

**Viable Utility Reserve Committee of the State Water Infrastructure Authority**  
**North Carolina Department of Environmental Quality**  
**May 21, 2020**

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

**Meeting Minutes**

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**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
- Charles Vines, Mayor of Bakersville

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

- Cathy Akroyd, Public Information Officer
- 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
- Vince Tomaino, SRF Drinking Water Unit Supervisor

**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 (SWIA) 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 Authority today is required to identify the conflict or potential conflict at the time the conflict becomes apparent. Mr. Colson noted that this meeting is being held via WebEx. The PowerPoint slides for the meeting are visible via WebEx; video is not being used.

**Item B. Approval of Meeting Minutes**

Mr. Colson presented the draft meeting minutes from the April 8, 2020 Viable Utility Reserve Committee meeting for approval.

**Action Item B:**

- Mr. Vines made a motion to approve the April 8, 2020 Viable Utility Reserve Committee meeting minutes. Ms. Goodwin seconded the motion. The motion passed unanimously.

**Item C. Distressed Criteria Review**

The proposed Viable Utility Reserve legislation establishes minimum criteria that must be evaluated to determine if a unit is distressed, and also provides for additional criteria to be developed by the Authority and the Local Government Commission (LGC). Staff presented potential parameters for the Committee's consideration, with the goals of using data that are readily available and keeping the initial evaluation process as simple as possible. There will always be a need to evaluate the situation of individual utilities in more detail since each are unique. The evaluation uses the three master plan focus areas with some parameters that overlap among infrastructure, organizational and financial management. The financial data are shown for context only and the LGC will evaluate financial information in detail. The indicators to be discussed today are population, population change, compliance, infrastructure, rates and financials.

## Population and Population Change

The criteria contained in the proposed legislation include entities with populations of less than 10,000 to be considered distressed. Should the Authority consider additional weighting for very small communities?

Population change is important because it can correlate with the ability to pay for projects in the future, especially if customers use less water and the number of customers is decreasing. Overall population change in North Carolina is 4% with the median for towns and cities at 1.8%. However, the range is from 23% to negative 19%. A percent change of 0 or negative indicates a potential problem in the future.

Ms. Goodwin commented that population and population change might be weighted relatively low as indicators, perhaps even be a secondary indicator of future conditions.

## Compliance

Staff noted that because there may be many reasons that a utility is not in compliance, it is an indicator of possible issues but compliance must be considered in the context of other criteria and should not be used as a “stand alone” criteria. The following types of compliance indicators were discussed:

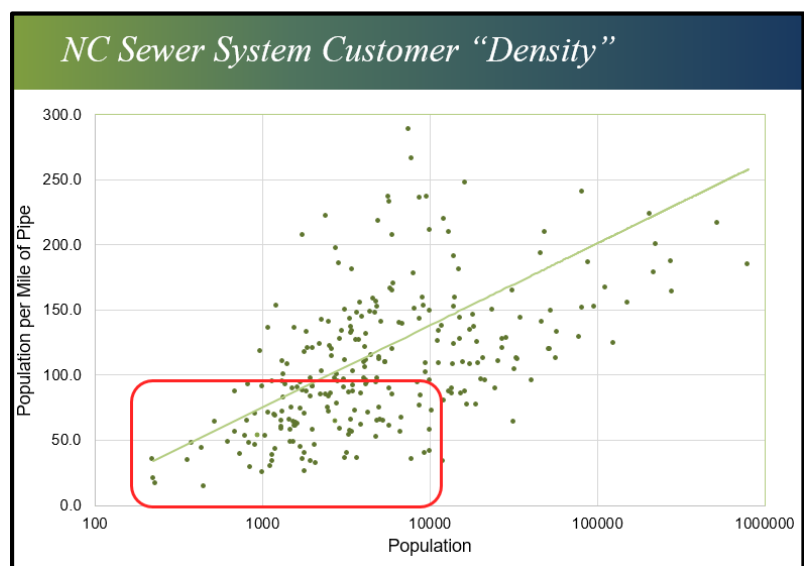
- For both discharge and non-discharge wastewater facilities – number of limit violations, the percentage of non-compliant inspections, and flow moratoria.
- For wastewater collection systems – number of sanitary sewer overflows (SSOs), number of SSOs per mile of sewer pipe, systems that have never reported an SSO, and systems that have not been inspected because they have an average daily flow of less than 200,000 gallons per day and are considered small enough to be “deemed permitted”. Staff noted that small “deemed permitted” systems that have self-reported SSOs or receive complaints are tracked and these issues may also serve as indicators.
- For drinking water systems – the number of maximum contaminant level (MCL) violations and if there are treatment technology violations.

Committee members commented that these make sense as individual indicators but once all the data are looked at collectively, they might have other thoughts on the compliance criteria.

