



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 Dates of Regular Meetings 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



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
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

VUR Element 1: 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
 - Drinking water and wastewater treatment permit compliance
 - Sewer overflows/mile of pipe
- Financial criteria (LGC developing)
- Some criteria overlap all focus areas

Elm City, Bailey struggle with state-issued sewer moratoriums
Posted 10/13/19
The Wilson Times



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 <ul style="list-style-type: none"> • 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



THE NEXT AUTHORITY MEETING WILL BE HELD ON
OCT. 14, 2020
TENTATIVELY IN RALEIGH AT THE
ARCHDALE BUILDING

