

Viable Utility Reserve Committee of the State Water Infrastructure Authority
North Carolina Department of Environmental Quality

October 7, 2020

Note: This meeting was held via WebEx due to the COVID-19 pandemic

Meeting Minutes

Viable Utility Reserve Committee Members Attending Meeting via WebEx or by Phone

- Kim Colson, Chair; Director, Division of Water Infrastructure
- Leila Goodwin, Water Resources Engineer
- Maria Hunnicutt, Manager, Broad River Water Authority

Division of Water Infrastructure Staff Attending Meeting via WebEx or by Phone

- Cathy Akroyd, Public Information Officer
- Linda Culpepper, Viable Utility Reserve Support
- Francine Durso, Senior Project Manager
- Jennifer Haynie, Environmental and Special Projects Unit Supervisor
- Susan Kubacki, Environmental Program Manager
- Jon Risgaard, State Revolving Fund Section Chief
- Amy Simes, Senior Program Manager

Item A. Call to Order

Mr. Colson opened the meeting and reminded the members of the Viable Utility Reserve Committee of the State Water Infrastructure Authority (Authority) of General Statute 138A which states that any member who is aware of a known conflict of interest or potential conflict of interest with respect to any matters before the Committee today is required to identify the conflict or potential conflict at the time the conflict becomes apparent.

Item B. Approval of Meeting Minutes

Mr. Colson presented the draft meeting minutes from the Sept. 16, 2020 Viable Utility Reserve Committee meeting for approval.

Action Item B:

- Ms. Hunnicutt made a motion to approve the Sept. 16, 2020 Viable Utility Reserve Committee meeting minutes. Ms. Goodwin seconded the motion. The motion passed unanimously.

Item C. Distressed Criteria Update

Since the last Committee meeting, staff has continued to refine data and integrate the LGC financial criteria into the distressed criteria model. Criteria that have been modified or added include:

- If a unit is behind in submitting audits for 2 years, they should be designated as distressed. There is a substantial risk when the LGC does not know the financial situation of a unit.
- The LGC staff modified the trends in bill collections to a higher threshold of 2.3 (previous threshold was 2) and an increase of 0.2 in each of last two years.
- Drinking water, wastewater and collection system compliance data were updated but the methodology has not changed.

Staff developed a criteria reference sheet with clearer definitions of the criteria. Committee members commented that the reference sheet is very clear and useful. Staff will use the reference sheet with the full Authority instead of reviewing the details of the spreadsheet, and the Committee agreed.

Staff noted that in some cases, there may be a need to elevate a unit into the distressed category because the available data do not reflect actual levels of needed capital investment, operations and maintenance, organizational capacity, etc. In other cases, there may be a need to remove a unit from the distressed category because the data may not accurately reflect the actual soundness of the unit, or the unit may have made changes in its system that are not yet reflected in the data.

Item D. Implementation Process

Staff prepared a draft document outlining the Viable Utility Reserve (VUR) legislation implementation process, entitled “Implementing SL 2020-79 Reform of Water and Wastewater Public Enterprises” and reviewed it with the Committee. The document summarizes the Viable Utility Reserve legislation; a proposed approach to the local government unit assessment which includes both the criteria and the identification of distressed units; education; and implementing action plans. The intended audience is the Authority and LGC members, but it can serve as the basis for other documents that can be used with local government units and the General Assembly. Ms. Goodwin will send review comments.

Staff presented a flow chart of the draft distressed system process and will update it as the process becomes more defined. The short-term action plan includes an asset assessment and rate study to determine early in the process if the utility can become financially sound.

Item E. Stakeholder Discussions Update

At the September 2020 VUR Committee meeting, the Committee suggested that staff discuss the possible pros and cons of being designated as distressed with key stakeholders. Staff spoke with the NC League of Municipalities, the leadership of the NC Association of Regional Councils of Governments (COGs) and will speak tomorrow with the NC Rural Water Association about these issues.

In general, the stakeholders expressed that the distressed designation would bring needed awareness to the General Assembly and others of the significant number of distressed utilities across the state that may fail. If units are made aware that they are distressed, they can begin to proactively address the situation. The designation will also help citizens understand their utility situation, so they are better informed to work together with elected officials on resolutions. They acknowledged that there is also the potential for the loss of possible economic development and possible impacts on real estate values. Overall, the improvements that may come about after being designated, such as possible access to grant funds not previously available, may result in a better economic outlook in the future. The legislative requirements for asset assessment, rate studies, elected official education and the implementation of action plans are thought to be able to make a real difference in turning around the situation in these units.

Committee members commented that it will be important that the work is a partnership between the units, the Division and the LGC, and to acknowledge when units are longer distressed.

Item F. Recommendations from Committee to Authority

Some units are already in a critical situation including those taken over by the LGC (Eureka and Cliffside Sanitary District) and others have received warning letters from the LGC. Staff sought input as to whether the Committee would recommend to the full Authority designating several initial units as distressed before the criteria are finalized and while the fuller process is still being developed. It will only be possible to begin work with a few units due to the limited staff resources of both the Division and the LGC. Staff also sought input as to whether the Committee would recommend to the full

Authority the authorization to use VUR funds for initial work tasks for the initial identified units, to include asset assessments to determine condition and infrastructure costs, rate studies to determine financial impacts to customers, and other possible initial studies such as alternative analyses. The Committee members discussed and agreed that these action items should be recommended to the full Authority at a future meeting.

Item G. Oct. 14, 2020 Joint Meeting of Authority and LGC Members

Staff reviewed the agenda for the Oct. 14, 2020 Special Joint Meeting of the Authority and the LGC members. The Committee discussed the need for a streamlined approach for how the two boards will take the same action items, each at their own meetings, to comply with the legislative requirement that both boards approve certain actions.

Item H. Future Committee Meetings

Future Committee meetings are scheduled for Oct. 30, Nov. 13, and Dec. 4, 2020.

Item I. Concluding Remarks by Committee Members

The Committee commented that the process is moving forward very well. Chair Colson thanked the Committee members for their time and willingness to serve on the Committee.

Item J. Adjourn – The Committee meeting was adjourned.