

## Excerpts from Carteret County, NC Notes (continued)

Fiscal Year Ending June 30, 2022, unaudited

**Note 9. Long-Term Obligations, unaudited**

## Installment Purchase Obligations

As authorized by State law, G.S. 160A-20 and 153A-153.1, the County has entered into various installment-financing agreements in a direct placement for equipment and capital improvements. The installment purchases issued pursuant to a deed of trust because as long as the debt is outstanding the property is pledged as collateral for the debt. The County's installment-financing agreements at June 30, 2022, are comprised of the following:

## Governmental activities (serviced by the General Fund):

\$1,781,354 - Renovations of Newport Elementary School for 15 consecutive annual debt service fund installments beginning fiscal year 2009-2010, held by Galena Bank & Trust	\$ 246,354
\$4,000,000 QZAB - Renovations of East Carteret High School for 13 consecutive annual installments, beginning in fiscal year 2011-2012, including interest at 5.22%, held by BB&T	615,386
\$1,653,860 QSCB - Renovations of schools for 12 consecutive annual installments, beginning in fiscal year 2011-2012, including interest at 4.81%, held by BB&T	137,822
	<u>999,562</u>

## Business-type activities (serviced by the Water Fund):

\$589,608 - Construction of water treatment and distribution facilities for 19 consecutive installments, beginning in fiscal year 2004-2005, including interest at 5.75% annual funds provided by State Revolving Fund, held by NCDENR	31,032
\$2,800,000 - Construction of Phase II Waterline extension for 20 consecutive annual installments, beginning in fiscal year 2005 - 2006, including interest at 2.205%, funds provided by State Revolving Fund, held by NCDENR	560,000
	<u>591,032</u>
	<u>\$ 1,590,594</u>

Annual debt service requirements to maturity for installment financing at June 30, 2022, are as follows:

Year Ending June 30,	Governmental Activities		Business-Type Activities		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest
2023	\$ 570,514	\$ 38,752	\$ 171,032	\$ 14,132	\$ 741,546	\$ 52,884
2024	429,048	16,061	140,000	9,261	569,048	25,322
2025	-	-	140,000	6,174	140,000	6,174
2026	-	-	140,000	3,087	140,000	3,087
	<u>\$ 999,562</u>	<u>\$ 54,813</u>	<u>\$ 591,032</u>	<u>\$ 32,654</u>	<u>\$ 1,590,594</u>	<u>\$ 87,467</u>

Excerpts from Carteret County, NC Notes (continued)

Fiscal Year Ending June 30, 2022, unaudited

**Note 9. Long-Term Obligations (Continued), unaudited**

**Revenue Bond**

\$1,046,000 USDA water revenue bond issued on November 26, 2012; interest at 2.75%

bonds due on June 1 in varying installments through June 1, 2052 \$ 906,000

Annual debt service requirements to maturity for revenue bonds June 30, 2022, are as follows:

Year Ending June 30,	Principal	Interest
2023	\$ 20,000	\$ 24,915
2024	20,000	24,365
2025	21,000	23,815
2026	21,000	23,238
2027	22,000	22,660
2028-2032	120,000	103,841
2033-2037	137,000	86,433
2038-2042	157,000	66,496
2043-2047	180,000	43,724
2048-2052	208,000	17,517
	<u>\$ 906,000</u>	<u>\$ 437,004</u>

The County has pledged future water revenues, net of specified operating expenses, to repay the revenue bond issued on November 26, 2012. The County is in compliance with the covenants contained in the USDA bond order as set forth in Article V through VII. The significant bond covenants require: a) that the net revenues (excluding depreciation) for each fiscal year shall not be less than 110% of the debt service requirement for such Fiscal Year and not less than 100% of the amount necessary to meet annual debt service obligations coming due in that Fiscal Year with respect to the County's general obligation bonds and installment financing obligations, if used to finance System Improvements and b) The County shall establish a Debt Service Reserve account to provide for at least one average annual loan installment.



