

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

DOCKET NO. W-354, SUB 399

|  |   |                            |
|--|---|----------------------------|
| In the Matter of                       | ) | REBUTTAL TESTIMONY TO THE  |
| Application by Carolina Water Service, | ) | TESTIMONY OF CHARLES JUNIS |
| Inc. of North Carolina, 5821 Fairview  | ) | ON BEHALF OF THE PUBLIC    |
| Road, Suite 401, Charlotte, North      | ) | STAFF- NORTH CAROLINA      |
| Carolina 28209, for a Certificate of   | ) | UTILITIES COMMISSION BY    |
| Public Convenience and Necessity to    | ) | DEE MESHAW, CPA            |
| Provide Water Utility Service to the   | ) | FINANCE OFFICER AND        |
| Carteret County Water System, and for  | ) | ASSISTANT COUNTY MANAGER   |
| Approval of Rates                      | ) | OF                         |
|  |   | CARTERET COUNTY            |
|  |   | NORTH CAROLINA             |

Now comes Denise Meshaw and in a Verified Rebuttal to the Charles Junis testimony dated, March 10, 2023, does hereby state:

1. I am the Finance Director and Assistant County Manager of Carteret County, and have previously testified in the related proceeding before the North Carolina Utilities Commission (“NCUC” or “Commission”), which was the Fair Value matter (NCUC Docket No. W-354 Sub 398).
2. With regard to the Junis testimony, Page 21, Lines 19 and 20 “According to the FY 23 Budget, the County’s water fund is 0.7% of the revenue in FY23.” My response is: The County’s Water Fund is a small percentage compared to the county’s total annual budget for all funds. The Water Fund is the County’s only Enterprise Fund. All other funds are governmental funds. Enterprise Funds are independent of governmental funds. Enterprise funds are used to account for services and debt service that are primarily funded by user charges. Governmental funds have no relevancy to enterprise funds.

3. With regard to the Junis testimony, Page 23 line 1 and 2, by way of clarification, for fiscal year ending June 30, 2022, Carteret County's Water Fund did realize a positive change in net position. In addition, the fund reported \$47,105 income before transfers from other funds. However, the County's operator in responsible charge ("ORC") employee resigned during the year, and the County's water maintenance technician position was vacant the entire fiscal year. The County compensated during the second half of the fiscal year by contracting with Carolina Water Service. Long term, this is not a sustainable management process. Carteret County will need to hire positions, significantly increase contracted services, or a combination of the two. If the County had been fully staffed for the fiscal year, and thus not contracted with Carolina Water Service, the net effect would have been loss from operations before transfers (\$39,787). If the sale of the water system to Carolina Water Service does not occur, the County Board of Commissioners will need to increase water user rates, levy ad valorem taxes in the established Special Water Taxing District, or a combination of the two in order to have a sustainable fund and establish a capital fund for future infrastructure needs and major maintenance repairs. If the Board of Commissioners does not levy a special water district ad valorem tax, the projected increase to establish a capital fund and to adequately fund operations is forty percent increase in water user rates.
4. With regard to Page 23 Line 5 of Mr. Junis's testimony, I state as clarification, Carteret County budgets debt principal and interest payments. It does not budget depreciation expense.

With regard to Page 23 Line 9-16 of Mr. Junis’s testimony, it should be noted, on August 8, 2022, Carteret County’s Water System was designated as a distressed unit under the Viable Utility Program by the State Water Infrastructure Authority and the Local Government Commission under the Viable Utility Program as directed by NCGS 159G-45. Please see the attached August 8, 2022 letter from the NC Division of Environmental Quality (“DEQ”) addressed to Carteret County regarding the designation of a distressed unit in the Viable Utility Program. Carteret County considers this a serious designation, and not as a positive classification. The County has an element of our government that is not performing well, and thus the designation reflects that performance. Many areas of the points scored are beyond the County’s control because it is a small and rural system. For example, the service population is 2,930 which is far less than the 10,000 benchmark. Regarding infrastructure, the County will continue to not meet the Water System population / mile benchmark of density greater than 100. It states, “Evaluates population density, measured as service population divided by miles of water line. Lower density areas tend to face more service challenges.” The County will continue to score points in the areas of high rates, and for greater than 50% depreciation of system depreciable capital assets. Distressed units must fulfill requirements that are defined in the General Statutes, and must be approved by the Authority and Local Government Commission. Requirements included conducting an asset assessment and rate study, participating in training and education programs, and developing an action plan. The action plan must consider a short-term and long-term plan for infrastructure repair, maintenance, and management; continuing education of the governing board and system operating staff; long-term financial management to ensure the public water system will generate sufficient revenue



to adequately fund management and operations, personnel, appropriate levels of maintenance, and; any other matter identified by the Authority or the Commission.5.

