

**Agenda Item K Attachment 2: Summary of Letters Received in Response to Potentially Distressed Letters**

Unit Name	System Type	Original Score	Proposed Revised Score	Summary of Response	Recommended Action/Notes
Beaufort County	DW	9		<ul style="list-style-type: none"> <li>DSCR (1 point) - based on 2020 audit data, ratio is 1.18 and would not score points (calculation shown)</li> <li>Receivables Ratio (1 pt) - the net A/R value from audit includes capital project fund A/R of \$487,956. When recalculated without that, would not score point</li> <li>Other points not disputed; recognize they still have challenges and outlined programs implemented over last 5 years to address them (rate study, CIP, consolidating, admin changes, etc.)</li> </ul>	Hold for further review.
Carteret County	DW	8		<ul style="list-style-type: none"> <li>Transfers in (1 pt) - County established a water services special taxing district related to grants and a revenue bond that is accounted in a special revenue fund from which transfers are made into the Water Fund for operations, capital, and debt service; revenue generated in this taxing district cannot be used for any other purpose; there are no general fund transfers into the water fund</li> <li>DSCR (2 pts) - if transfer above is included in the operating ratio, ratio increases from 0.07 to 1.53 and point would not be scored</li> <li>Surplus (deficit) with debt (2 pts): if transfer above is included, surplus is \$133,022 and point would not be scored</li> </ul>	Hold for further review.
Cumberland County	Both	9		<ul style="list-style-type: none"> <li>Do not have a county-wide system; have three small sewer systems (NORCRESS, Kelly Hills, Overhills) and one small sewer system (Southpoint).</li> <li>Provided information on service pop and rates for each system and transfers.</li> <li>Understand funding may be available in the future, want to ensure information is accurate so as not to jeopardize future project assistance.</li> </ul>	Move forward with designation as distressed unit.
Davidson County	WW	8		<ul style="list-style-type: none"> <li>Sewer system installed primarily to serve county school system thus has always been heavily subsidized by general fund - this subsidization impacts 5 of the 8 points: DSCR; Transfers in, Sewer pop/mile, Surplus (deficit) with debt</li> <li>Rates largely based on Winston-Salem Treatment cost</li> </ul>	Hold for further review.
Edenton	Both	11		<ul style="list-style-type: none"> <li>Compliance (1 pt) - upgrades to WTP in 2020 resolved compliance issues</li> <li>DW Pop/mile (1 pt) - Town staff used GIS data to calculate 36.67 miles of water pipe (versus 70 miles in LWSP data).</li> <li>Sewer Pop/mile (1 pt) - sewer pop per mile does not include industrial, institutional, and business customers served outside of town limits - (ratio is 97, so not far below threshold of 100)</li> <li>Flow Moratorium (4 pt) - SOC includes provision for town to have allocation of additional 36,000 gpd, town is undertaking \$7+million improvements to WW</li> </ul>	Hold for further review.

