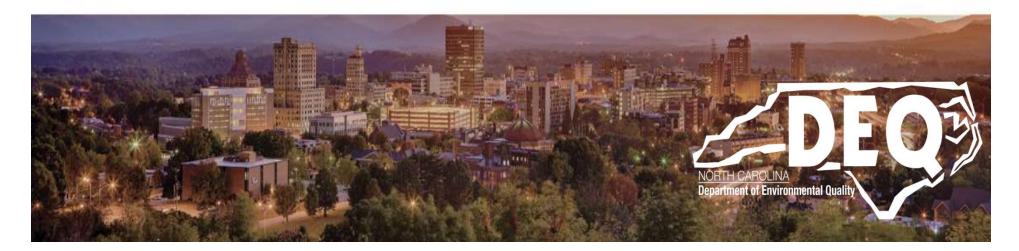
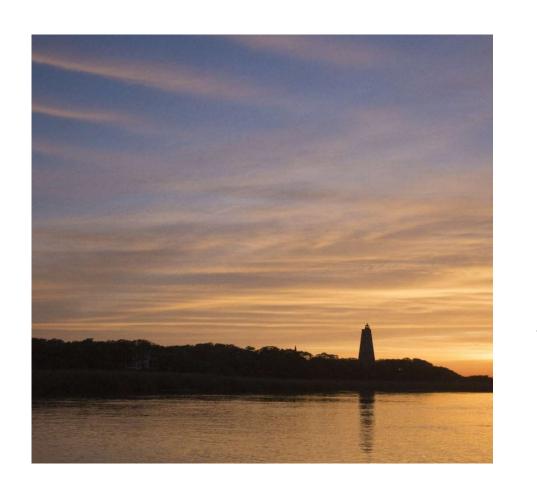


Sept. 17, 2020

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







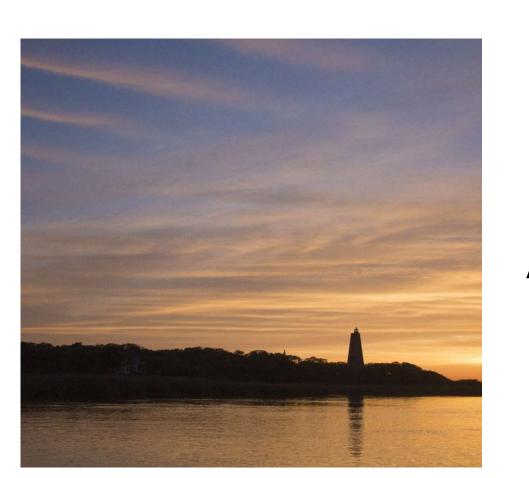
Agenda Item I **2021 Authority Meeting** Schedule



Item I – 2021 Authority Meeting Schedule

Proposed	I Dates of R	Regular Mee	tings in 2021

February 10	2nd Wed	Raleigh
March 10	2nd Wed	Raleigh
April 14 - 15	2nd Wed & Thurs	Outside of Raleigh (hear from local governments/utilities)
July 14	2nd Wed	Raleigh
September 15 - 16	3rd Wed & Thurs	Outside of Raleigh (hear from local governments/utilities)
October 13	2nd Wed	Raleigh
December 8	2nd Wed	Raleigh
		10



Agenda Item J **Fiscal Year 2019-2020 Authority Annual Report**



Item J – FY 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



Item J – FY 2019-2020 Authority Annual Report

Options for today

- 1. Approve revised FY 2019-2020 Annual Report as is
- Provide additional comments today and/or email additional comments by Sept. 25 (<u>Francine.Durso@ncdenr.gov</u>)
 - 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 <u>out of utility</u> without adequately funding O&M, capital projects & debt service
- In 2 of the last 5 years were funds moved <u>into utility</u> 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

VUR Element 1: Non-Financial Distressed Criteria

Master Plan focus areas

- Organizational criteria
 - Flow moratorium
 - Low rates

Elm City, Bailey struggle with state-issued sewer

moratoriums

Posted 10/13/19 The Wilson Times

- On LGC Unit Assistance List <u>for internal control</u>
 <u>issues</u>
- 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



VUR Element 1: Distressed Criteria - Statutory

<u>Criteria</u>	<u>Standard</u>	
System serves less than 10,000 customers	Service population is <10,000 Weight = 1	
Operations and Maintenance	 Compliance Assessment DW: MCL violation; Open Treatment Technology Violations WW: WWTP Violations (Effluent or Inspection); Sanitary Sewer Overflows Weight = 1 	
Annual debt service disproportionate to annual revenue	Debt Service Coverage Ratio (DSCR) < 1.1 Weight = 1	
Transfers Out in last five years	Transfers Out of Enterprise Fund in 2 of last 5 years AND Surplus < \$0 DSCR < 1.1 or DSCR Test Project < 1.1 Weight = 1	
Transfers In last five years	Transfers into Enterprise Fund in 2 of last 5 years Weight = 1	

VUR Element 1: Distressed Criteria – Authority

<u>Criteria</u>	<u>Standard</u>
Control Issues	On the Unit Assistance List for control issues (not financial) or on the list for an audit not yet submitted (FY19) Weight = 1
Revenue Outlook	Population rate <0.0% AND the rates criteria exceeded Weight = 4
Affordability	>= 4 of the 5 affordability parameters are worse than state benchmarks Weight = 1
Flow Moratorium	Yes or no Weight = 4
Rates	Combined rates >\$100 DW only – rates > \$50 WW only – rates > \$60 Weight = 1
Customer Density - Distribution System	Service Population / Miles of pipe < 100 Weight = 1
Customer Density - Collection System	Service Population / Miles of pipe < 100 Weight = 1

VUR Element 1: Distressed Criteria - Financial

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

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