Page 3 of the DEQ letter continues stating, “Grant funding provided in the Viable Utility Reserve established in NCGS 159G-22 may be available to help conduct an asset assessment and/ or rate study if needed to meet the requirements, as well as to evaluate merger, regionalization and decentralization opportunities in the development of an action plan to ensure a long-term, viable water utility for your community.” In 2019, NC Department of Environmental Quality Division of Water Infrastructure funded a \$34,990 Merger/ Regionalization Feasibility Study of the Carteret County Water System. Carteret County fulfilled all the requirements of this grant, and believes it satisfied this State objective. Also, regardless of the County’s access to additional funds as a distressed system, the fact that Carteret County Water System is small and rural will not be overcome merely by funding, and long-term viability is part of the consideration that led to the sale.

Respectfully submitted, this the 27 day of March, 2023.

Denise Meshaw, CPA  
Finance Director and Assistant County Manager for  
Carteret County

VERIFICATION

Denise Meshaw, being duly sworn, deposes and says: that she is the Assistant County Manager for Carteret County; that she is familiar with the facts set out in the attached Rebuttal testimony, filed in NCUC Docket No. W-354 Sub 399; that she has read the foregoing testimony and knows the contents thereof; and that the same is true of her knowledge except as to those matters stated therein on information and belief, and as to those she believes them to be true.

*Denise Meshaw*  
Denise Meshaw

Sworn to and subscribed before me this the 27 day of March, 2023

*Lori R. Turner*  
Notary Public

LORI R TURNER  
NOTARY PUBLIC  
Carteret County  
North Carolina  
My Commission Expires May 18, 2026

My Commission Expires: 5/18/2026

ROY COOPER

*Governor*

ELIZABETH S. BISER

*Secretary*

SHADI ESKAF

*Director*



NORTH CAROLINA  
*Environmental Quality*

August 8, 2022

Chairman Ed Wheatly  
Carteret County  
302 Courthouse Square  
Beaufort, NC 28516

Manager Tommy Burns  
Carteret County  
302 Courthouse Square  
Beaufort, NC 28516

RE: Designation of Distressed Unit in the Viable Utility Program for the Water/Wastewater Utility

Dear Chairman Wheatly and Manager Burns:

This notice is to follow up on the letter you received in April 2021 regarding Carteret County's potential designation as a distressed unit. Last spring, Carteret County met or exceeded the threshold for potential designation as a distressed unit under the Viable Utility Program in the recent assessment of public water and wastewater utility providers across the state as directed by North Carolina General Statute (NCGS) 159G-45. At the time, Carteret County was put on hold pending further assessment. Information on the state-wide assessments is provided below.

In the most recent assessment, Carteret County has a score of 9, which again meets or exceeds the threshold of eight points for a single system (water or wastewater) or nine points for a combined water/wastewater system. The attached scorecard shows the points assigned and data used for each of the assessment criteria. An information sheet describing each of the criteria is also attached.

**As Carteret County has now exceeded the designation threshold for two assessments, Carteret County has been designated as a distressed unit under the Viable Utility Program by the State Water Infrastructure Authority (Authority) and the Local Government Commission (Commission) under Identification Criterion 3.**

Units designated as distressed must complete a number of actions as required by statute as outlined below, and are eligible for grant funding under the Viable Utility Reserve.



North Carolina Department of Environmental Quality | Division of Water Infrastructure  
512 N. Salisbury Street | 1633 Mail Service Center | Raleigh, North Carolina 27699-1633  
919.707.9160

### **Viable Utility Program Background**

Session Law 2020-79 (SL 2020-79) was enacted July 1, 2020 to foster the viability of public water and wastewater operations across the state by identifying distressed local government units (LGUs) and providing a process for developing viable water/wastewater utilities.

*Assessment Criteria:* Several critical areas for determining when a water/wastewater utility is considered a distressed unit were outlined in SL 2020-79. Using those provisions, the Commission and the Authority worked together to adopt assessment criteria comprising financial, organizational and infrastructure components. Details on the assessment criteria and their use in scoring LGUs are provided in the attached information sheet.

