

**State Water Infrastructure Authority
November 18, 2020 Meeting**

Agenda Item F – Distressed Unit Identification and Allocation of Viable Utility Reserve Funds

Division of Water Infrastructure Staff Report

Background

Session Law 2020-79 authorizes the State Water Infrastructure Authority (Authority) and Local Government Commission (Commission) to utilize the assessment and review process to identify distressed units, to develop evaluation criteria for grants from the Viable Utility Reserve and, in their discretion, impose specific performance measures or conditions on any grant awarded from the Viable Utility Reserve.

Note that at its meeting on November 10, 2020, the Commission identified the four (4) units listed below as Distressed Units, adopted the initial evaluation criterion, and adopted the allocation of Viable Utility Reserve Funds.

The Viable Utility Committee reviewed the following information at its meeting held on Nov. 13, 2020.

Distressed Unit Identification

Based on the assessment, review, and Identification Criteria, the Division and Commission staffs propose that the following four (4) units be identified as distressed (Distressed Units). The attachment provides more information about each unit.

1. The Town of Eureka (meeting Identification Criteria 1: A unit whose fiscal affairs are under the control of the Commission pursuant to its authority granted by G.S. 159-181 (“under Commission fiscal control”)),
2. Cliffside Sanitary District (meeting Identification Criteria 1: A unit whose fiscal affairs are under the control of the Commission pursuant to its authority granted by G.S. 159-181 (“under Commission fiscal control”)),
3. The Town of Bethel (meeting Identification Criteria 3: A unit with a total Assessment Criteria score that equals or exceeds 9 for units providing both drinking water and wastewater services), and
4. The Town of Kingstown (meeting Identification Criteria 3: A unit with a total Assessment Criteria score that equals or exceeds 8 for units providing only one service, either drinking water or wastewater).

Initial Evaluation Criterion for Grants from the Viable Utility Reserve

The Division and Commission staff propose the following as the initial evaluation criterion for grants from the Viable Utility Reserve: units that been identified as Distressed Units.

Allocation of Viable Utility Reserve Funds

The Division and Commission staffs propose that an allocation of Viable Utility Reserve funds be made for the purpose of rate studies, asset inventories and assessments, and/or merger and regionalization studies for the four (4) units listed above, if the Authority identifies them as Distressed Units. Division staff prepared the following cost estimates of the initial work tasks to be completed for the four (4) units listed above.

Unit: Town of Eureka		
Regional opportunities with other nearby units: Yes		Other units need evaluation: Yes at a later date
Service Provided	Initial Work Tasks	Estimated Cost
Sewer only	Sewer Asset Assessment	\$150,000
	Sewer Merger/Regionalization Study	\$100,000
	Rate Study	\$100,000
Total		\$350,000

Unit: Cliffside Sanitary District		
Regional opportunities with other nearby units: No		Other units need evaluation: No
Service Provided	Initial Work Tasks	Estimated Cost
Sewer only	Sewer Asset Assessment	\$150,000
	Alternatives Analysis	\$150,000
	Rate Study	\$100,000
Total		\$400,000

Unit: Town of Bethel		
Regional opportunity with other nearby units: Yes		Other units need evaluation: No
Service Provided	Initial Work Tasks	Estimated Cost
Water and Sewer	Preliminary Rates Analysis	\$50,000
	Merger Agreement Review	\$50,000
Total		\$100,000

Unit: Town of Kingstown		
Regional opportunities with other nearby units: Yes		Other units need evaluation: Yes at a later date
Service Provided	Initial Work Tasks	Estimated Cost
Sewer only	Sewer Asset Assessment	\$150,000
	Rate Study	\$100,000
Total		\$250,000

Staff Recommendations

Staff recommends that the Authority approve the following action items:

1. The Authority identifies and designates the following units as Distressed Units: the Town of Eureka, Cliffside Sanitary District, the Town of Bethel and the Town of Kingstown.
2. The Authority approves the initial evaluation criterion for grants from the Viable Utility Reserve as: units that have been identified as Distressed Units.
3. The Authority approves the allocation of Viable Utility Reserve funds as shown in the tables above as listed for the four (4) Distressed Units for the purposes of rate studies, asset inventories and assessments, alternatives analyses, and merger and regionalization studies.

