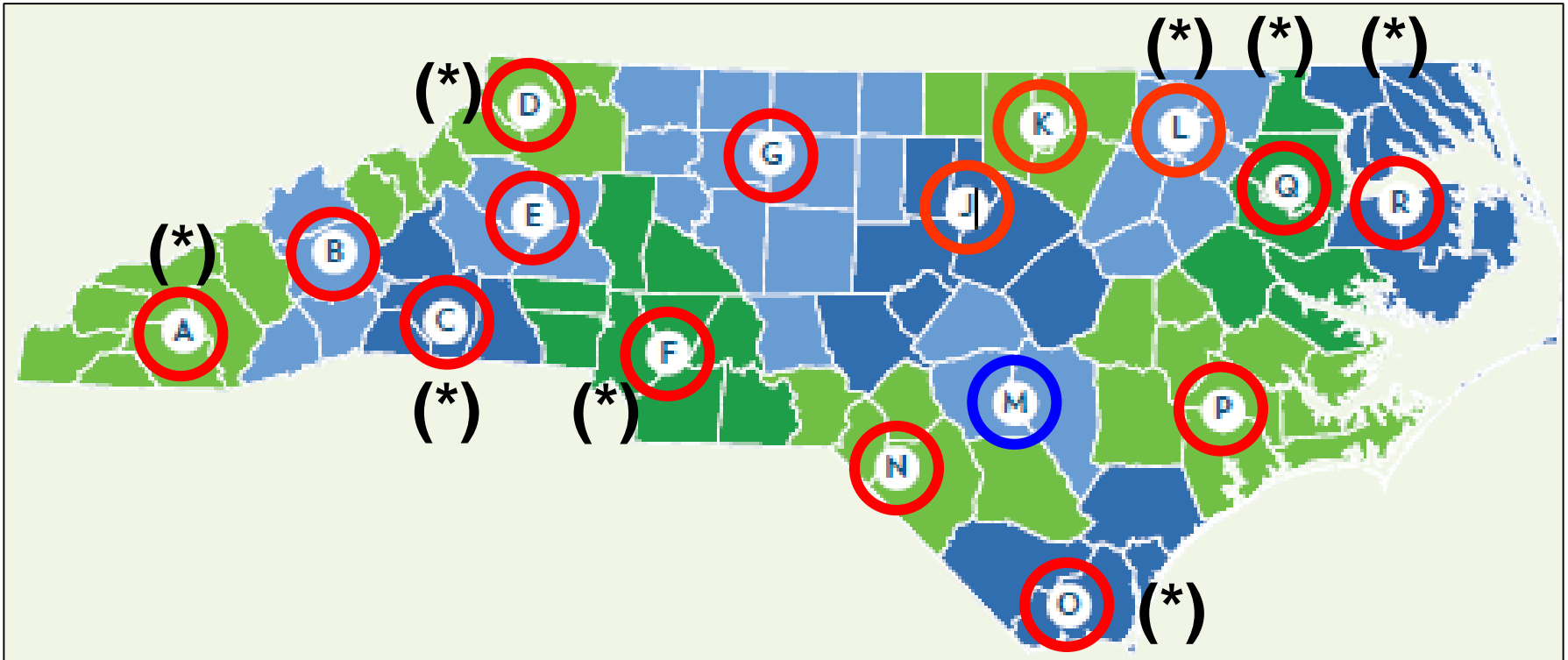
SERCAP, Inc.
SOUTHEAST RURAL COMMUNITY ASSISTANCE PROJECT, INC.



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Work with Regional Councils of Government



By the Numbers:

16 – Regional Councils across the state

13 – Presentations at regular COG meetings (311 attendees)

8 – 2-hour focused workshops with elected officials and public utility staff (96 attendees)



Contact Information



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Division of Water Infrastructure

<https://deq.nc.gov/about/divisions/water-infrastructure>

State Water Infrastructure Authority

<https://deq.nc.gov/about/divisions/water-infrastructure-draft/state-water-infrastructure-authority>





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