## Infrastructure

Customer density is important because there is a general trend that smaller utilities have fewer people per mile of water pipe or sewer pipe. Smaller systems have fewer customers/mile of pipe who then have to pay more than customers in a larger system in order to maintain or replace that mile of pipe.

For example, wastewater collection systems in NC average about 107 people/mile of sewer, but the smaller systems have only 50 or fewer people/mile of sewer. Note that the largest systems, with populations of 20,000 or more, have over 150 people/mile of sewer – nearly 3 times the density of the smaller systems.



**NC Sewer System Customer Density**

Committee members commented on two items that might be of importance: how can systems that are primarily bulk sales be evaluated; and, are the smaller systems relatively old and perhaps had larger populations at one time that supported the infrastructure?

### **Rates**

Utility rates are important because they may be artificially low or may already be so high that they cannot reasonably be increased. Rates may be an indicator of possible issues but must be considered in the context of other criteria and should not be used as a “stand alone” criteria.

Staff considered single service systems (water only or sewer only) separately from combined systems (both water and sewer service). Looking at the 80<sup>th</sup> to 90<sup>th</sup> percentile range, staff found that:

- Drinking water bills are approximately \$50/month for 5,000 gallons (water service only).
- Wastewater rates are generally higher than water rates. Wastewater bills are approximately \$60/month for 5,000 gallons (sewer service only).
- Bills for combined water and sewer services are approximately \$100/month for 5,000 gallons.

Committee members and staff discussed the following regarding rates:

- Even for combined services, if either the water or sewer rate is significantly different from the other, that could indicate an issue.
- Do the data take into account that some very small communities have a very high percentage of low- to moderate-income (LMI) populations which can indicate affordability issues? Mr. Vines noted that in the Town limits of Bakersville, the LMI population is greater than 69 percent. It would be helpful to look at different sized systems and take affordability into account. Staff will evaluate this and let the Committee know how it would potentially change the indicators.

### **Financials**

The financials presented are only to provide general context for discussion but are not considered at the same level of detail as the LGC will evaluate.

Parameters include: transfers into or out of the enterprise fund (required by proposed legislation); debt service coverage ratio threshold of 1.1; whether the debt service is disproportionate to the revenue (required by proposed legislation); surplus revenue that includes debt (does the revenue cover expenditures plus debt service?); surplus revenue that includes a “test” debt amount of \$1 million if the entity has no existing debt; percent depreciation; operating margin including depreciation; whether the entity is included on the LGC’s Unit Assistance List (UAL); and days cash on hand.

Staff noted that the \$1 million used for the “test” debt is a minimal project cost, even for smaller utilities. A high percent depreciation may indicate that a system is old and in need of a considerable amount of work.

Committee members commented that these parameters are very familiar and reasonable. The information is readily available from reports generated by the entities themselves. Days cash on hand is difficult to define and can be highly variable, and is not a good “stand alone” indicator. The idea of a “test” debt is useful because some older systems may have been built with all grant funds and may not have ever taken on any debt.

### **General Discussion**

Staff asked if the Committee believes this work is heading in the right direction; should some things be weighted more than others; and if other criteria should be considered.

The Committee stated that this work is on the right track and that as much information as possible has been captured at this “first cut” stage. The challenge will be applying the criteria because each situation will be unique. It will be important for entities to envision where they will be in several years, not just where they are today. Staff agreed that it is hard to get a complete picture of future years because the data are from previous years. It will take one-on-one work with systems to look down the road.

**Item D. Educational Component Update**

Staff has continued to refine the draft materials for the required elected officials workshop, and continues to work with the NC League of Municipalities (NCLM) toward a workshop in July or August, depending on the ability to resume larger in-person meetings. Staff plans to hold an in-person dry-run of the workshop on June 24 if possible. The workshop would be difficult to conduct virtually because interaction among attendees and small breakout sessions are key components of the workshop.

**Item E. Future Committee Meetings**

The next Committee meeting is scheduled for June 25, 2020. Future 2020 Committee meetings are proposed to be held during the week of August 10, on Sept. 16, and during the week of Oct. 26. The June meeting might have to be held via WebEx. Mr. Colson asked the Committee members to email staff if they have conflicts with the proposed weeks or dates.

**Item F. Concluding Remarks by Committee Members**

Mr. Vines noted that he is not seeking reappointment to the State Water Infrastructure Authority. The work of the Authority is admirable and he is very glad that he has had the opportunity to serve.

Ms. Goodwin and Ms. Hunnicutt thanked Mr. Vines for his work and dedication, and that it has been an honor to work with him.

Mr. Colson also thanked Mr. Vines for his many years of work with the Authority and for the important perspectives that he has brought forward on many issues.

**Item G. Adjourn** – The Committee meeting was adjourned.