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				<p>collection system and treatment plant, completing major I&amp;I project funded by DEQ and Golden Leaf, USDA funding to renovate &amp; update WWTP</p> <ul style="list-style-type: none"> <li>Request score change from 11 to 4; also discussed additional efforts being made</li> </ul>	
Edgecombe County	Both	13		<ul style="list-style-type: none"> <li>Revenue Outlook (4 pts): overall population for county is declining but they have had a steady increase in water &amp; sewer customers of 2.5% per year since 2006 except for 2017 (due to Hurricane Matthew) but numbers have come back up</li> <li>Receivables Ratio (1 pt): has been successful in collection of bills. 2019 likely has outstanding bills stemming from hurricane Matthew in 2017; most of these debts have now been paid off and county is continuing to collect payments</li> <li>Asked about pop/mile of sewer &amp; water and UAL control issues - response provided but that does not impact points</li> </ul>	Hold for further review.
Gamewell	WW	12		<ul style="list-style-type: none"> <li>UAL Control (3 pts) - Town only has one employee; council members sign checks, most sewer customers pay bills to Caldwell County along with water bills and the county reimburses the town; 18 customers are billed directly by the town; each month, the town admin. provides a list of all checks paid and collected</li> <li>Surplus (deficit)/w debt 2 pts - Town does not have debt; for 2019/2020, lost the deduction against the sewer processing because the two schools in town were closed due to coronavirus</li> <li>Commented on two line items for which they did not actually score points – clarification provided</li> </ul>	Move forward with designation as distressed unit; Does not appear that points would change below threshold.
Gates County	Both	11		<ul style="list-style-type: none"> <li>Believe score is incorrect- added SBR treatment plant that increased flow by 40,000 GPD (thinking this applies to points scored for moratorium)</li> </ul>	Hold for further review.
Glen Alpine	WW	9		<ul style="list-style-type: none"> <li>City of Morganton operates and does routine maintenance on sewer system but Glen Alpine owns it and is responsible for larger replacements, etc. (water system is completely owned and operated by Morganton).</li> <li>Town sets surcharge rate, City of Morganton sets customer rates and handles billing with surcharge returned to town; town is responsible for electricity to operate pump stations</li> </ul>	Move forward with designation as distressed unit; information provided does not appear to change points.
Granite Falls	Both	9		<ul style="list-style-type: none"> <li>Service Population &amp; Pop/Mile (3 pts total): bulk customers are not truly accounted for in assessing points for service population or pop/mile</li> <li>Surplus(deficit) w/Debt (2pts) and DSCR (1 pt) - 2019 included revenue of \$264,350 from AIA grant documented as "non-operating revenue" but expenses for the project included in operating expenses. If grant related expenses removed, Surplus would be \$170,532 and DSCR 1.85; have maintained cash to cover almost a full year of operating expenses for last five years</li> <li>Receivables Ratio (1 pt) - 2019 accounts receivable included AIA grant</li> </ul>	Hold for further review.

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				<ul style="list-style-type: none"> <li>also provided info on training and qualifications of staff, CIP, capital projects, rate increases, and currently complete rate study to direct future increases. Do not believe they are financially distressed and these factors should be considered.</li> </ul>	
Jonesville	DW (was listed Both)	9		<ul style="list-style-type: none"> <li>system is Water Only - sewer through YVSA</li> <li>unassigned fund balance for water fund 6/30/2020 was 40.2%</li> <li>have a CDBG-I grant to replace waterline, water model recently updated through AIA grant</li> </ul>	Update system type to DW Move forward with designation as distressed unit; Does not appear that points will change below threshold.
Landis	Both	11		<ul style="list-style-type: none"> <li>Town completed FY2020 audit with no findings;</li> <li>FY 2019 audit had two findings showing expenditures over expended in general fund and storm water fund; has made changes including new software, new finance director and staff to bring booking in-house, system to identify any expenditures exceeding monthly budget</li> </ul>	Hold for further review.
Madison	Both	10		<ul style="list-style-type: none"> <li>Financials - 2019/2020 audit shows improvements compared to 2018/2019 audit. Using 2020, DSCR, Surplus, and operating margin are all positive (calculations provided)</li> <li>Planning &amp; Operational Controls - recently completed AIA and CIP to address system concerns and seek funding to address needs. Town Board immediately made rate adjustments based on findings</li> <li>Rates &amp; Operating Ratio - 8% rate increase June 2020, 2020-2021 budget was established with clear path to sustainability</li> <li>Overall Financial Management - developing budget ordinances for each capital project to avoid confusing transfer of funds for funding matches, etc. that mistakenly appear to be covering bad budget practices; recently hired CPA as finance officer</li> </ul>	Hold for further review.
Nash County	Both	10		<ul style="list-style-type: none"> <li>Transfers In/Out (2 pts) - there are transfers between county's water &amp; sewer fund and fund created to track debt expenses within a given district and funds established for capital improvements; some transfers between utility fund and economic development fund; transfers from general fund to utility at front end of large capital projects to cover loan origination fees</li> <li>Population &amp; Rates - anticipate that most recent census will reflect increase in population as development migrates east from Wake County; county has adjusted fees to ensure viability and shows commitment for utility fund to be self-supporting.</li> <li>Requests further discussion with DEQ before any official action to designate county as distressed</li> </ul>	Hold for further review.
Navassa	Both	13		<ul style="list-style-type: none"> <li>Brunswick County assumed ownership; Navassa no longer exists as a unit</li> </ul>	Removed from unit list.

