Small Town Regionalization Case Study: City of Claremont, North Carolina

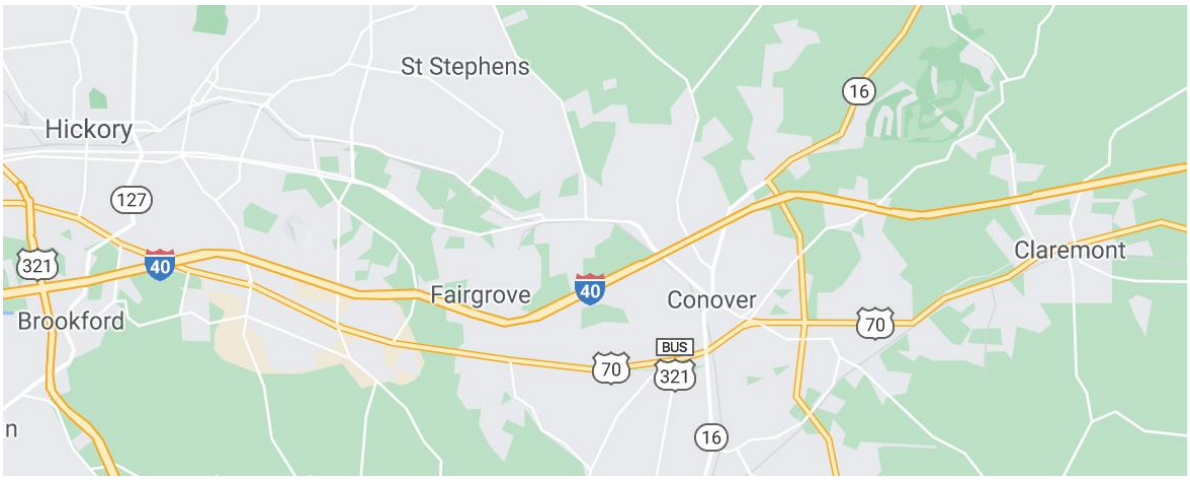
Series of case studies on small water and wastewater utilities developed by

UNC SCHOOL OF GOVERNMENT Environmental Finance Center

Background on Claremont, North Carolina

Small utilities regionalizing and collaborating with other neighboring utilities often holds an important role in their long-term viability and success. This case study looks at the steps taken by the City of Claremont, located in rural Catawba County in North Carolina, to work with the nearby City of Hickory to create a successful working relationship between their wastewater utilities.

There are currently around 1,600 people who reside in Claremont[1], but the city hosts a daytime population of 8,500 with a large influx of people arriving in the city during the day for work. Claremont is about 13 miles away from the City of Hickory, or a 20-minute drive on I-40. The City of Hickory, which hosts a population of 40,402[2], is the largest local government in the vicinity.



Hickory and Claremont on the map. Image provided by Google Maps.

Both the city of Claremont and the city of Hickory own and operate their own wastewater systems. Claremont's wastewater system is much smaller in size and capacity than Hickory's, which serves many nearby communities in addition to its own city residents. Regionalization between these two local governments' wastewater systems would lower Claremont's debt burden, capital and operational needs, and generate more revenue for Hickory.

Risk and debt aversion

Claremont has two wastewater treatment plants. The North plant was built in 1951. While it still runs, it is operating at capacity and is well past its service life. The McLin Creek Wastewater Treatment Facility was built in 1996, originally to treat the city's largest industrial customer, Prysmian, which produces optical fibers for the telecom industry.

Around 2017, the McLin wastewater treatment plant needed about a $7-$7.5 million investment in order to decommission the North wastewater treatment plant and transfer all flows to the McLin plant. Additionally, the McLin plant required an upgrade to increase its capacity. For a city with annual operating revenues of about $1.8 million for both their water and wastewater systems, this level of capital investment would be challenging and require debt financing. Further, investing in the McLin wastewater treatment plant would put Claremont in a risky situation considering that Prysmian accounted for 50% of the wastewater use on this treatment plant. Prysmian, as a large employer, generates a lot of revenue for Claremont and ensuring adequate wastewater treatment capacity to serve them is essential for the city. However, if Prysmian ever decided to relocate elsewhere, as had happened once for a short period of time in the past, all of the debt used to finance the capital improvements on the McLin wastewater treatment plant would fall on the residents of Claremont to pay off.

To consider financing improvements on the wastewater treatment plant while spreading the debt burden and risk more widely, the city of Claremont examined options to increase their wastewater flows from other or new customers to diversify the city's revenue base. Attracting new industrial customers is difficult and Claremont could not depend on this possibility to get more use out of their improved wastewater treatment plant. The risk and difficulty of attracting new large customers, as well as the current customer base not being large enough to take on the debt service without Prysmian were some of the reasons Claremont began looking towards regionalization of its wastewater system as an opportunity moving forward.

Another reason regionalization would be beneficial is Claremont wanted to develop more water utility expertise to ensure they were meeting regulations and remaining within compliance. As a small system, Claremont had trouble competing with Hickory's larger and more specialized utility in attracting and retaining skilled operators and staff. Claremont had no engineers on staff, while Hickory had a variety of engineering expertise. In the early 2000's, Claremont owned and operated its own treatment plants, but without the same expertise and resources as Hickory, they often were receiving notifications of violations. The City of Conover, five miles away from Claremont, was contracted by Claremont to operate the city's wastewater treatment plants for a

while. Later, it was decided by the city of Claremont that it would be advantageous if the city of Hickory treated all of the city's wastewater, which would help to avoid additional notices of violations.

