



LOCAL GOVERNMENT COMMISSION
STATE AND LOCAL GOVERNMENT FINANCE DIVISION
SHARON EDMUNDSON, DEPUTY TREASURER

Viability Utility Reserve Briefing

Prepared for the Local Government Commission

January 27, 2021

Background on Viability Utility Reserve Purpose and Qualified Uses of Grant Funds

Viability Utility Reserve. – The Department [DEQ/DWI] is authorized to make grants from the Viability Utility Reserve to do any of the following:

- Provide physical interconnection and extension of public water or wastewater infrastructure to provide regional service.
- Rehabilitate existing public water or wastewater infrastructure.
- Decentralize an existing public water system or wastewater system into smaller viable parts.
- Fund a study of any one or more of the following:
 - o Rates.
 - o Asset inventory and assessment.
 - o Merger and regionalization options.
- Fund other options deemed feasible which result in local government units generating sufficient revenues to adequately fund management and operations, personnel, appropriate levels of maintenance, and reinvestment that facilitate the provision of reliable water or wastewater services.
- Provide emergency grants for operating deficits in accordance with G.S. 159G-34.5(a)(4).

All grants other than the emergency operating grants must be approved by both the State Water Infrastructure Authority (SWIA) and the LGC.

One of the primary goals of establishing the VUR is to help units identify and implement long-term solutions to their water and wastewater issues such that the service can be provided in a manner that is viable in the long term, breaking the cycle of continued grant funding for repairs of lines and equipment that are not being properly maintained. For many units, this means considering regional solutions that have a larger customer base over which to spread costs and have services that are professionally managed. It also could mean moving to a decentralized service that may no longer be owned by the unit if this provides the most cost-effective way to meet public needs over time. Many factors are in play in making these decisions – geographical concerns, proximity to other entities that provide similar services, and political will to make hard decisions.



LGC Actions

Under the Viable Utility Reserve legislation, the LGC is an integral part of the VUR grant process and the identification of distressed units:

Per NCGS 159G-39(e), the LGC must approve the award of grants and the terms of grants from the Viable Utility Reserve Fund; and

Per NCGS 159G-45(b), the LGC and SWIA must identify distressed units.

The following matters associated with these statutory responsibilities have been or will be presented to the LGC for their vote or for informational purposes, as described below.

November 10, 2020: LGC voted to adopt assessment criteria and distressed unit identification criteria, and to identify the following units as distressed units: the Town of Eureka (meeting Identification Criteria 1), Cliffside Sanitary District (meeting Identification Criteria 1), the Town of Bethel (meeting Identification Criteria 3), the Town of Kingstown (meeting Identification Criteria 3). Corresponding action was taken by SWIA on December 9, 2020.

January 5, 2021: LGC was presented with, but voted to table, three VUR grant applications (Kingstown, Cliffside Sanitary District, Bethel) for further discussion. SWIA approved the grants at its December 2020 meeting.

LGC was presented with assessment scores for all operating water and wastewater systems in the state for informational purposes. Units that met the minimum score for a “distressed unit” per the identification criteria were highlighted; these units, along with those units that meet any of the other three criteria to be deemed “distressed” will be presented to the LGC in February for a vote to formally identify these units as distressed.

February 2, 2021
Vote on distressed units
All units whose assessment and review yielded a score that meets or exceeds the minimum score for a “distressed unit” (per the identification criteria), plus those units that meet any of the other three criteria, will be presented to the LGC for their consideration and vote to formally identify these units as distressed. Units identified as distressed units by the LGC and SWIA are required to perform specific actions under NCGS 159G-45(b) including conducting an asset assessment and rate study, participating in a training and educational program, and developing short-term and long-term action plans. SWIA will consider a similar action at their February 10, 2021 meeting.

Vote on three VUR grants
The grants for Kingstown, Cliffside Sanitary District, and Bethel will be presented to the LGC for vote. Additional information on the grants is provided here in advance of the meeting; additionally, Kim Colson, Chair of SWIA, and unit representatives will be available at the February meeting for questions.



