Sept. 17, 2020

State Water Infrastructure Authority
Department of Environmental Quality
Division of Water Infrastructure
Agenda Item B
Approval of Meeting Minutes

Agenda Item C
Attorney General’s Office Report
Agenda Item D
Chair’s Remarks
Agenda Item E
Scott Dadson, Executive Director
Isothermal Planning & Development Commission
Agenda Item F
Cliffside Sanitary District Update
Mike Myers, President
Carr McLamb, COO and General Counsel
Envirolink
Agenda Item G
Division of Water Resources
Asheville Regional Office
Landon Davidson, Water Quality Supervisor
Tim Heim, Engineer
Mikal Willmer, Environmental Specialist
Agenda Item H
Emergency Operating Funds for Town of Eureka and Cliffside Sanitary District
Item H – Emergency Operating Funds

• Town of Eureka
  • FY 2019-20: Authority awarded $200,000 in Sept. 2019 from State Reserve
  • FY 2020-21: Amount requested by LGC = $85,000; funds from Viable Utility Reserve

• Cliffside Sanitary District
  • FY 2019-20: Authority awarded $150,000 in Feb. 2020 from State Reserve
  • FY 2020-21: Amount requested by LGC = $25,000; funds from Viable Utility Reserve
Agenda Item I
2021 Authority Meeting
Schedule
## Item I – 2021 Authority Meeting Schedule

<table>
<thead>
<tr>
<th>Proposed Dates of Regular Meetings in 2021</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>February 10</strong></td>
</tr>
<tr>
<td><strong>March 10</strong></td>
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<tr>
<td><strong>April 14 - 15</strong></td>
</tr>
<tr>
<td><strong>July 14</strong></td>
</tr>
<tr>
<td><strong>September 15 - 16</strong></td>
</tr>
<tr>
<td><strong>October 13</strong></td>
</tr>
<tr>
<td><strong>December 8</strong></td>
</tr>
</tbody>
</table>
Agenda Item J
Fiscal Year 2019-2020
Authority Annual Report
• Legislation requires Authority annual report by Nov. 1; part of Division’s annual Report

• July 8, 2020 – Authority reviewed draft and provided comments
  • Include Viable Utility Reserve (VUR) legislation – became law as a result of continued work of the Authority
  • Recommend reliable, continued funding for VUR

• Comments addressed
  • Changes highlighted in yellow in revised draft report
  • Pages 1, 9, 12, 14, and 15
Options for today

1. Approve revised FY 2019-2020 Annual Report as is

2. Provide additional comments today and/or email additional comments by Sept. 25
   (Francine.Durso@ncdenr.gov)
   • Staff will make changes and send revised report
   • Final approval by Authority at Oct. meeting
Agenda Item K
Viable Utility Reserve
Item K – Viable Utility Reserve (VUR)

• Signed into law by Governor on July 1 (Session Law 2020-79)
• Requires assessment of local government units
• Creates Viable Utility Reserve (VUR)
• $9 million non-recurring funding, but legislation allows:
  • 15 million to any single unit
  • $30 million for 2 or more forming single utility
• Appurtenant provisions
Item K – VUR Implementation Process Elements

- Element 1 – Local government unit assessment
  - Develop distressed criteria
    - 5 statutory criteria
    - Non-financial by Authority
    - Financial by LGC
    - Identify distressed units
- Element 2 – Education
- Element 3 – Implement Action Plans
VUR Element 1: 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?
VUR Element 1: 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
  • Population/mile of pipe
Master Plan focus areas

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

• Infrastructure criteria
  • Drinking water and wastewater treatment permit compliance
  • Sewer overflows/mile of pipe

• Financial criteria (LGC developing)

• Some criteria overlap all focus areas
VUR Element 1: 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
<table>
<thead>
<tr>
<th>Criteria</th>
<th>Standard</th>
</tr>
</thead>
<tbody>
<tr>
<td>System serves less than 10,000 customers</td>
<td>Service population is &lt;10,000&lt;br&gt;Weight = 1</td>
</tr>
<tr>
<td>Operations and Maintenance</td>
<td>Compliance Assessment&lt;br&gt;• DW: MCL violation; Open Treatment Technology Violations&lt;br&gt;• WW: WWTP Violations (Effluent or Inspection); Sanitary Sewer Overflows&lt;br&gt;Weight = 1</td>
</tr>
<tr>
<td>Annual debt service disproportionate to annual revenue</td>
<td>Debt Service Coverage Ratio (DSCR) &lt; 1.1&lt;br&gt;Weight = 1</td>
</tr>
<tr>
<td>Transfers Out in last five years</td>
<td>Transfers Out of Enterprise Fund in 2 of last 5 years AND&lt;br&gt;Surplus &lt; $0&lt;br&gt;DSCR &lt; 1.1 or&lt;br&gt;DSCR Test Project &lt; 1.1&lt;br&gt;Weight = 1</td>
</tr>
<tr>
<td>Transfers In last five years</td>
<td>Transfers into Enterprise Fund in 2 of last 5 years&lt;br&gt;Weight = 1</td>
</tr>
</tbody>
</table>
## VUR Element 1: Distressed Criteria – Authority