This action would parallel the action taken by the Local Government Commission on November 10, 2020.

**Attachment for Agenda Item F.
Distressed Unit Assessment Information**

Local Government Unit Name	Eureka	Cliffside Sanitary District	Bethel	Kingstown
Utility Type	WW	WW	BOTH	WW
LGC Assumed Control	Yes	Yes		Notice
Emergency Grants Operating Deficit	FY 20: \$200,000 FY 21: \$85,000	FY 20: \$150,000 FY 21: \$25,000		
Total Score	6	4	17	11
Service Population	222	Unknown (81 connections)	1,753	510
% Pop Change (2014 - 2018)	24.72%	-0.97%	-4.42%	-29.75%
Affordability Exceedances	3	NoData	5	5
Years Audit Missing	2019	2019 & 2018		2019
UAL (Control Issues)	AUDIT NOT YET SUBMITTED	AUDIT NOT YET SUBMITTED	Medium Risk	AUDIT NOT YET SUBMITTED
UAL (W/S Financial Issues)			High Risk	
DW Compliance				
WW Compliance				
Distressed Indicators				
Flow Moratorium				
WW Collection System Compliance				
DW Rate \$/5000 gal (2019 inside)			\$ 61.20	
WW Rate \$/5000 gal (2019 inside)	\$ 99.05	\$ 55.05	\$ 73.10	\$ 67.00
Combined Rate \$/5000 gal (2019 inside sum)			\$ 134.30	
DW Pop / Mile	WW Only	WW Only	138	WW Only
Sewer Pop / mile	NoData	36	63	NoData
Debt Service Coverage Ratio	NoData	NoData	0.26	NoData
Surplus (deficit) w/ Debt	NoData	NoData	\$ (290,502)	NoData
Surplus If No Debt w/ \$1 M Test Project	NoData	NoData		NoData

Percent Depreciation	NoData	NoData	32.90%	NoData
Operating Margin	NoData	NoData	(0.47)	NoData
Annual Debt Service	NoData	NoData	\$ 393,675	NoData
Days Cash on Hand	NoData	NoData	0	NoData
No Debt DSCR Test	NoData	NoData		NoData
Quick Ratio	NoData	NoData	0.6	NoData
Receivables Ratio 2019	NoData	NoData	3.8	NoData
Receivables Ratio Trend (#>= 0.2)	LimitedData	LimitedData	Yes	LimitedData
Transfer In (2019)	\$ 0	\$ 0	\$ 0	\$ 0
Transfer In - # of Years	0	0	0	0
Transfer Out (2019)	\$ 0	\$ 0	\$ 0	\$ 0
Transfer Out - # of Years	0	0	0	0

Additional Information:

- Eureka
 - Average surplus (revenue – expenditures – debt service) = – \$87,890 for 2015 – 2018
 - Collection system has significant inflow and infiltration – sewer treatment charges based on actual flow; revenue shortfall is dependent on rainfall
 - Wastewater is treated at the City of Goldsboro via the Town of Fremont’s collection system
- Cliffside Sanitary District
 - Average surplus (revenue – expenditures – debt service) = – \$13,101 for 2015 – 2017
 - Board (all) resigned in 2019
 - Wastewater treatment facility design capacity is 1.75 MGD while actual average flows are 0.047 MGD
 - Significant inflow and infiltration in collection system
- Bethel
 - Average surplus (revenue – expenditures – debt service) = – \$298,065 for 2015 – 2019
 - Received \$4.3 million in Wastewater Reserve Grant funding and DWSRF Principal Forgiveness in February 2020 for wastewater and drinking water infrastructure capital projects and an asset inventory and assessment grant for wastewater.
 - Received priority points for resolving non-viable utility issues (Bethel indicated nonviability on the application)
 - Currently negotiating with Greenville Utilities Commission on merging; impacts to rates are unknown at this time

- Kingstown
 - Average surplus (revenue – expenditures – debt service) = – \$25,911 for 2015 – 2018 ; one year with a surplus of \$1,296
 - City of Shelby currently manages sewer operations
 - Kingstown is not current on payments (+/- \$200,000) to Shelby for operational services
 - Isothermal Planning and Development Commission (COG) is performing bookkeeping for the town