SYSTEM AND GRANT SUMMARY - BETHEL

Unit: Bethel (Pitt County)	Population: 1,551	Services: Water and Sewer
Connections	Water	Sewer
Total	806	850
Residential	749	847
Average Bill	\$61.20 per 5,000 gallons (Current GUC rate: \$31.85)	\$73.10 per 5,000 gallons (Current GUC rate: \$41.20)
Issues of Concern:	Bethel no longer has enough customers to bear the operating, maintenance, and capital costs of providing water and sewer to its residents. They are already connected to Greenville Utilities Commission (GUC) who provides their water and treats their sewer. Both parties have worked for many years to transfer ownership of the Bethel system to GUC. GUC has the professional management and operations capacity to effectively manage the infrastructure, including providing the regular maintenance that is necessary. Bethel has faced an overwhelming amount of inflow and infiltration in its sewer system over the years and does not foresee having the resources to continue to rehabilitate its lines and equipment on its own. Bethel has received \$4.6 million in grant and principal forgiveness loan funding to move this project forward. [Funding consists of \$1,048,000 in GO bonds, \$527,551 in SRF loans, and \$2,172,000 is USDA revenue bonds.] GUC has been instrumental in getting these funded projects completed in a cost-effective manner, using their own employees and equipment when possible. The VUR grant is the last piece to push this project over the finish line	
Long Term Solution:	Merger with GUC.	
Challenges:	Funding for the remaining efforts to complete the merger.	
Next Steps:	Independent third-party review of the rate impacts proposed by GUC and of the interlocal agreement; VUR grant funding is needed to perform these reviews. A workplan for these reviews has been drafted with an end date of June 30 th which meets the goal of finalizing the merger by the end of the fiscal year. Actual construction on the remaining projects will take place after the merger is complete, with GUC being responsible for those projects. No VUR funding, other than this grant, is required for the merger.	



LOCAL GOVERNMENT COMMISSION
STATE AND LOCAL GOVERNMENT
FINANCE DIVISION

SHARON EDMUNDSON
DEPUTY TREASURER

Amount of Grant Request:	\$100,000
Purpose of Grant:	<p>Rate Analysis Review (\$50,000) The UNC School of Government's Environmental Finance Center will analyze (as an independent third party) a rate study prepared by Greenville Utilities Commission on the rates it intends to charge Bethel customers. The rate analysis is complicated by the fact that Bethel has outstanding debt on its systems and sufficient rates must be charged to cover the debt service.</p> <p>Merger Agreement Analysis Review (\$50,000) The UNC School of Government's Environmental Finance Center will perform an agreement analysis that will not only be a review of the legal documents but also a review of the functionality and thoroughness of the agreement to better ensure that the agreement speaks to everything that it needs to in such a way that is equitable to both parties.</p> <p>The initial proposed budget for these services is below the allocated amounts so this final step in the project may be less than \$100,000.</p>
Additional Grant Information:	<p>The UNC School of Government's Environmental Finance Center will be utilized to provide these reviews as third party not representing either utility.</p> <p>Bethel will be administering the contracts for these services. Monthly progress reports will be provided to LGC staff.</p> <p>The grant amounts are standard grant amounts for these types of services; final cost is expected to be less than the grant amount and will not exceed the grant amount. Grants are reimbursement-based, so only those expenses that meet the terms of the grant and the contract (not the entire grant amount) will be disbursed to the unit.</p>
Status of VUR Grant-Funded Project(s)	NA



SYSTEM AND GRANT SUMMARY – CLIFFSIDE SANITARY DISTRICT

Unit: Cliffside Sanitary District (Rutherford County)	Population: 611	Services: Sewer
Connections	Water	Sewer
Total	NA	82
Residential	NA	75
Average Bill		Residential: \$37.74
		All other: \$849.81
Issues of Concern:	Cliffside Sanitary District (CSD) has less than 100 customers, and over half its monthly revenue comes from 4 industrial or institutional customers. If any one of those discontinued service, CSD would be devastated financially. The plant, initially constructed to serve a large textile mill, is significantly underutilized and therefore not operating efficiently. It is isolated and not likely to attract other users that need capacity due to either distance or terrain. There is significant inflow and infiltration when it rains. CSD has no reserves to cover the cost of even basic repairs, much less long-term capital needs. Finally, all seats on the governing board are currently vacant and no one in the district has shown any interest in serving.	
Long Term Solution:	Unknown at this time but could include decommissioning the plant and connecting to Boiling Springs or Forest City; keeping plant online and finding other users to increase flow; decommissioning the plant and going to either a package plant or a decentralized service.	
Challenges:	In a merger study done in 2018, several options were considered which would have cost between \$4 million and \$8 million, with none of the solutions addressing the collection system or decentralization of services. Additionally, this study did not include an asset inventory or a rate assessment that addressed the rates necessary for a long-term solution. There is virtually no growth in the service area. With such a small number of customers, it is unlikely the system as a stand-alone district is viable in the long term.	
Next Steps:	Asset assessment of plant, pump stations, and lines; study to evaluate the potential alternatives to the existing operating model; rate analysis on the potential alternatives to determine if any are reasonable for users while producing sufficient revenue to operate and maintain a system.	