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Standard</th>
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</thead>
<tbody>
<tr>
<td>Control Issues</td>
<td>On the Unit Assistance List for control issues (not financial) or on the list for an audit not yet submitted (FY19) Weight = 1</td>
</tr>
<tr>
<td>Revenue Outlook</td>
<td>Population rate &lt;0.0% AND the rates criteria exceeded Weight = 4</td>
</tr>
<tr>
<td>Affordability</td>
<td>&gt;= 4 of the 5 affordability parameters are worse than state benchmarks Weight = 1</td>
</tr>
<tr>
<td>Flow Moratorium</td>
<td>Yes or no Weight = 4</td>
</tr>
<tr>
<td>Rates</td>
<td>Combined rates &gt;$100&lt;br&gt; DW only – rates &gt; $50&lt;br&gt; WW only – rates &gt; $60 Weight = 1</td>
</tr>
<tr>
<td>Customer Density - Distribution System</td>
<td>Service Population / Miles of pipe &lt; 100&lt;br&gt; Weight = 1</td>
</tr>
<tr>
<td>Customer Density - Collection System</td>
<td>Service Population / Miles of pipe &lt; 100&lt;br&gt; Weight = 1</td>
</tr>
</tbody>
</table>
**VUR Element 1: Distressed Criteria - Financial**

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Standard</th>
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</thead>
<tbody>
<tr>
<td>Revenue Surplus</td>
<td>Operating revenues are less than operating expenditures and debt service</td>
</tr>
<tr>
<td></td>
<td>Weight = 2</td>
</tr>
<tr>
<td>Test Debt (when system has no debt)</td>
<td>DSCR for test project &lt; 1.1</td>
</tr>
<tr>
<td></td>
<td>Weight = 1</td>
</tr>
<tr>
<td>Operating Margin</td>
<td>Operating margin is &lt; 0</td>
</tr>
<tr>
<td></td>
<td>Weight = 1</td>
</tr>
<tr>
<td>Depreciation of Assets</td>
<td>Depreciation &gt; 50%</td>
</tr>
<tr>
<td></td>
<td>Weight = 1</td>
</tr>
<tr>
<td>Uncollected revenues</td>
<td>Receivables Ratio &gt; 2 (Avg or trend)</td>
</tr>
<tr>
<td></td>
<td>Weight = 1</td>
</tr>
<tr>
<td>Liquidity</td>
<td>Quick ratio is less 1.1</td>
</tr>
<tr>
<td></td>
<td>Weight = 1</td>
</tr>
</tbody>
</table>

*For context only*
VUR Element 1: Distressed Criteria

- Overall score of 9 (water and sewer utilities) or 8 for single-provider utilities
- Approximately 100 utilities would numerically be considered distressed
- Some missing data which could increase the number meeting the threshold for distressed
- Case-by-case basis to move units in or out of distressed criteria
- Authority and LGC establish frequency of assessment (not to exceed every 2 years)
VUR Element 2: Education Overview

• 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 Element 2: Education 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 Element 2: Education 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
VUR Element 3: Implement Action Plans

- Asset assessment
- Rate study
- Short-term plan
  - Rate change
  - Infrastructure repair, maintenance, management
  - Additional operations and maintenance activities
- Long-term plan to ensure viability
  - Infrastructure plan
  - Financial plan to generate sufficient revenue
VUR 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
  • Proceed to designate a few units for finalizing criteria (depending on timeline)
  • Approve criteria
  • Designate list based on criteria

• Authority & LGC approve expenditures of VUR funds
  • General approval to spend funds for evaluation process
  • Later, approve funds for construction projects
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
Remarks by Authority Members, Chair and Counsel
THE NEXT AUTHORITY MEETING WILL BE HELD ON OCT. 14, 2020 TENTATIVELY IN RALEIGH AT THE ARCHDALE BUILDING