

**State Water Infrastructure Authority
Viable Utility Committee
Meeting Date: September 16, 2021
Agenda Item J – Reassessments using FY2019 Audit Data and Consideration of Designation
for the City of Goldsboro**

Division of Water Infrastructure Staff Report

Background

General Statute 159G-45 directs the State Water Infrastructure Authority (Authority) and Local Government Commission (LGC) to utilize an assessment and review process to identify distressed units, to develop evaluation criteria for grants from the Viable Utility Reserve (VUR) and, at their discretion, impose specific performance measures or conditions on any grant awarded from the VUR.

The assessment and review process has been implemented to identify distressed units. There are four Identification Criteria established by the Authority and LGC. Each criterion will need to be considered in establishing an assessment frequency. The four Identification Criteria are:

1. Under financial control of the LGC
2. Two consecutive years of missing annual audits
3. Assessment Criteria Score
4. Other information

Initial assessments of all applicable local government units (LGUs) were conducted using FY2019 financial audit data submitted to the LGC as of December 1, 2020. Several LGUs had not submitted their FY2019 financial audit data by that date: Town of Black Creek; Town of Chimney Rock; City of Goldsboro; Town of Jackson; Town of Lucama; Town of Magnolia; and Town of Newport.

The City of Goldsboro requested Division staff to re-evaluate the City's assessment score using their FY2019 financial audit data, which was submitted after December 1, 2020. The City of Goldsboro owns and operates both water and wastewater utilities and had an assessment score of 6 points (in part due to missing FY2019 financial audit data), which was below the distressed designation threshold. Using the FY2019 financial audit data, the City's assessment generated a score of nine points, which meets the distressed designation threshold. Staff asked the City of Goldsboro whether they would want to be considered for designation now, which provides consistency across LGUs by using their FY2019 financial audit data, or wait for the next assessment cycle in April 2022 with other LGUs that are on "Hold". The City of Goldsboro brought the topic to their September 7, 2021 Council work

session for a decision, and they approved requesting the Authority and SWIA to designate the City as distressed under General Statute 159G-45.

The City of Goldsboro is leading the regional effort across LGUs in Wayne County working together on AIAs, rate and MRF studies. Allowing Goldsboro to consider designation is consistent with the Division's treatment of other LGUs that raised questions on these initial assessment values, giving them the option of requesting consideration for designation or waiting for the next assessment cycle in April 2022.

In reviewing the status of the other LGUs, only the Town of Magnolia had also submitted their FY2019 financial audit data. They also own and operate both water and wastewater utilities with an assessment score of 6 points, and using the FY2019 financial audit data, their score increased to 12 points, which is above the distressed designation threshold. Staff have contacted the Town of Magnolia to notify them of the evaluation using the FY2019 financial audit data and indicated their designation will be considered in the next assessment cycle in April 2022.

Revised assessment score cards for the City of Goldsboro and the Town of Magnolia reflecting data from their FY2019 financial audits are on pages 3 and 4. Division staff seek approval to designate the City of Goldsboro as distressed under General Statute 159G -45.

Staff Recommendation

Division staff recommend that the Authority follow the request by the City of Goldsboro, during their meeting on September 7, 2021, to designate the City as distressed under General Statute 159G -45.

Unit Assessment Criteria Scorecard

Unit Name: Goldsboro

Total Score: 9

Type of System (Water/Sewer): Both

As required by Session Law 2020-79 (SL 2020-79). The Local Government Commission (LGC) and State Water Infrastructure Authority (Authority) have developed criteria to identify local governments that may be struggling to provide water and/or sewer services. Assessment criteria include parameters required by the statute, infrastructure and organizational issues, and indicators of financial strain. This score card shows the points your unit scored and the data values used to determine those points. The attached Unit Scorecard Explanation provides additional information about each of the parameters that contribute to the score. Units providing both water and sewer service and scoring 9 or more points, or units providing only a single service and scoring 8 or more points are considered at risk of being designated distressed under the new law.

Statutory Points				
Criteria	Service Population	Debt Service Coverage Ratio	Transfers Out	Transfers In
Points Scored		1		
Value Used	34,972	0.80	1 Transfers	1 Transfers

Infrastructure/Organizational Points									
Criteria	Afford-ability	UAL Control - W/S only	DW Compliance	WW / CS Compliance	Flow Moratorium	DW Pop / Mile	Sewer Pop / Mile	Rate (2019 inside) \$/5000 gal	Revenue Outlook
Points Scored	1	3							
Value Used	5	(LGC Input)				128	144	DW: \$26.49 WW: \$44.85 Combined: \$71.34	Population Change: -02.61% (also considers rates)

Financial Points						
Criteria	Surplus (deficit) w/ Debt	No Debt DSCR Test	% Depreciated	Operating Margin	Quick Ratio	Receivables Ratio
Points Scored	2		1	1		
Value Used	Surplus w/Debt: (\$614,356) W/\$1Million Test if No Debt:		60.04%	(0.12)	1.7	2019 Ratio: 1.5 Trend: 0.0

Unit Assessment Criteria Scorecard

Unit Name: Magnolia

Total Score: 12 (Preliminary – subject to verification)

Type of System (Water/Sewer): Both

As required by Session Law 2020-79 (SL 2020-79). The Local Government Commission (LGC) and State Water Infrastructure Authority (Authority) have developed criteria to identify local governments that may be struggling to provide water and/or sewer services. Assessment criteria include parameters required by the statute, infrastructure and organizational issues, and indicators of financial strain. This score card shows the points your unit scored and the data values used to determine those points. The attached Unit Scorecard Explanation provides additional information about each of the parameters that contribute to the score. Units providing both water and sewer service and scoring 9 or more points, or units providing only a single service and scoring 8 or more points are considered at risk of being designated distressed under the new law.

Statutory Points				
Criteria	Service Population	Debt Service Coverage Ratio	Transfers Out	Transfers In
Points Scored	1	1		
Value Used	1,252	(3.06)	0 Transfers	0 Transfers

Infrastructure/Organizational Points									
Criteria	Affordability	UAL Control - W/S only	DW Compliance	WW / CS Compliance	Flow Moratorium	DW Pop / Mile	Sewer Pop / Mile	Rate (2019 inside) \$/5000 gal	Revenue Outlook
Points Scored	1	3				1			
Value Used	5	(LGC Input)				98	118	DW: \$33.99 WW: \$47.89 Combined: \$81.88	Population Change: -3.77% (also considers rates)

Financial Points						
Criteria	Surplus (deficit) w/ Debt	No Debt DSCR Test	% Depreciated	Operating Margin	Quick Ratio	Receivables Ratio
Points Scored	2		1	1		1
Value Used	Surplus w/Debt: (\$68,258) W/\$1Million Test if No Debt:		54.11%	(0.68)	1.7	2019 Ratio: 1.8 Trend: 2.0