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Orange County	DW	9		<ul style="list-style-type: none"> <li>ownership transferred to Mebane, contracts provided, Orange County no longer exists as a unit</li> </ul>	Removed from unit list.
Pender County	Both	9	7	<ul style="list-style-type: none"> <li>Transfers In/Out (2 pts) - utilities-related enterprise funds including water &amp; sewer districts are considered in the aggregate, and transfers between these funds are considered intrafund operation transfers; the only non-utility related transfer is from the general fund for debt service of the WWTF, which was originally intended as an economic development project and approved by LGC to be funded from general fund contributions (confirmed with LGC)</li> </ul>	Update points to 7 and remove from consideration as distressed.
Pilot Mountain	Both	13		<ul style="list-style-type: none"> <li>Criteria alone are not representative of the system; scoring penalizes Town for criteria outside of its control and neglects to take into account the positive efforts</li> <li>2016 received MRF grant, identified potential partnership with King and/or Mount Airy, moving forward with construction of interconnection with Mount Airy for purchase of water</li> <li>AIA grant in 2018 for water and sewer systems, have created a comprehensive AMP that will allow town to plan and prioritize improvements, utilizes SRF programs to address concerns, updated CIP</li> </ul>	Move forward with designation as distressed unit; information provided does not change points.
Polkville	WW	8		<ul style="list-style-type: none"> <li>letter does not dispute points, "tells story" - along with several other small towns in Cleveland County built sewer system to feed through Kingstown onto Shelby plant; agreed to tie Union School onto line; Kingstown began charging Polkville much higher rate making it impossible to have an affordable rate for customers; have increased rates on several occasions, rates higher than neighboring towns;</li> <li>other challenges include several customers not paying due to COVID; heavy rain results in excess water in the system driving up costs; had hoped Cleveland County Water would take responsibility for connecting small systems in the area</li> <li>Town is in good financial condition but does not know how to make small system profitable</li> </ul>	Move forward with designation as distressed; does not appear that they are asking for a change in scoring.
Ramseur	Both	9		<ul style="list-style-type: none"> <li>UAL Control (3pts) - 2019 new mayor and board, organizational changes made to address financial issues including experienced water billing clerk and customer service rep; 2019/20 audit has a written extension; water/sewer rates established to provide net income</li> <li>% Depreciated (1 pt) - Authority &amp; Commission should consider that additions to system and equipment have been made annually but not enough to overtake depreciation; however, major capital improvement are in the planning process that will take depreciation below 50%;</li> </ul>	Hold for further review.
Rutherfordton	WW	9	8	<ul style="list-style-type: none"> <li>Compliance (1 pt): 10 of 12 SSOs between 2016-2019 have been addressed (grinder pump at jail, rebuilt a pump station)</li> </ul>	Drop receivables ratio point. Hold for further review of other issues.

