

**State Water Infrastructure Authority
Viable Utility Reserve Committee
September 16, 2020 Meeting**

Agenda Item E – Key Changes to Distressed Criteria

The Division is presenting to the Viable Utility Reserve Committee the revised draft distressed unit criteria.

Since the last Committee meeting, staff have continued to examine data, consider feedback from the Committee, consider feedback from stakeholders, and work with staff from the Department of State Treasurer (DST). Based on this work, several changes have been made to the model to determine which units may be distressed.

1. New Financial Parameters (based on conversations with DST staff)

- Quick Ratio added
 - A measure of liquidity for the utility
 - Formula: $\text{Current Assets (excluding inventories and pre-pays)} / \text{Current Liabilities}$
 - Used on the EFC Rates Dashboard
 - Weighted at 1
- Receivables Ratio added
 - A measure of accounts receivable relative to billing cycle
 - Formula: $\text{Days Sales in Receivables} / \text{Days in Billing Period}$
 - Still being considered and whether to include trends (i.e., significant trending up is a distressed sign) and/or a threshold value to indicate distress
 - Could be considered a measure of organizational management (billing practices) and/or affordability issues in the community
 - Used on the EFC Rates Dashboard

2. Weight Changes

- Flow moratorium – weight increased from 2 to 4
- Surplus – weight increased from 1 to 2 (in consultation with DST staff)
- UAL 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)
 - This is for the Fiscal Year 2018-19 audit (which is significantly past due at this point)
 - Weighted at 3 which is the same weight as UAL internal control issues
- Revenue Outlook – weight reduced to 4 (from 6)

3. Data Updates

- Service Population updated for some county systems from county population to service population from the Local Water Supply Plans
- The latest Unit Assistance List from DST staff has been incorporated in the Workbook

- For smaller sewer systems, to better understand the impact of 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.
 - While there are only 3 Drinking Water systems with missing “mile of water pipe” data and less than 1,000 service population, there are 82 wastewater systems in that population range with missing “mile of sewer” data.
 - Of the sewer systems with data and less than 1,000 service population, almost 80% are less than the threshold of 100 for Population/Mile of Pipe (19 have a value less than 100; 5 have a value greater than 100).
 - See the Score Summary tab in the Workbook.
- There is still additional data QA to be performed.
- There are decisions to be made on service population for combined systems when there is a significant difference between water customers and sewer customers (e.g., 1,129 population; 2,978 Local Water Supply Plan population; 688 collection system population – actual system information).

4. **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 water **and** wastewater systems).
 - This reflects that some parameters are specific to only drinking water or wastewater systems so that the total number of applicable parameters is less when compared to combined systems and therefore the threshold is less.
 - There has been some discussion that sewer-only systems may face a greater challenge (and maybe need a lower threshold) but no changes are proposed as this would (theoretically) show in the parameters that are used.
 - There would be 7 additional single-provider systems that would be considered distressed if a lower single-provider threshold were to be used.

5. **Other Items**

- The risk of having a few large users on a system was also considered, but there are limited data available (<50%). This will be reviewed as part of the initial work with distressed units.
- Related to the criteria and the process, staff from the Division and DST have discussed the need to designate certain systems as distressed regardless of how the system is presented in the Workbook. There are two aspects to this.
 - First, there may be instances where more information is known by staff of the Dept. of Environmental Quality and/or DST that indicates distress, that is not otherwise apparent in the data sets used in the criteria. This additional information can be used in the designation process.
 - Additional information could also be used to not designate a system as distressed even if the system exceeds the threshold.