3. Please provide an update through June 2022 to the "Billing & Usage History 3-years data" Excel file.
  - a. A spreadsheet of the billing and usage history through June 2022 is provided. (See Attachment 3A)

Response prepared by Dee Meshaw, Carteret County Assistant Manager and Finance Director.

302 Courthouse Square  
Beaufort, NC 28516  
(252) 728-8450

FY 2019 Billing Information

Date	Customers Billed	Service covers 1st 1,000	Metered Amount consump. over 1,000	Bill Amount	Total Billed Gallons	Total Pumped Gallons
Jul-18	1191.00	\$24,991.80	\$32,928.50	\$57,920.30	4,750,000.00	7,778,248.00
Aug-18	1190.00	\$21,365.16	\$32,998.50	\$54,363.66	4,200,400.00	7,256,100.00
Sep-18	1187.00	\$23,235.06	\$32,978.00	\$56,213.06	4,483,500.00	6,518,735.00
Oct-18	1201.00	\$21,459.00	\$33,198.00	\$54,657.00	4,201,300.00	6,950,114.00
Nov-18	1180.00	\$21,989.61	\$32,962.00	\$54,951.61	4,263,100.00	6,347,759.00
Dec-18	1179.00	\$11,312.55	\$32,759.00	\$44,071.55	2,634,200.00	6,586,373.00
Jan-19	1181.00	\$23,662.86	\$32,841.50	\$56,504.36	6,617,564.00	4,503,200.00
Feb-19	1173.00	\$17,329.35	\$32,786.50	\$50,115.85	3,559,600.00	6,165,306.00
Mar-19	1180.00	\$17,281.74	\$32,814.00	\$50,095.74	3,553,900.00	7,081,585.00
Apr-19	1192.00	\$22,282.17	\$33,044.50	\$55,326.67	4,318,400.00	7,627,812.00
May-19	1197.00	\$22,179.36	\$33,182.00	\$55,361.36	4,299,600.00	7,662,046.00
Jun-19	1200.00	\$25,665.93	\$33,292.00	\$58,957.93	4,817,600.00	7,167,865.00

FY 2020 Billing Information

Date	Customers Billed	Service covers 1st 1,000	Metered Amount consump. over 1,000	Bill Amount	Total Billed Gallons	Total Pumped Gallons
Jul-19	1201.00	\$25,139.46	\$33,253.00	\$58,392.46	4,717,000.00	7,850,630.00
Aug-19	1208.00	\$24,887.18	\$33,311.00	\$58,198.18	4,676,300.00	7,140,110.00
Sep-19	1207.00	\$18,558.29	\$33,387.50	\$51,945.79	3,775,700.00	6,737,017.00
Oct-19	1206.00	\$21,494.88	\$33,395.00	\$54,889.88	4,212,300.00	6,888,000.00
Nov-19	1208.00	\$18,087.52	\$33,466.00	\$51,553.52	3,701,400.00	6,365,600.00
Dec-19	1202.00	\$16,890.74	\$33,328.50	\$50,219.24	3,510,432.00	6,876,601.00
Jan-20	1201.00	\$26,570.92	\$33,427.00	\$59,997.92	4,956,858.00	6,540,994.00
Feb-20	1205.00	\$17,893.77	\$33,493.50	\$51,387.27	3,667,800.00	6,200,000.00
Mar-20	1207.00	\$18,037.85	\$33,466.00	\$51,503.85	3,692,481.00	6,853,350.00
Apr-20	1210.00	\$24,593.61	\$33,521.00	\$58,114.61	4,616,292.00	6,879,030.00
May-20	1207.00	\$19,828.53	\$33,564.50	\$53,393.03	3,926,800.00	7,189,492.00
Jun-20	1206.00	\$24,501.90	\$33,521.00	\$58,022.90	4,628,700.00	7,400,000.00

