Viable Utility Reserve Committee
of the State Water Infrastructure Authority

Department of Environmental Quality
Division of Water Infrastructure

Sept. 16, 2020
Agenda Item B
Approval of Meeting Minutes
Agenda Item C
Joint Meeting of Authority and LGC Board
Joint Meeting with LGC Commissioners

• Purpose
  • Introductory
  • Both must approve criteria, grant awards and conditions/performance measures

• Date: Oct. 14, 2–3:30 PM

• Agenda
  • Legislation overview
  • Potential distressed criteria
  • Process overview
  • Authority and LGC actions needed in November
Agenda Item D
Stakeholder Discussions
Update
Stakeholder Discussions

- NC League of Municipalities
- Leadership of NC Regional Councils of Government
- NC Rural Water Association
- Comments
  - Supportive of required education component
  - Ensure all those that may be “distressed” aren’t required to begin all action items immediately
  - Distinguish those serving much fewer than 10,000 customers
  - Greater weight for moratoriums
Agenda Item E
Distressed Criteria Review
Statutory Criteria

• Required distressed criteria
  • Serving < 10,000 customers
  • Is repair & maintenance program adequately funded?
  • Is annual debt service disproportionate to revenue?
  • In 2 of the last 5 years were funds moved out of utility without adequately funding O&M, capital projects & debt service
  • In 2 of the last 5 years were funds moved into utility to fund O&M, capital projects & debt service?
Distressed Criteria

• Some criteria use data that look back at past performance
  • Compliance data look back 5 years
  • Financial audits look back at least 1 year
• Also need criteria that look forward
  • Purpose is to project long-term viability, as much as possible
  • Revenue outlook – declining population with high rates
  • Flow moratorium
    • 90% Rule: average annual flow > 90% permitted flow
    • Statutory: cannot adequately treat additional wastes
• Population/mile of pipe
Rural areas have fewer customers per mile of water/sewer pipe than urban areas.
Non-Financial Distressed Criteria

Master Plan focus areas

- Organizational criteria
  - Flow moratorium
  - Low rates
  - On LGC Unit Assistance List for internal control issues

- Infrastructure criteria
  - Permit compliance
    - Drinking water treatment methods
    - Wastewater treatment plant discharges
  - Sewer overflows/mile of pipe

- Financial criteria – for context
- Some criteria overlap all focus areas

Elm City, Bailey struggle with state-issued sewer moratoriums

Posted 10/13/19

The Wilson Times
Financial Distressed Criteria

• LGC developing financial criteria
  • Quick ratio – measure of liquidity
  • Receivables ratio
  • Revenue in excess of expenditures, including debt service
  • Debt service coverage ratio
  • Operating margin
  • Percent depreciation
Agenda Item F
Education Element Update
• Purpose
  • To provide basic information on utility management and Master Plan best practice areas
  • To provide first steps that utilities can take to begin moving toward viability
• Based upon training developed in conjunction with the NC League of Municipalities
• Adaptable to VUR process
VUR Education Element Adaptation

• Customized specifically to distressed units
• Customization
  • Discussion as to why system is distressed
  • Utility-specific data for benchmarks
  • Discussion of path forward for specific utility in place of final case study
VUR Education Element Components

• Initial orientation
• One-day overview
  • Basics of water and wastewater utilities
  • Organizational, infrastructure and financial management
  • Initial steps in each area
• Additional, specific training
  • Finance officers
  • System operating staff
  • Elected officials
Agenda Item G
Implementation Process
Implementation Process Elements

• Element 1 – Local government unit assessment
  • Develop distressed criteria
  • Identify distressed units

• Element 2 – Education

• Element 3 – Implement action plans
Element 1: Identify Distressed Units – Initial Units

• Identify initial units (prior to all criteria being finalized)
  • Those already taken over by LGC (Eureka, Cliffside Sanitary District)
  • Others / may be “on verge” of takeover

• Begin work with initial prioritized units
  • Orientation and initial education
  • “Table top” overall assessment
  • Willing to engage in developing solutions? If not?
  • Asset assessment, rate study, MRF, etc.
**Element 1: Identify Distressed Units – Non-Initial**

- Finalize criteria, distressed list and priorities
  - Higher priority
    - Work with as much as possible with staff resources available
    - Orientation meeting
  - Lower priority
    - Send letter identifying reasons they are on the list
      - They could begin work on these issues, but not yet required to
      - Optional reply to letter; work they are already doing
    - May be able to resolve on their own / be removed from list
    - Could engage help of League of Municipalities, Rural Water Association, SERCAP, COGs, etc.
Element 2: Education

- Required for elected officials and utility staff
- Initial and continuing education
Element 3: Implement Action Plans

- Asset assessment
- Rate study
- Short-term plan
  - Implementable by unit
    - Within their ability
    - With help from technical assistance organizations
    - Some potential VUR funding
  - Short-term rate change
  - Infrastructure repair, maintenance, management
  - Additional operations and maintenance activities
Element 3: Implement Action Plans

• Long-term plan to ensure viability
  • Infrastructure plan
  • Financial plan to generate sufficient revenue to facilitate the provision of reliable water or wastewater services and adequately fund:
    • Management
    • Operations
    • Personnel
    • Appropriate levels of maintenance
    • Reinvestment
Element 3: Implement Action Plans

- Use of funds from Viable Utility Reserve
  - Asset assessment
  - Rate study
  - Merger/regionalization options – may be solution for many systems
  - Interconnection
  - Decentralization into smaller viable parts
  - Rehabilitation/replacement of infrastructure
  - Other options deemed feasible
  - Emergency operating deficit – limited to 3 consecutive fiscal years, not to exceed $750,000/fiscal year
Implementation Steps

• Authority & LGC approve criteria and distressed list
• Authority & LGC approve expenditures of VUR funds
  - General approval to spend funds for evaluation process: asset assessments, rate studies, hiring outside consultants, etc., up to some amount
  - Does not include commitment or expenditure of large amounts of VUR funds for construction projects
Agenda Item H
Future Committee Meetings
Future Committee Meetings

• Oct. 7 – action may be needed to make recommendation to full Authority on Oct. 14

• Oct. 26

(LGC will meet on Nov. 10)

• Before Nov. 18 – may need an Authority meeting on Nov. 18 to take action after LGC actions

• Before Dec. 9 – Authority meeting on Dec. 9
Agenda Item I
Concluding Remarks
Sept. 16, 2020

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