

State Water Infrastructure Authority

Meeting Date: July 16, 2024

Agenda Item M

Approval of Minimum Criteria for Asset Assessment and Rate Study Requirements

Division of Water Infrastructure Staff Report

Background

Session Law 2020-79, entitled in part “An Act to Improve the Viability of the Water and Wastewater Systems of Certain Units of Local Government...”, requires that any local government unit (LGU) designated as distressed by the State Water Infrastructure Authority (Authority) and the Local Government Commission (LGC) complete an asset assessment and rate study, **as directed and approved by the Authority and the Local Government Commission**, per G.S. 159G-45(b)(1). The purpose of this staff report is to request Authority approval of the key elements of asset assessments and rate studies conducted by distressed LGUs. Note that at its meeting subsequent to approval by the Authority, the LGC must review and approve this item for its formal adoption.

Minimum Criteria for Approved Asset Assessment and Rate Study

Approved asset assessments for distressed LGUs must include the following complete elements:

- An Asset Management Plan (AMP), including:
 - Asset inventory tables for all asset **classes** (treatment works, storage tanks, pump stations, mains and laterals, valves, meters, and other appurtenances)
 - Condition and criticality assessments for each individual asset
 - Rehabilitation and Replacement plans for each asset **or asset class**
 - Operation and Maintenance (O&M) program description and details addressing each asset **class**
 - Estimated costs and schedules for Rehabilitation and Replacement and O&M
- Accurate map(s) with geolocated assets identified

Rate studies should be performed in conjunction with or after the completion of an AMP, as described above, and align with the planning period covered by the AMP and resulting CIP.

Approved rate studies for distressed LGUs must:

- Include a narrative explaining goals and objectives, sources of data, assumptions, explanation of the analyzed scenarios, and conclusions and recommendations.
- Utilize at least one year of historical income and expense values from audited financials (three years recommended).

- Estimate expenses in the following categories at least through the next ten years (20+ years recommended) and clearly identify the factors used to determine increases or decreases in those projected expenses (e.g., inflation, energy demands, labor and personnel, etc.):
 - Operation and maintenance, capital expenses (outlay), debt service, and reserve contributions.
- Calculate the projected Net Surplus (Deficit) and reserve fund balance effects for each year of the projections **for each scenario**.
- Present a proposed rate scenario that meets full-cost pricing¹ by the end of the fifth year (other scenarios may also be included).
- Contain an analysis of the revenue requirements for each proposed rate scenario.
- Estimate the effect on the potential water/sewer bill for the average customer within each customer class (e.g., Residential – In Town, Residential – Out of Town, etc.) via customer comparison tables.
- **Outline the frequency and basis of recurring rate check-ups (i.e. annually), and performing a new, full rate study based on significant changes to projected revenues and/or expenses (i.e. every 3-5 years).**
- Include supporting documentation of data source(s), typically placed in appendices (e.g., water usage info, rate sheets, financial statements, CIP, debt service table, etc.).

To ensure the distressed LGU and its staff are appropriately engaged in the asset assessment and rate study:

1. The LGU shall assign and provide lead staff for the assessment and rate study (e.g., Utility Director, Town Manager or Administrator, **Financial Director or Officer**, ORC).
2. **The study results and rate recommendations must be presented to the LGU’s governing board and submitted to the Division.**
3. After the presentation, the LGU’s governing board shall take action to accept the report and shall consider the rate study results and recommendations.
4. Minutes from the meeting where the asset assessment and rate study were presented and the LGU’s governing board discussed and/or took action on rates shall be provided to the Division.

¹Full-cost pricing is a pricing strategy that considers short- and long-term O&M expenses (including personnel costs), debt service, and rehabilitation, replacement, and upgrade costs necessary to preserve the utility’s ability to deliver safe, reliable, and affordable water and wastewater service to their customers, well into the future, without relying on grant funding.

Recommendation

Division staff recommend that the Authority adopt the minimum criteria for approved asset assessments and rate studies as itemized above.²

² Adoption by the LGC will occur after adoption by the Authority.