**FY 2021 Billing Information**

Date	Customers Billed	Service	Metered Amount	Bill Amount	Total Billed Gallons	Total Pumped Gallons
		<u>covers 1st 1,000</u>	<u>consump. over 1,000</u>			
Jul-20	1216.00	\$30,014.31	\$33,658.50	\$63,672.81	8,427,500.00	5,445,800.00
Aug-20	1224.00	\$23,252.31	\$33,768.50	\$57,020.81	4,467,600.00	7,484,265.00
Sep-20	1221.00	\$23,624.22	\$33,867.00	\$57,491.22	4,515,800.00	6,540,000.00
Oct-20	1226.00	\$19,331.33	\$33,969.50	\$53,300.83	3,883,604.00	6,053,000.00
Nov-20	1227.00	\$19,327.42	\$34,015.00	\$53,342.42	3,889,275.00	5,483,008.00
Dec-20	1230.00	\$22,033.77	\$34,042.50	\$56,076.27	4,285,500.00	6,595,000.00
Jan-21	1240.00	\$25,442.37	\$34,152.50	\$59,594.87	4,786,100.00	6,885,522.00
Feb-21	1231.00	\$19,557.07	\$34,125.00	\$53,682.07	3,909,800.00	5,873,456.00
Mar-21	1228.00	\$20,511.63	\$34,207.50	\$54,719.13	4,076,500.00	6,588,452.00
Apr-21	1241.00	\$20,532.33	\$34,372.50	\$54,904.83	4,103,900.00	6,809,510.00
May-21	1238.00	\$28,147.86	\$34,603.00	\$62,750.86	5,250,700.00	7,781,230.00
Jun-21	1251.00	\$24,938.77	\$34,795.50	\$59,734.27	4,783,400.00	6,735,841.00

**FY 2022 Billing Information**

Date	Customers Billed	Service	Metered Amount	Billing Amount	Total Gallons	Total Gallons Pumped
		<u>covers 1st 1,000</u>	<u>consump. over 1,000</u>			
21-Jul	1244	\$51,218.75	\$67,988.45	\$119,207.20	4,951,500.00	4,000,000.00
21-Aug	1257	\$42,310.68	\$68,062.55	\$110,373.23	4,282,700.00	4,200,000.00
21-Sep	1248	\$31,709.96	\$50,997.35	\$82,707.31	4,287,400.00	6,781,500.00
21-Oct	1255	\$32,294.75	\$50,997.35	\$83,292.10	4,356,200.00	7,014,370.00
21-Nov	1255	\$25,796.41	\$50,900.00	\$76,696.41	3,673,500.00	6,773,170.00
21-Dec	1254	\$27,162.94	\$51,020.75	\$78,183.69	3,815,300.00	7,008,150.00
22-Jan	1263	\$33,832.98	\$51,222.00	\$85,054.98	4,478,600.00	6,779,262.00
22-Feb	1278	\$26,680.16	\$52,080.90	\$78,761.06	3,769,100.00	5,183,000.00
22-Mar	1268	\$27,078.28	\$51,628.80	\$78,707.08	3,814,700.00	10,824,000.00
22-Apr	1269	\$25,494.09	\$51,588.55	\$77,082.64	3,641,800.00	9,796,000.00
22-May	1275	\$35,427.77	\$51,881.35	\$87,309.12	4,673,704.00	9,716,000.00
22-Jun	1277	\$37,427.28	\$52,071.55	\$89,498.83	4,872,309.00	9,653,000.00

4. Please provide the basis for proceeding to an upset bid process for selling the water system.

“County governments generally dispose of property in accordance with the procedures set forth in G.S. 160A, Article 12 (160A-265 – 279). Article 12 authorizes several methods for selling or disposing of property and sets forth the procedures for each one. Additionally, the North Carolina Supreme Court has indicated that the price resulting from an open and competitive procedure will be accepted as the market value (Bell, pg.469).” Carteret County utilized the procedures set forth in G.S. 160A-269 and required bid deposits each time an upset bid was received after being duly advertised to the public.

Data Source(s) Consulted:

Bell, Wicker, County Government in North Carolina, 4th Edition, 1999, Institute of Government, The University of North Carolina at Chapel Hill, pgs. 468-471.

Bluestein, County and Municipal Government in North Carolina, Second Edition, 2014, UNC School of Government, Chapel Hill, NC, pgs. 408-410.

Response prepared by Tommy Burns, Carteret County Manager, and Eugene Foxworth, Carteret County Assistant Manager and Planning Director.