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				<ul style="list-style-type: none"> <li>DSCR (1 pt) - FY2019 operating expenses included reimbursable projects where grant revenue is not captured, removing reimbursable expenses gives DSCR of 1.1 so would not score point</li> <li>Surplus w/debt (2 pts): unable to replicate reported value and do not believe they score these points</li> <li>Receivables ratio (1 pt): Per LGC, correction to receivables data drops this point</li> <li>Sewer Pop/mile (1 pt): has a 14.1 mile forcemain serving one customer (equestrian center), if this segment is taken out, then have 118.52 pop/mile; believe bulk customers should be factored differently for this criteria</li> </ul>	
Seaboard	Both	9		<ul style="list-style-type: none"> <li>Board met on Feb. 25, 2021 to approve new rates effective April 1, 2021.</li> <li>The new rates result in a combined bill of \$118, which would add 1 point for rates and 4 points for Revenue Outlook making the unit's total score 14.</li> </ul>	Move forward with designation as distressed; Leave score as-is until future evaluation of all units.
Sims	Both	9		<ul style="list-style-type: none"> <li>UAL Control (3 pts) – 2019 audit included one time errors; 2020 audit identifies 3 issues all of which have been addressed; have taken steps to correct financial and control issues, request opportunity for reassessment</li> <li>Town has raised rates last 2 years and will do so again for upcoming year, identified capital projects for next 20 years, reviewing budgeting trends last 5 years to improve operating margin, working to correct financial operating and surplus deficiencies</li> <li>look forward to receiving and reviewing eligibility criteria for VUR funding</li> </ul>	Hold for further review.
Southport	Both	10		<ul style="list-style-type: none"> <li>UAL Control (3 pts) - Finance dept. has been restructured, 2020 audit was filed on time, believe that issues have been resolved</li> <li>Surplus w/debt (2 pts) and Operating Margin (1 pt) - significantly impacted by 4 hurricanes including costs related to pipe collapses and water infiltration; FEMA revenues have been received and if included to offset expenditures, operations would reflect a surplus</li> <li>Completed inventory of system and working on repairing problem areas; raising rates for new treatment agreement with Brunswick County; incurred one-time engineering fees for designing WWTP that has now been abandoned; payed capacity fees to county in 2019 and 2020 but that obligation will be eliminated with planned plant expansion for regionalization; availability fees should be considered revenues</li> </ul>	Hold for further review.
Stanly County	DW	11		<ul style="list-style-type: none"> <li>Operating Margin - states that margin exceeds 0 and should not receive a point (but no details provided)</li> <li>Transfers In/Out - associated with admin and operating staff expenses, have four utility funds but only one includes administration, so funds are transferred each year</li> </ul>	Hold for further review. May need to update from DW only to Both.

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				<ul style="list-style-type: none"> <li>• Appears that separate funds all combined into one for the analysis; WWTP DSCR definitely exceeds 1.1 in FY 2019/2020 as do Greater Badin and Piney Point funds. Collectively the funds have DSR in excess of 1.1 (data not included)</li> <li>• Taking these into consideration, believe points should be 8 rather than 11</li> </ul>	
Stovall	Both	10		<ul style="list-style-type: none"> <li>• Transfers In (1 pt) - annual transfer is debt forgiveness from 12 years ago; no money is received or moved but is recorded for audit information; only actual transfers are to reimburse salaries that are expenses from the water fund and garbage receipts that are not water/sewer fund related</li> <li>• Compliance (1 pt) - have TTHM problems due to distance and time in the lines; have started continuous flushing of lines and no exceedances last year or so far this year but it is a high cost</li> <li>• Surplus (deficit with debt) 2 pts - had a major expense of \$32,000 remaining due in 2018/19 for maintenance to water tank; does not reflect normal yearly budget, but maintenance is an ongoing expense with an older system</li> <li>• Hope that the state will look at the struggles of smaller town and come up with individual solutions</li> </ul>	Hold for further review.
Topsail Beach	DW	9	4	<ul style="list-style-type: none"> <li>• Score does not adequately portray performance of the system because permanent population does not reflect the town's true population for more than half of the year.</li> <li>• Population/mile (1 pt) - permanent population is listed at 376, but has over 1400 water meters and serves over 8,000 people during tourism season, this would greatly exceed 100 people/mile of water line</li> <li>• Revenue Outlook (4 pts): Population decline is misleading - 2014 to 2018 shows decline of 15 people but 2010 census and 2019 estimate show an increase in population;</li> <li>• Transfers In - in previous years, Town used enterprise fund's appropriated fund balance to meet certain capital needs, particularly vehicle and equipment purchases for water department. Did not transfer in money from other fund; Town will look to create a true capital reserve fund for the enterprise fund.</li> </ul>	Update points to 4 (drop DW pop/mile and Revenue Outlook points based on population) and remove from consideration as distressed.
Trinity	WW	11		<ul style="list-style-type: none"> <li>• Criteria alone are not accurate representation of their system; list punishes City for parameters outside of its control and doesn't recognize efforts</li> <li>• System operates with negative surplus but has policy to allocate sales tax revenue to its sewer fund; allocation noted in 2019 audits as approved by LGC to subsidize repayment of debt and operating expenses until revenues generated from system are sufficient to sustain expenditures; City is focusing on paying off certain debts early to remove these system liabilities</li> <li>• Completed MRF study in 2020 to assess alternatives; study showed merger/regionalization with High Point would provide savings over next 30 years</li> </ul>	Hold for further review.

