

Local Government Commission Oversight of Municipal Water & Sewer Enterprise Operations

A Presentation to the State Water Infrastructure Authority



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 North Carolina Department of State Treasurer
State and Local Government

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Outline

- History of the LGC
- Role of the LGC as Financial Advisor
- Defaults and Enforcement
- Troubled Units
- Case Studies
- Ratings



Establishment of the LGC

- Economic History - Roaring Twenties
- The Crash in 1929
- Over 400 NC local governments and public authorities defaulted
- The Response - GS Chapter 159



Establishment of the LGC

- The Response - GS Chapter 159
 - Local Government Finance Act
 - Local Government Commission
 - Budgets and Fiscal Control
 - Approval of Long-term Debt
 - Article 10 – addressed defaulting units; defaults > 90 days; LGC develops refinancing plan and assists municipality to implement; plan can be enforced by court order.



LGC Role as financial advisor

- Annual report – timely information on the fiscal health of the enterprise operation
 - 6/30 YE; 10/31 audit due date
- Key Factors
 - Quick ratio < 1.0
 - Working Capital
 - Cash flow from operations
 - Over Expenditures?
 - Transfers or subsidies to/from GF
 - Internal controls



LGC Role as financial advisor

- LGC staff response
 - Unit letter – to governing chair, manager, finance office
 - Copied to entire governing body in serious situations
 - Request for additional information
 - Unit visit
 - Troubled unit list – regular staff contact



Defaults and Enforcement

- Article 11- added in 1971
 - 1) defaults or will default on debt service
 - 2) fails or refuses to comply with 159
 - LGC vested with all powers of governing board with respect to finances



Defaults and Enforcement

- Article 11 amended 2013 session
 - Assume control of water and/or sewer enterprise if:
 - Meets any one of 3 criteria for 3 consecutive years
 - Negative working capital;
 - Quick ratio < 1 ;
 - Net loss of revenue from operations (modified accrual basis).



Troubled Units - Criteria

- History of on-going problems usually over more than one year
 - Lateness or Lack of audited financials
 - Low Fund Balance; Low cash balance
 - Overexpenditures
 - Unbalanced budget
 - Internal control problems
- Work with unit to execute a plan to rectify problems



Case Study #1

- LGC assumed control of coastal water & sewer authority
 - Numerous letters concerning poor financial practices;
 - Bank loan for land for WWTP site
 - Used impact & stormwater fees for operations instead of capital outlay & stormwater control;
 - Judicial action ceased collection of stormwater fees;



Case Study #1

- LGC assumed control of coastal water & sewer authority
 - Planned WWTP lacked resources & public support
 - LGC directed the Authority to contract with County for WW services; dispose of land & and reduce debt; balance budget.
 - Inadequate response prompted LGC to take financial control



Case Study #1

- LGC assumed control of coastal water & sewer authority
 - Short-term – LGC staff amended & balanced budget; negotiated loan terms with bank; raised fees & eliminated positions
 - Long-term – worked with county to serve existing customers; purchase the utility with a state loan; retire bank loan; & eventually sell land and dissolve the authority.



Case Study #2

- Eastern NC small water & sewer city
 - Population – 1,350
 - Customers – < 700
 - Total annual revenues \$600,000
 - Sewer collection & treatment with lagoon & land application; decades old; little maintenance
 - Excessive I & I
 - Lagoon over-capacity; capacity reduced due to overspraying and soil compaction



Case Study #2

- Eastern NC small water & sewer city
 - 1995 Referendum for sewer rehab
 - Placed on DENR Moratorium 1998
 - Bond authorization expired in 2002
 - PER completed 2003
 - Replace sewer lines \$6,747,300
 - 75% USDA grant; 25% USDA Loan
 - History of late audits, low fund balance, over-expenditures, lack of cash in enterprise fund



Case Study #2

- Eastern NC small water & sewer city
 - Late 2003 & early 2004 LGC series of meetings with city officials, engineers, DENR officials
 - Application to LGC in June 2004
 - November 2004 – \$3,750,000 referendum to expand, rehabilitate, & improve sewer system
 - No USDA commitment; unable to proceed
 - City was ready to purchase land w/o testing, w/o funding commitments, etc.



Case Study #2

- Eastern NC small water & sewer city
 - City sought funding from USDA, DENR, Rural Center, CWMTF, etc.
 - Worked with LGC staff to improve financial reporting, budgeting, fund balances
 - May 2006 – purchased spray field site with cash resulted in lowered fund balances
 - June 2006 – LGC approved SRF; with RC grant - \$825K to repair 4,440 ft sewer lines



Case Study #2

- Eastern NC small water & sewer city
 - August 2006 – USDA awarded \$2 MM loan & \$234K grant for sewer rehab
 - June 2007 – Bid finalized; LGC approved \$2 MM USDA bonds with \$1MM USDA grant & \$1MM CWMTF grant for additional 23,310 ft of sewer rehab & reimb. land; bonds sold in July.
 - June 2007 – USDA commitment \$1.1MM loan and \$1 MM grant for next phase



Case Study #2

- Eastern NC small water & sewer city
 - City continued to seek add'l funding needed for the next phase – additional lagoons, pumping capacity, force main, and spray irrigation facilities
 - LGC staff continued working with city staff on late audit, overexpenditures, cash flows in W&S fund due to funding projects & no new revenues due to moratorium



Case Study #2

- Eastern NC small water & sewer city
 - Late 2008/early 2009 - \$375K CWMTF grant and \$500K RC grant awarded
 - May 2009 - Project put out to bid
 - Sept 2009 – LGC approval of USDA bonds
 - July 2010 – project completed
 - LGC staff continues to work with city on sustainability in W&S fund – sewer net loss; $QR < 1$; sewer owes GF \$1MM;



Case Study #2

- Eastern NC small water & sewer city
 - 2007 application – projected monthly rates
 - Water - \$42.84; Sewer - \$ 45.02
 - 2009 application - projected monthly rates
 - Water - \$20.90; Sewer - \$ 39.65
 - 2013 actual (EFC dashboard) – 5,000 gals.
 - Water - \$34.24; Sewer - \$ 64.29



Credit Ratings

- National agencies
 - FitchRatings, S&P, and Moody's
- Regional agencies
 - Carolinas Municipal Council
- National Ratings limited to public issuers
- Low ratings = higher interest rates = higher debt costs



Credit Ratings

- Water & Sewer Revenue Bonds
 - Rating is based on the strength of the enterprise system – pledge to cover debt service by at least 1.2xs
 - Pledged revenues can be single enterprise or combination of revenues
 - City of Wilson; City of Concord



Questions and Comments?

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Thank you!

Together, we can build and maintain a fiscally strong and prosperous North Carolina.

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