302 Courthouse Square  
Beaufort, NC 28516  
(252) 728-8450

5. Please provide the details and copies of correspondences regarding the proposal(s) made to the Town of Beaufort to acquire the water system from Carteret County, including when those discussions occurred and the financial terms.

The County applied and received a Water System Merger Grant from the State of North Carolina in 2019. The system at the time was under consideration by the Local Government and State Water Infrastructure Authority (LGSWIA) as a "Distressed System". In 2021, the LGSWIA of the State did in fact vote to consider the Carteret County Water System a distressed system based on a number of established evaluation criteria (Attachments 5A and 5B). Following the completion of the Merger and Feasibility Study by Draper Aden and Associates (Attachment 5C), Carteret County met and discussed with the Town of Beaufort assuming the system assets and debt. In the discussions, the County had offered the system to the Town of Beaufort in early 2020. On March 9, 2020, John Day, Town of Beaufort Manager, responded via email that "the [Town] Board did not wish to pursue merger at this time" (Attachment 5D). At that time, Tommy Burns, County Manager, advised the Town of Beaufort that the County was going to solicit interest in the system from private utility companies.

Attachment 5A - Carteret County Distressed Unit Designation

Attachment 5B - Assessment Criteria Summary

Attachment 5C - Feasibility Study for Water System Merger

Attachment 5D - Email Correspondence to/from Town of Beaufort

Response prepared by Tommy Burns, Carteret County Manager, and Eugene Foxworth, Carteret County Assistant Manager and Planning Director.

302 Courthouse Square  
Beaufort, NC 28516  
(252) 728-8450



ROY COOPER  
Governor  
ELIZABETH S. BISER  
Secretary  
SHADI ESKAF  
Director



Attachment 5A

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

OFFICIAL COPY

Oct 14 2022

### **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



## Assessment Criteria Summary 2022 Assessment

Parameter	Total Possible Points	Description	Other Notes	Data Source
Service Population	1	Identifies smaller systems.  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)  Point scored if value is less than 1.1.	Over 70% of utilities have a DSCR greater than 1.1.  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.  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.  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>  <u>Current Benchmarks:</u> Population change: 4.42% Poverty rate: 14.0% MHI: \$52,413 Unemployment rate: 4.0% Property valuation per capita: \$107,620  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.  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.  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.  <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.  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.  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.  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.  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.  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.  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.  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.  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.  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.  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.

**FEASIBILITY STUDY FOR  
WATER SYSTEM MERGER**

**Carteret County, NC**



**December 2019**

**DAA Project Number: 18080125-010204**




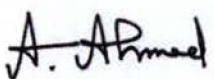
**Draper Aden Associates**  
*Engineering • Surveying • Environmental Services*




### 3<sup>RD</sup> PARTY REVIEW

This Report has been subjected to technical and quality reviews by:

Andy Dastidar		12/5/2019
Name:	Signature	Date
Project Engineer		

Aziz Ahmed		12/5/2019
Name:	Signature	Date
Project Manager		

C. Tyrus Clayton, Jr		12/5/2019
Name:	Signature	Date
Quality Reviewer		



**TABLE OF CONTENTS**

**1.0 INTRODUCTION..... 1**

1.1 Objectives.....1

1.2 Report Organization.....1

**2.0 CARTERET COUNTY WATER SYSTEM ASSESSMENT..... 2**

2.1 System Overview.....2

2.2 Special Water Tax District.....2

2.3 Water System Assets.....3

2.3.1 Storage Tanks.....4

2.3.2 Pump Stations.....4

2.3.3 Land.....5

2.4 Asset Maintenance.....5

2.4.1 Pipeline Maintenance.....5

2.4.2 Tank Maintenance.....5

2.5 Carteret County Water System Capital Improvement Plan.....6

**3.0 ESTIMATED CURRENT VALUE OF THE CARTERET COUNTY WATER SYSTEM..... 9**

3.1 Theory of Asset Valuation.....9

3.2 Estimated Value of the County's Water Systems.....10

**4.0 ORGANIZATION OF CARTERET COUNTY WATER DEPARTMENT ..... 13**

**5.0 REVENUES AND EXPENSES OF CARTERET COUNTY WATER SYSTEM ..... 15**

5.1 Water Rates.....15

5.2 Outstanding Debts and Repayment Schedule.....15

5.3 Revenue and Expenses.....17

5.3.1 Review of Historical Revenue and Expenses.....17

5.3.2 Review of FY 2020 Finances.....18

5.4 Opportunity to Eliminate Deficit.....19

**6.0 FEASIBILITY OF MERGER ..... 20**

6.1 Water System of Town of Beaufort.....20

6.2 Organizational Impact of Merger.....20

6.3 Key Advantages of Merger for Town of Beaufort.....21

6.4 Recommendation for Carteret County.....21

6.5 Recommendation for Rate Modification.....22

6.6 Financial Advantages for Town.....23

**7.0 CONCLUSION..... 25**

**8.0 REFERENCES..... 26**



**TABLES**

Table 1. Revenue and Expenses for the Special Water Tax District.....3

Table 2. Water System Assets of Carteret County .....3

Table 3. Elevated Water Tanks.....4

Table 4. Pump Stations.....4

Table 5. Carteret County Water System Property .....5

Table 6. Tank Maintenance Report (2015-2018) .....7

Table 7. Estimated Book Value of Carteret County Water System ..... 11

Table 8. Present Book Value of Carteret County Water System..... 12

Table 9. Water Utility Debt Payment Schedule for Carteret County..... 15

Table 10. Budget for F2016-FY2019..... 18

Table 11. Projected Fiscal Budget for year 2020 ..... 18

Table 12. Fiscal and Projected Budget for FY 2019-FY 2025..... 19

Table 13. Proposed Out of Town Water Rates..... 22

Table 14. Comparison of Cash Flow - Before and After Merger..... 23

**FIGURES**

Figure 1 Carteret County Organizational Chart..... 14

Figure 2 Carteret County Water Utility Debt Payment Schedule..... 17

**APPENDICES**

Appendix A Carteret County Water System Maps

Appendix B Carteret County Water Rates

Appendix C Town of Beaufort Water Rates



## EXECUTIVE SUMMARY

Carteret County (the County) retained Draper Aden Associates (DAA) to evaluate the feasibility of a “merger” of the County’s water systems with Town of Beaufort’s (the Town) water system. The proposed “merger” would entail the Town of Beaufort taking over the ownership and operation of the County’s water systems.

### **The following tasks were performed:**

1. Evaluated the County’s water systems assets and maintenance programs.
2. Developed estimated present value of the County’s water systems.
3. Reviewed current staffing and potential impacts on the Town’s water system staffing, if the merger were to occur.
4. Reviewed the County’s water rates, revenues, operating expenses and debt service.
5. Analyzed the projected fiscal impact on the Town of Beaufort water system, if the merger occurs.
6. Developed recommendations for a win-win merger condition for both the Town and the County.

### **Major findings from the study include:**

1. County’s water infrastructure is well documented and in good condition.
2. Estimated present value of the County’s water system is approximately \$12.3 million.
3. County’s current water rate (\$55.10 / 5,000 gallons) is less than the Town’s out of town water rate (\$58.79 / 5,000 gallons).
4. County has outstanding water debt of \$2,066,128 (principal only) which will be retired in Fiscal Year 2051-2052.
5. The operating expenses of the County’s water system have exceeded revenues in recent years and the deficits have been subsidized by the tax revenues generated from the Special Water Tax District. FY 2019 is the first year where projected expenses will be lower than the revenue. The County believes that FY 2019 will be the new normal as the water system is in good condition now, and the County does not have any need for large capital investment in the foreseeable future.
6. Currently, the County has three (3) water staff and the Town has four (4) water staff. The merged system will need services of a full-time and part time County staff in addition to the four (4) Town staff. There will be a \$165,000 savings in staff compensation. These excess funds can be used for system upgrades or capital expenditures.

DAA’s findings show that a merger will be beneficial for both the County and the Town, but to make it workable for the Town, DAA made some recommendations.