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				<p>of \$5 billion; City has been using state reserve funding to reroute flow to High Point</p> <ul style="list-style-type: none"> <li>• Making significant steps toward viability without distressed designation</li> </ul>	
Tryon	Both	12		<ul style="list-style-type: none"> <li>• Distressed criteria penalize the Town for criteria outside of its control and neglects to take into account positive actions</li> <li>• Recognizes need for asset management; has unsuccessfully applied for AIA grants in 2019 &amp; 2020</li> <li>• has taken steps to develop 10 year CIP and financial model</li> <li>• Compliance (1 pt) - believes that planned CWSRF Braewick Road Sewer Rehab project will resolved the violation (awarded summer 2020, construction planned 2022)</li> </ul>	Move forward with designation; information provided does not change points.
Vance County	DW	9		<ul style="list-style-type: none"> <li>• disputing designation as distressed because score is heavily weighted to fact that it is a rural system with low population density and higher than average rates.</li> <li>• made significant progress adding new customers - in 7 years have 100 miles of water line serving 1,374 active customers or 1,785 accounting for availability customers</li> <li>• Revenue Outlook (4 pts) - although county population has remained level, water customer population is increasing each year</li> <li>• at LGC's direction in 2017 prepared a multi-year financial plan intended to bring system to self-sustainability by 2024; currently well ahead of plan, on track to break even in upcoming fiscal year;</li> <li>• With system being one of the newest in the state and ahead of schedule for self-sustainability, do not believe it should be considered distressed</li> </ul>	Hold for further review.
Wade	DW	8	7	<ul style="list-style-type: none"> <li>• Transfers In (1 pt) - board adopted resolution in Jan 2019 to cease any transfer of funds into water fund</li> <li>• RWA completed rate study in 2020 recommended 41% increase, which is very large for small town with large population of older adults on fixed income; board settled on a compromise increase with restructured rates</li> <li>• Debt - \$62K debt to rural development for the water system scheduled to be paid in full by FY 2025/26, funds currently allocated for debt retirement will be set aside for capital improvements and maintenance</li> </ul>	Update points to 7 and remove from consideration as distressed.
Yadkin County	Both	14		<ul style="list-style-type: none"> <li>• County owns 3 water systems and 1 sewer system; all systems are dependent upon other municipalities for providing service and treatment. County operates two of the water systems, third water system and the sewer system are leased to town of Yadkinville for operations and maintenance under agreement in July 2016</li> </ul>	Move forward with designation; additional review of information provided may lower score by 1 pt.

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				<ul style="list-style-type: none"> <li>• For systems the County operates, water purchased from Winston-Salem/Forsyth Utilities Commission and Town of Jonesville; rates are dependent on rates from these systems as well as additional operational costs and debt service</li> <li>• Transfers into the water and sewer fund occurred prior to lease with Yadkinville; one transfer since then of unspent funds from East Bend waterline</li> <li>• Cannot control factors such as affordability benchmarks and declining population. County can pay off debt and not transfer in funds in the future but would still be considered distressed under the criteria</li> <li>• Has been exploring options to improve efficiency for several years</li> </ul>	