

Viable Utility Reserve Committee of the State Water Infrastructure Authority

North Carolina Department of Environmental Quality

September 16, 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

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

Action Item B:

- Ms. Hunnicutt made a motion to approve the June 25, 2020 Viable Utility Reserve Committee meeting minutes. Ms. Goodwin seconded the motion. The motion passed unanimously.

Item C. Joint Meeting of Authority and LGC Board

The Viable Utility Reserve (VUR) legislation provides for both the Authority and the Local Government Commission (LGC) to approve criteria, grant awards and performance measures. Division staff and LGC staff propose that the two boards meet each other virtually on Oct. 14, 2020, to discuss the VUR legislation and actions that will be needed to implement it.

Item D. Stakeholder Discussions Update

At the June 2020 VUR Committee meeting, staff proposed discussing the VUR implementation approach with key stakeholders. Since that time, staff has held discussions with the NC League of Municipalities, NC Councils of Government (COGs), and the NC Rural Water Association. The organizations are supportive of the approach and offered a few suggestions, including using a higher weighting for flow moratoriums and ensuring that not all units that may be distressed will be required to begin all action items immediately.

Item E. Distressed Criteria Review

Since the last Committee meeting, staff has continued to refine data and integrate Committee and stakeholder feedback. As discussed with the LGC staff, it will be most useful to include the financial criteria in the spreadsheet, resulting in a single scoring tool. Based on this work, staff presented data updates, suggestions for new parameters, and changes to some parameters, as follows:

1. Data Updates

- Service population updated for some county systems from Local Water Supply Plan information.
- The latest Unit Assistance List from LGC staff has been incorporated.
- Although sewer pipe length data are missing for many smaller systems, it is still important to evaluate the criteria for population/mile of sewer. An assumption is made that if the service population is less than 1,000, then the population/mile of sewer is less than the threshold of 100.
- There are decisions to be made on service population for combined systems when there is a significant difference between the number of water customers and the number of sewer customers.
- There is still additional data QA to be performed.

2. New Financial Criteria: two new financial criteria are included: Quick Ratio – a measure of liquidity for the utility, and Receivables Ratio – a measure of accounts receivable relative to the billing cycle.

3. Criteria Weight Changes

- Flow moratorium – weight increased from 2 to 4
- Revenue in excess of expenditures including debt service – weight increased from 1 to 2
- Revenue outlook – weight reduced from 6 to 4
- Unit Assistance List – now includes two issues: (a) those designated as having internal control issues (included in previous versions) and, (b) those on the list for not submitting an audit (new issue). The missing audit issue uses information for the Fiscal Year 2018-19 audit (which is significantly past due at this point) and is weighted at 3 which is the same weight as UAL internal control issues.

4. Compliance Parameters: Staff has improved the ability to generate compliance reports from the Division of Water Resources database. Compliance data has been updated for the 5-year period ending January 2020.

5. Threshold

- The overall threshold with these refinements and the additional parameters has been changed to 9.
- A separate threshold of 8 has been established for single-service providers (1 less than the threshold for those with both water and wastewater systems).

6. Other Items

- The risk of having a few large users on a system was considered, but since there are limited data available, it is proposed to review this on an individual basis as part of the initial work with distressed units.
- Division and LGC staff have discussed the need to designate certain systems as distressed; there are two aspects. First, more information may be known by DEQ staff and/or LGC staff that indicates that a system may be more distressed than it appears. Second, additional information could be used to designate a system as not distressed even if the system exceeds the threshold. It is likely to be a very small number of units either added to or removed from the list.

Discussion

It is important to acknowledge that 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.

Some of the criteria are based on past performance, but there is also the need to be able to look forward to project long-term viability as much as possible. Forward-looking criteria include the Revenue Outlook, Flow Moratorium, and Population/Mile of Pipe.

Chair Colson asked the Committee members if the work that they have reviewed is ready to be presented to the full Authority, although not in as much detail. Ms. Hunnicutt stated that she is very comfortable with presenting the information to the full Authority. Ms. Goodwin agreed and noted that the implementation process is very important and will also be of interest to the full Authority.

Item F. Educational Component Update

Staff presented thoughts on how to customize the draft training developed for NC League of Municipalities workshops for use with individual distressed units. The purpose of the training for distressed units is to provide basic information on utility management and Master Plan best practice areas, and to provide first steps that utilities can follow to begin to move toward viability.

Customization includes discussion as to why a system is distressed, a review of utility-specific data for benchmarks, and discussion of a path forward for a specific utility. Staff envisions three types of education through the VUR process: an orientation, a one-day basics workshop, and additional, specialized training for utility finance officers, operations staff, and elected officials (these may be existing courses offered by the LGC, the UNC Environmental Finance Center, the NC League of Municipalities, and other organizations).

Item G. Implementation Process

The implementation and funding process is still being developed. Staff proposes three primary elements: local government unit assessment which includes both the criteria and the identification of distressed units; education; and implementing action plans.

There are units that are known to be distressed because they have already been taken over by the LGC (Eureka and Cliffside Sanitary District). Others have received warning letters from the LGC. Staff sought input as to whether it is appropriate for the boards to designate and staff to begin work with these few initial distressed units while all of the distressed criteria being finalized and the fuller process is being developed. Ms. Goodwin stated that it makes sense to start work with a limited number of units that are known to be distressed. Chair Colson stated that with limited staff resources, only a very few could be worked with at the same time. Staff would engage the units in discussions about their situations and may need to have conversations with some of their potential partners to make sure that a viable solution can be developed. Staff noted that if there are no possible partnerships, the level of effort that will be required to develop a solution will need to be reassessed.

Staff recommended that the approval process mirror the existing Authority approval process for project funding, as follows: the Authority would approve the distressed criteria, and staff would provide a list of units that meet the criteria, along with proposals to add or remove a limited number units based on additional information, as described in Item E.6 above. The Committee members stated that this appears to be an appropriate process.

The Committee discussed that, depending on the number of units designated as distressed, it may take several years until staff will be able to work with some of the units that are on the list. Possible pros and cons of being on the list were discussed along with potential unintended consequences. The Committee

suggested that the staff discuss this issue with key stakeholders. Units that are not among the first to work with may want to start addressing the reasons that they are designated as distressed, and seek ways to improve their utility with resources such as the NC Rural Water Association, the Southeast Rural Community Assistance Project (SERCAP), the UNC Environmental Finance Center, the NC League of Municipalities, their regional COG, and other organizations.

During the evaluation process, VUR funds will initially be needed to conduct asset assessments to determine condition and infrastructure costs, conduct rate studies to determine financial impacts to customers, and other possible initial analyses. Staff described a possible general approval by the Authority to use VUR funds for these purposes, noting that the evaluation needed for each unit will vary based on their current situation.

The Committee stated that this seems to be the right path, acknowledging that the process may need to be modified as work begins with individual units.

Item H. Future Committee Meetings

Future 2020 Committee meetings are proposed to be held on Oct. 7, and during the weeks of Oct. 26, Nov. 9, and Nov. 30. Staff will contact the Committee members to schedule the meetings.

Item I. Concluding Remarks by Committee Members

The Committee commented that the information was presented well and today's discussions are moving the process forward.

Item J. Adjourn – The Committee meeting was adjourned.