LOCAL GOVERNMENT COMMISSION
STATE AND LOCAL GOVERNMENT
FINANCE DIVISION

SHARON EDMUNDSON
DEPUTY TREASURER

Amount of Grant Request:	\$400,000
Purpose of Grant:	<p>\$150,000 for asset assessment; plant, pump stations, lines, and other assets and equipment will be evaluated to determine condition and potential remaining useful. Assessment also will consider operations and maintenance needs to provide current information for the rate analysis.</p> <p>\$150,000 for alternatives analysis; in-depth review of potential alternatives to the current operating model including decentralizing service.</p> <p>\$100,000 rate analysis; determine which, if any, of the potential alternatives are affordable for the customer base while providing sufficient revenue to cover operations (including maintenance) and provide for a reserve fund for repairs.</p>
Additional Grant Information:	<p>Contract length to be determined based on scope of work. All contracts will be managed by DWI. Monthly progress reports will be provided to LGC staff and LGC staff will participate in monthly progress meetings.</p> <p>The grant amounts are standard grant amounts for these types of services; final cost will not exceed the grant amount. Grants are reimbursement-based, so only those expenses that meet the terms of the grant and the contract (not the entire grant amount) will be disbursed to the unit.</p> <p>The LGC will adopt the project budgets in its role as the governing body for CSD for financial decisions.</p>
Status of VUR Grant-Funded Project(s)	NA



SYSTEM AND GRANT SUMMARY – KINGSTOWN

Unit: Kingstown (Cleveland County)	Population: 674	Services: Sewer
Connections	Water	Sewer
Total	NA	272
Residential	NA	
Average Bill		\$59.20 per 4,000 gallons
Issues of Concern:	<p>Kingstown operates a municipal sewer-only collection system, which makes it difficult to enforce collections (water may be cut off for non-payment of services, but sewer cannot). Kingstown residents may have well water or may receive water service from Cleveland County Water (CCW). For those who receive water service from CCW, CCW bills for the water they're providing as well as for the sewer on behalf of Kingstown as a way to assist Kingstown with collections. For those who have well water, Kingstown bills for the sewer collection service. Kingstown's billing and collections were not performed regularly over the last year or more. Sewer collected by the Kingstown system is treated by the City of Shelby, which also provides basic operations and maintenance of the Kingstown collection system. Kingstown is significantly behind in paying Shelby for treatment of Kingstown sewage and there is some question as to the exact amount owed. Shelby has only been able to address required repairs in recent years due to the lack of payment by Kingstown. Kingstown does not have the professional management capacity to manage its collection system effectively.</p>	
Long Term Solution:	<p>Cleveland County Water has offered to take ownership of Kingstown's sewer collection system. Three other very small municipalities (Polkville, Lawndale, Fallston) also are connected to the Shelby treatment plant along with Kingstown and ultimately send their sewer to Shelby as well. Polkville and Lawndale meet the scoring requirements of a VUR distressed unit, and Fallston is only a point below the threshold for distressed. CCW has offered to take ownership of those systems as well, with Shelby continuing to provide sewer treatment. Polkville, Lawndale, and Fallston will be included in discussions regarding a long-term solution.</p>	



LOCAL GOVERNMENT COMMISSION
STATE AND LOCAL GOVERNMENT
FINANCE DIVISION

SHARON EDMUNDSON
DEPUTY TREASURER

Challenges:	Until recently the Kingstown board was not interested in divesting itself of its sewer collection system. The current board seems more interested in doing what is best for the long-term viability of the Town. Collections for sewer-only customers will continue to be a challenge. The Town does not have reserves to cover the cost of repairs or to provide cash flow when needed. With so few customers and the cost of operations and maintenance, Kingstown is not likely to be a viable stand-alone system in the long-term.
Next Steps:	An asset assessment is needed because the condition of the Kingstown system is not known. A rate analysis is needed to determine the appropriate charges for Kingstown customers given the extent of repairs to their collection system that may be needed, and whether customers can afford those rates.
Amount of Grant Request:	\$250,000
Purpose of Grant:	\$150,000 for asset assessment; pump stations, lines, and other assets and equipment will be evaluated to determine condition and potential remaining useful life. Assessment also will consider operations and maintenance needs to ensure rates are appropriately developed. \$100,000 rate analysis; determine rate impact for potential long-term solutions and affordability of rates for the customer base while providing sufficient revenue and a reserve fund for repairs.
Additional Grant Information:	Initial contract length of 6 months. All contracts will be managed by DWI. Monthly progress reports will be provided to LGC staff and LGC staff will participate in monthly progress meetings. The grant amounts are standard grant amounts for these types of services; final cost will not exceed the grant amount. Grants are reimbursement-based, so only those expenses that meet the terms of the grant and the contract (not the entire grant amount) will be disbursed to the unit. The LGC will adopt the project budgets in its role as the Board for Kingstown for financial decisions.
Status of VUR Grant-Funded Project(s)	NA