*Identification Criteria:* The Commission and Authority have designed a process to identify distressed units and then work with these units to determine each unit's current conditions, consider viable options that may be available, and work with the unit on the implementation of long-term solutions. The Commission and the Authority use the following Identification Criteria for identifying distressed units:

1. A unit whose fiscal affairs are under the control of the Commission pursuant to its authority granted by NCGS 159-181 ("under Commission fiscal control"), or
2. A unit that has not submitted its annual audits to the Commission for the last two (2) fiscal years as required by NCGS 159-34, or
3. A unit with a total assessment criteria score that:
  - a. Equals or exceeds 9 for units providing both drinking water and wastewater services, or
  - b. Equals or exceeds 8 for units providing only one service, either drinking water or wastewater, or
4. A unit for which other information is available to or known by the Commission or the Authority that reflects and is consistent with, but does not expressly appear in, the assessment criteria to account for situations in which the assessment criteria score does not wholly or accurately reflect a system's level of risk due to the limitations of available data.

Units designated as distressed must complete a number of actions as required by statute. The statutory requirements of distressed units are defined in NCGS 159G-45(b) and provided below:

1. Conduct an asset assessment and rate study, as directed and approved by the Authority and the Commission.
2. Participate in a training and educational program approved by the Authority and the Commission for that distressed unit. Attendance is mandatory for any governing board members and staff whose participation is required by the Authority and the Commission.





3. Develop an action plan, taking into consideration all of the following:
  - a. A short-term and a long-term plan for infrastructure repair, maintenance, and management.
  - b. Continuing education of the governing board and system operating staff.
  - c. Long-term financial management to ensure the public water system or wastewater system will generate sufficient revenue to adequately fund management and operations, personnel, appropriate levels of maintenance, and
  - d. Any other matters identified by the Authority or the Commission.

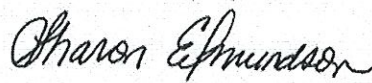
While there are statutory requirements for distressed units, there also are opportunities for continuing to move forward on long-term solutions. Grant funding provided in the Viable Utility Reserve established in NCGS 159G-22 may be available to help conduct an asset assessment and/or a rate study if needed to meet the requirements, as well as to evaluate merger, regionalization, and decentralization opportunities in the development of an action plan to ensure a long-term, viable water utility for your community. Funding for construction projects is also available. Applications for the Fall funding round are due September 30, 2022. Application training will be available this summer. Dates and registration information are available on the Division website: <https://deq.nc.gov/about/divisions/water-infrastructure/i-need-funding>

Additional information about the Viable Utility Program is available on the Division's website at <https://deq.nc.gov/about/divisions/water-infrastructure/viable-utilities>.

Should you have any questions about this notice, please contact Susan Kubacki, with the Division of Water Infrastructure at 919-707-9181 or [susan.kubacki@ncdenr.gov](mailto:susan.kubacki@ncdenr.gov).



Shadi Eskaf  
Chair, State Water Infrastructure Authority  
Director, Division of Water Infrastructure  
Department of Environmental Quality



Sharon Edmundson  
Secretary, Local Government Commission  
Deputy Treasurer  
Department of State Treasurer





## Unit Assessment Criteria Scorecard – 2022 Scores

**Unit Name: Carteret County**

**Total Score: 9**

**Type of System (Water/Sewer): DW**

As required by Session Law 2020-79 (SL 2020-79). The Local Government Commission (LGC) and State Water Infrastructure Authority (Authority) have developed criteria to identify local governments that may be struggling to provide water and/or sewer services. Assessment criteria include parameters required by the statute, infrastructure and organizational issues, and indicators of financial strain. This score card shows the points your unit scored and the data values used to determine those points. The attached Unit Scorecard Explanation provides additional information about each of the parameters that contribute to the score. Units providing both water and sewer service and scoring 9 or more points, or units providing only a single service and scoring 8 or more points are considered at risk of being designated distressed under the new law.

| Statutory Points |                    |                             |               |              |
|------------------|--------------------|-----------------------------|---------------|--------------|
| Criteria         | Service Population | Debt Service Coverage Ratio | Transfers Out | Transfers In |
| Points Scored    | 1                  | 1                           |               | 1            |
| Value Used       | 2930               | 0.25                        | 0             | 5            |

| Infrastructure/Organizational Points |                |             |               |                    |                 |               |                  |  |  |
|--------------------------------------|----------------|-------------|---------------|--------------------|-----------------|---------------|------------------|--|--|
| Criteria                             | Afford-ability | UAL Control | DW Compliance | WW / CS Compliance | Flow Moratorium | DW Pop / Mile | Sewer Pop / Mile | Rate (2022 inside) \$/5000 gal           | Revenue Outlook                              |
| Points Scored                        |                |             |               |                    |                 | 1             |                  | 1  |  |
| Value Used                           | 2              |             |               | WW:<br>CS:         |                 | 51            | DW Only          | DW: \$107.45<br>WW: \$0<br>Combined: \$0 | Population Change: 1% (also considers rates) |

| Financial Points |  |                   |               |                  |             |                          |
|------------------|--|-------------------|---------------|------------------|-------------|--------------------------|
| Criteria         | Surplus (deficit) w/ Debt                                    | No Debt DSCR Test | % Depreciated | Operating Margin | Quick Ratio | Receivables Ratio        |
| Points Scored    | 2  |                   | 1             | 1                |             |                          |
| Value Used       | Surplus w/Debt: \$(178,896)<br>W/\$1Million Test if No Debt: |                   | 54%           | (0.41)           | 2.5         | Ratio: 1.3<br>Trend: 0.0 |

