

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

June 25, 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
- 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 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 May 21, 2020 Viable Utility Reserve Committee meeting for approval.

Action Item B:

- Ms. Goodwin made a motion to approve the May 21, 2020 Viable Utility Reserve Committee meeting minutes. Mr. Vines seconded the motion. The motion passed unanimously.

Item C. Legislation Updates

House Bill 1087 contains the Viable Utility Reserve (VUR) legislation and has been moving forward recently. The bill was passed by the House and sent to the Senate. The Senate introduced amendments that were not related to the VUR, but were related to the Dept. of Environmental Quality; the bill passed and was sent to the House for concurrence. The House did not concur. Conferees have been appointed by both the House and the Senate. The legislature is planning to adjourn, so action may be taken today.

Item D. Distressed Criteria Review

The proposed VUR 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). As discussed at the May 21, 2020 Committee meeting, the purpose of applying these criteria is to initially identify entities that are or might become distressed, noting that a

more detailed evaluation of the situation of individual utilities would still be needed, since each are unique. If an entity is identified as distressed, it does not mean that the entity is non-viable but clearly the entity is under some kind of stress related to its water and/or wastewater system.

Based on discussion at the last meeting and additional work, staff presented ideas for new parameters or changes to some of the parameters, as follows:

Criteria Weight

Staff evaluated weighting some criteria more heavily than others to indicate the relative importance of that criterion to the distress of an entity. Additional weight applied for today's analysis are:

- Internal Control Issues – If the entity is identified as having Internal Control Issues on the LGC's Unit Assistance List, weight at 3. Internal control issues are reflective of an entity's organizational management. At this time, use of this criterion is one of the few ways to evaluate whether an entity's elected officials are ensuring that the entity's assets and accounting records are properly protected and managed, and that best practices are followed.
- Wastewater Flow Moratorium – If the entity is under a flow moratorium, weight at 2. An entity that is under a moratorium cannot expand and therefore cannot generate revenue from new customers. This may limit the amount of revenue that the entity will ever have the capacity to generate. It was noted that only a few entities are under a flow moratorium.
- Revenue Outlook – This is a new parameter that is an indication of the entity's ability to generate revenue in the future by considering population change combined with utility rates. If rates are already high and the population is shrinking, the entity will generate less revenue over time. Also, if the population is small, even a large rate increase would generate very little additional revenue. If an entity's ability to generate revenue does not appear to be sustainable, weight at 6.

Compliance Parameters

Compliance can be an indicator of whether an entity is providing sufficient funds for proper operations and maintenance (O&M) practices such as keeping all required equipment functioning adequately, meeting permit limits, etc. Non-sufficient funding of O&M is also linked to another parameter – the transfer of funds out of the enterprise fund instead of using those funds for proper O&M.

In the previous analysis for wastewater systems, WWTP compliance and collection system compliance were counted as two separate items. Staff recommends that if an entity has compliance issues in either area or in both areas, this be counted as one item.

Affordability

The entity's economic indicators used in the affordability criteria have been added as a new parameter. If at least 4 of the 5 affordability parameters are worse than the state benchmarks, this can indicate distress.

Debt Service Coverage Ratio (DSCR)

Previously, a DSCR of 1.0 was used in the analysis. A DSCR of 1.1 is more representative of an appropriate level, meaning that the entity has some funds over that needed to cover its debt service. If an entity does not have any debt, a "test project" of \$1 million is evaluated.

General Discussion

Staff explained that this updated analysis is still a starting point and additional work is needed. Staff is still working to find missing data for many entities; the number of missing data for each entity is indicated in a spreadsheet column.

The analysis includes only water or wastewater utilities owned by local government units; it does not include private or non-profit utility systems.

Question: What numbers are being used for population? Answer: Mostly the population of the town or the service area. It is difficult to verify the population served by county systems because the entire county is not usually served; staff is working to find more accurate information, if available.

Q: Could the number of connections be used? A: This information is not readily available, and, keeping in mind that this approach is to establish a starting point to begin conversations with distressed units, exact numbers aren't crucial at this level of analysis.

Q: Would it be an advantage for a small county to consolidate its small systems? A: There is often an advantage to regionalize to enable centralized management, billing, purchasing, staffing, etc. The systems would not need to be physically connected. The Committee discussed that this would be beneficial on a case-by-case basis, recognizing that some counties may not have the resources or expertise to run utility systems.

Staff asked if the Committee believes this work is heading in the right direction and if the Division could begin to discuss the approach with some key stakeholders, including the NC League of Municipalities, NC Rural Water Association, NC Rural Economic Development Center, the NC Councils of Government (COGs) and others.

The Committee stated that this work is on the right track and that the time is right to reach out to stakeholder organizations for their input.

Item E. Educational Component Update

Staff continues to refine the draft materials for the elected officials training that is required as part of the VUR process. The COGs are interested in partnering with the Division for the training by inviting participants and supporting their members throughout the VUR process. Staff also continues to work with the NC League of Municipalities toward workshops they will sponsor, but these would probably not be held until 2021.

Any of the elected official workshops would be difficult to conduct virtually because interaction among attendees and small breakout sessions are key components of the workshop.

Item F. Future Committee Meetings

Future 2020 Committee meetings are proposed to be held during the week of August 17, on Sept. 16, and during the week of Oct. 26. However, the Division noted that discussing the approach with the stakeholder organizations will some take time and it is likely that there will not be new information ready for a meeting in August. Mr. Colson asked the Committee members to email staff if they have conflicts with the proposed dates.

Item G. Concluding Remarks by Committee Members

The Committee commented that the information presented is understandable and today's discussion was very helpful, noting that other issues may become apparent as the process moves forward.

Ms. Goodwin and Ms. Hunnicutt thanked Mr. Vines for his work and dedication. Mr. Colson also thanked Mr. Vines for his many years of work with the Authority and work for the wellbeing of the State.

Item H. Adjourn – The Committee meeting was adjourned.