To explore regional options, a Merger/Regionalization Grant Study (MRF) was conducted in 2016. MRF studies allow two or more systems to evaluate the feasibility of regional approaches to wastewater treatment or water supply. The study found that Claremont's system could directly connect to the City of Hickory's around the Town of Catawba's town limits, along the McLin creek. Hickory will build their corresponding line from that location to their plant, and each city will own their respective lines.

This regional solution will help decrease the financial risks for Claremont, and lessen the risk of receiving more violations, as Hickory had the appropriate expertise to take on more wastewater treatment. Outsourcing wastewater treatment will give the city of Claremont more time to focus on other activities they specialized in, such as economic development and building community pride. This will help Claremont remain financially viable through targeting and expanding on what they specialized in, and ensuring the system will also get the care it needs.

Although the connection would benefit both Hickory and Claremont, coming to a finalized interlocal agreement was challenging.

Coming to an agreement

A successful partnership would create more revenue for Hickory as well as ease the debt burden on Claremont. It could also open doors to future working relationships between the cities. In September 2018, Jason Brown became City Manager of Claremont, coming to the city after 22 years with Henderson County, North Carolina. He expected there would not be many issues with a small city's water and wastewater systems, but he then learned that Claremont and Hickory had been discussing potential regionalization of their systems for 10 - 15 years already and never reaching an agreement. Confusing emails going between two parties was an inefficient way to come to an agreement on a matter that necessarily requires questioning, explaining, brainstorming, and negotiating. It could take weeks to months to hear back by email.

There were also issues with Claremont's city manager turnover over time. It could take up to a year for a new manager to learn the position, and by the time that some progress can be made on an interlocal agreement, turnover might occur again, resetting the process. Claremont had four full time and six interim city managers between 2009 and 2018. This turnover resulted in a lot of starts and stops, and no real progress on regionalization.

To move forward, the city of Claremont sought help from Leah Martin and the Western Piedmont Council of Governments (COG). They were able to provide institutional knowledge of the ongoing conversations between Claremont and Hickory, and experience to help with deal making, logistics and negotiations of an interlocal agreement. The resources available at the

COG helped with continuity while Jason Brown was onboarding. The city of Claremont was also able to bring Leah on staff to help with continuity of resources and retaining institutional knowledge. Then, in order to get the ball rolling again on the regionalization agreement, Jason Brown took the conversation away from emails and organized times when the two city managers could meet and discuss the agreement in person. This face-to-face conversation gave both cities the opportunity to go through a draft interlocal agreement point by point and sort out what each party wanted from the agreement. With mediators and attorneys attending some meetings, they found that the time with just city managers in the room was the most productive in terms of identifying the key aspects of the agreement that would be agreeable to both parties. The meetings took place over the span of a month, but these in person interactions were key to bringing 10-15 year ongoing discussions to a close.

Using Funding and Tools for Budgeting

In order to plan and pay for the physical interconnection of Claremont's wastewater system with Hickory's, the city of Claremont applied for and used multiple grants and loan funding from multiple sources including: Catawba County, the Industrial Development Fund (IDF), North Carolina Department of Environmental Quality (DEQ)'s Clean Water State Revolving Fund, and from the Golden Leaf Foundation. The city also worked with staff at the Environmental Finance Center (EFC) at the UNC School of Government, which provided free financial analysis and planning assistance to the city through its Network's Smart Management for Small Water Systems project. The EFC and the city of Claremont staff jointly used the EFC's Water and Wastewater Rates Analysis Model, which assisted in determining how the city would fund and charge its customers for the project. This tool helped Claremont decide what the water and wastewater rates should be, the reason why rates should be adjusted regularly, and how to build up reserves to pay for capital projects.

As a consequence, Claremont generated the revenues and financing it needed, placing its Enterprise Fund in a stronger position to pay for the capital project. As construction continues, Claremont will be able to handle the first year of debt service from regionalization without increasing rates by using their built-up cash reserves. If rates were to increase, the city manager plans to utilize the increased revenues to directly pay for capital projects.

Claremont Today

Improved Cross-City Collaboration and Lowered Debt Burden

Claremont today is still running its two wastewater treatment plants while construction of the wastewater interconnection with Hickory takes place. Once the project is completed, and Claremont's wastewater treatment plants are taken offline, Claremont estimates that it will reduce its expenses and generate net savings of about $200,000 annually, starting in 2024.

Learning how to work collaboratively with other cities has helped Claremont not only reduce their potential debt burden for capital improvements, but also address their wastewater discharge violations and management concerns. Their successful collaboration with Hickory also demonstrates to other communities that Claremont works well with others, which can potentially lead to more partnerships with other towns on various services in the future. Claremont and Hickory's relationship has proven to be beneficial for both cities and they can continue to build off of their existing relationship to collaborate in the future.

Regionalization is Flexible

Regionalization looks different depending on the needs of each town. Claremont's city manager wants to erase the stigma that regionalization will cause a town to lose control over their water or wastewater system. Regionalization can be tailored to address many different scenarios and priorities. Regionalization of water or wastewater systems can range from contracting out specific services (such as meter reading and billing), to purchasing treatment capacity and services, all the way to potentially merging systems into one unit under different governance models. In many forms, regionalization does not entail the transfer of ownership of a system to another entity, although that is also possible. There are many ways to partner and discussing multiple options is an important step that could be life changing for some municipalities. Utilities that are considering exploring a range of potential options for regionalization should consider applying for a Merger/Regionalization Feasibility grant in order to fund a study as a first step.

Acknowledgments

We would like to thank Jason Brown, Claremont's City Manager, for his time and the information he provided which was vital to creating this case study.

[1]Claremont Population: https://datausa.io/profile/geo/claremont-nc
[2] Hickory population: https://datausa.io/profile/geo/hickory-nc

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