## Assessment Criteria Summary 2022 Assessment

| Parameter                          | Total Possible Points | Description   | Other Notes  | Data Source   |
|------------------------------------|-----------------------|---|--|---|
| Service Population                 | 1                     | Identifies smaller systems.<br><br>Point scored for systems serving less than 10,000 people.  | This is a statutorily required criterion.  | Varied  |
| Debt Service Coverage Ratio (DSCR) | 1                     | Measures unit's ability to cover loan payments after paying for day to day operations. Measured by looking at revenue, expenses, and loan payments (principal and interest). Calculated as (Operating revenues-operating expenses excluding depreciation) / (principal + interest payments)<br><br>Point scored if value is less than 1.1.  | Over 70% of utilities have a DSCR greater than 1.1.<br><br>This is a statutorily required criterion. | Calculated from 2021 Audit data   |
| Transfers Out                      | 1                     | May indicate that revenue generated by the utilities is not being used for utility expenses.<br><br>Point scored when money is transferred out of the system's dedicated utility fund in 2 or more of the last 5 fiscal years if the system also has a negative surplus in the fiscal year of the transfer, or if the system has no debt and there is a negative surplus with debt service for a \$1 million "test" project.  | This is a statutorily required criterion.  | Calculated from 2021 Audit data   |
| Transfers In                       | 1                     | Indicates that the system is not generating enough money to cover expenditures.<br><br>Point scored when money is transferred into the primary water/sewer fund from other sources in 2 or more of the last 5 years.  | This is a statutorily required criterion.  | Calculated from 2021 Audit data   |
| Affordability                      | 1                     | Recognizes a service area's population change rate, poverty rate, median household income (MHI), unemployment rate, and property valuation per capita to established state benchmarks. <b>Note that the benchmark values are updated every year.</b><br><br><u>Current Benchmarks:</u><br>Population change: 4.42%<br>Poverty rate: 14.0%<br>MHI: \$52,413<br>Unemployment rate: 4.0%<br>Property valuation per capita: \$107,620<br><br>Point scored if 4 or 5 of these indicators are worse than the state benchmark. |  | American Community Survey, Employment Security Commission, and Dept. of Revenue |
| UAL Control Issues                 | 3                     | The UAL identifies units whose audits indicate that they may have accounting issues contributing to financial risk.<br><br>Points scored for systems that have been identified by the LGC as medium risk (2) or high risk (1) of accounting control issues  |  | LGC   |



| Parameter          | Total Possible Points | Description   | Other Notes | Data Source                            |
|--------------------|-----------------------|---|-------------|--|
| DW Compliance      | 1                     | Identifies units with DW system compliance issues.<br><br>Point scored if system has more than 5 MCL violations in a 5-year period or has ongoing treatment technique violations.   |             | NC DEQ-DWR                             |
| WW / CS Compliance | 1                     | Identifies units with wastewater treatment or collection system compliance issues.<br><br><ul style="list-style-type: none"> <li>• WW: Point scored if either in the top 10% for number of violations in a 5-year period, or a combination of in the top 20% for number of violations in a 5-year period and more than 50% of inspections document violations for wastewater treatment operations.</li> <li>• CS: Point scored if either the following occur: <ul style="list-style-type: none"> <li>○ The system is in the top 10% of systems for the number of SSO violations in a 5-year period and the top 20% for the number of SSOs per mile of collection system, or</li> <li>○ The system is in the top 20% of systems for the number of SSO violations in a 5-year period and the top 10% for the number of SSOs per mile of collection system.</li> </ul> </li> </ul> |             | NC DEQ-DWR                             |
| Flow Moratorium    | 4                     | Points scored when the system is under a moratorium preventing service expansion due to inability to treat wastewater or because the system has reached 90% of permitted capacity.  |             | NC DEQ-DWR                             |
| DW Pop/ Mile       | 1                     | Evaluates population density, measured as service population divided by miles of water line. Lower density areas tend to face more service challenges.<br><br>Point scored for density lower than 100   |             |  |
| Sewer Pop/ Mile    | 1                     | Evaluates population density, measured as service population divided by miles of sewer line. Lower density areas tend to face more service challenges.<br><br>Point scored for density lower than 100   |             |  |
| Rates              | 1                     | High rates indicate that a system is unlikely to be able to increase rates to improve revenue.<br><br>Point scored when inside rates for 5,000 gallons are greater than \$100/month for combined water and sewer service; \$50/month for water service only; and \$60/month for wastewater service only.  |             | EFC                                    |
| Revenue Outlook    | 4                     | Reflects unit's ability to generate income in the future while recognizing affordability issues.<br><br>Points scored when the system has high rates (see above) AND declining population.  |             | EFC rates; source of population varies |



| Parameter                 | Total Possible Points | Description  | Other Notes   | Data Source                     |
|---------------------------|-----------------------|--|---|---------------------------------|
| Surplus (deficit) w/ Debt | 2                     | Identifies systems that are not generating enough revenue to cover expenditures including debt payments.<br><br>Points shored when number is less than or equal to \$0, indicating insufficient funds to cover expenses. Calculated as Operating Revenues-((Operating Expenses - Depreciation) + Long-term Debt Service) | Approximately 75% of utilities have revenue exceed expenditures.  | Calculated from 2021 Audit data |
| No Debt DSCR Test         | 1                     | Similar to the DSCR calculated above but includes \$1 million "test" project if system has no debt to evaluate the unit's ability to finance a simple project with a loan.<br><br>Point scored if less than 1.1.   |   | Calculated from 2021 Audit data |
| % Depreciated             | 1                     | Evaluates the financial impact of wear and tear on water and sewer assets as they age and how much service life is left.<br><br>Point scored if greater than 50%.  | Approximately 70% of utilities have depreciation less than 50%.   | Calculated from 2021 Audit data |
| Operating Margin          | 1                     | Indicates the system's ability to generate enough revenue to cover operating expenses including depreciation.<br><br>Point scored if the operating margin is less than 0. Calculated as (Operating Revenue - Operating Expenses) / Operating Revenue   | Approximately 50% of utilities have an operating margin greater than 0.   | Calculated from 2021 Audit data |
| Quick Ratio               | 1                     | Indicates whether a system is able to meet short-term financial obligations with cash or easily accessible funds by comparing current assets to liabilities.<br><br>Point scored if less than 1.1.   | Approximately 95% of utilities have a quick ratio greater than 1.1.   | Calculated from 2021 Audit data |
| Receivables Ratio         | 1                     | Measures how well the system is collecting money from customers.<br><br>Point scored for 3-year average greater than or equal to 2.3 or if there is an increase of greater than or equal to 0.2 in each of the last two years which demonstrates a declining trend in bill payment.                                      | Over 85% of utilities have a receivables ratio less than 2.3 or less than a 0.2 increase in each of the last two years. | Calculated from 2021 Audit data |

| List of Acronyms                       |                                    |  |
|--|------------------------------------|--|
| CS = Collection System                 | DWR = Division of Water Resources  | SSO = Sanitary Sewer Overflow  |
| DEQ = Dept. of Environmental Quality   | EFC = Environmental Finance Center | SWIA = State Water Infrastructure Authority  |
| DSCR = Debt Service Coverage Ratio     | LGC = Local Government Commission  | WW = Wastewater (sewer)  |
| DW = Drinking Water                    | LWSR = Local Water Supply Plan     | UAL = Unit Assistant List generated by LGC to identify communities that may have problems with accounting procedures identified through audits |
| DWI = Division of Water Infrastructure | MCL = Maximum Contaminant Level    |  |

## Distressed Unit Identification Criteria

The State Water Infrastructure Authority and Local Government Commission adopted the following Identification Criteria to be used to identify distressed units:

1. A unit whose fiscal affairs are under the control of the Commission pursuant to its authority granted by G.S. 159-181 (“under Commission fiscal control”), or
2. A unit that has not submitted its annual audits for the last two (2) fiscal years to the Commission as required by G.S. 159-34, or
3. A unit with a total Assessment Criteria (see Attachment 1) score that:
  - a) Equals or exceeds 9 for units providing both drinking water and wastewater services, or
  - b) Equals or exceeds 8 for units providing only one service, either drinking water or wastewater, or
4. A unit for which other information is available to or known by the Authority or Commission that reflects and is consistent with, but does not expressly appear in, the Assessment Criteria to account for situations in which the Assessment Criteria score does not wholly or accurately reflect a system’s level of risk due to the limitations of available data.