

**State Water Infrastructure Authority  
February 10, 2021 Meeting  
Agenda Item H – Final List of Distressed Units**

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**Division of Water Infrastructure Staff Report**

**Background**

Session Law 2020-79, entitled in part “An Act to Improve the Viability of the Water and Wastewater Systems of Certain Units of Local Government...”, authorizes the State Water Infrastructure Authority (Authority) and Local Government Commission (Commission) to develop criteria to assess and review local government units, and to utilize the assessment and review process to identify distressed units.

At a Special Joint meeting of the Authority and Commission held on October 14, 2020, the staffs of the Division of Water Infrastructure (Division) and the Commission presented the Authority and Commission with proposed Assessment Criteria. The Division and Commission staffs then developed criteria for identifying distressed units (Identification Criteria). The Commission adopted the Assessment Criteria and the Identification Criteria at its meeting on November 10, 2020. The Authority adopted the Assessment Criteria and the Identification Criteria at its meeting on November 18, 2020.

**Distressed Unit Identification Criteria**

The Authority and 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.

### **Final Distressed Unit List**

Division and Commission staff have compiled local government unit data in accordance with the approved criteria to identify distressed units. At the December 9, 2020 meeting, draft lists were provided showing the showing key data values for each of the Assessment Criteria parameters and the scores assigned to each unit based on those parameters. Since that meeting, data have been updated to include the LGC's December 2020 revision to the Unit Assistant List and updates to financial data for a few units that were previously missing data. Attachment 2 lists the units that meet the Identification Criteria, as identified by a 1, 2, or 3 in the "Distressed ID Category" column (there are no units in the list that meet Identification Criteria 4).

The list includes a total of 119 units. The first four units on the list were officially designated as distressed by the Authority (November 18, 2020) and the Commission (November 10, 2020): Town of Eureka, Cliffside Sanitary District, Town of Bethel, and Town of Kingstown. The additional 115 units on the list are presented for consideration for formal designation as distressed.

### **Recommendations**

Staff recommends that the Authority designates the units listed in Attachment 2 as distressed.

**State Water Infrastructure Authority**  
**February 10, 2021 Meeting**  
**Agenda Item H Attachment 1 – Distressed Unit Assessment Criteria**

**Distressed Unit Assessment Criteria**

Parameter	Weight	Description	Formula / Other	Data Source
<b>Criteria Required by Statute</b>				
Service Population	1	Identifies smaller systems (less than 10,000 people served).		Varied
Transfers Out	1	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 indicates that money generated by the utilities is not being put back into the system for improvements.		Calculated from LGC data
Transfers In	1	Indicates that the system is not generating enough money to cover expenses. Point scored when money is transferred into the primary water/sewer fund from other sources in 2 or more of the last 5 years.		Calculated from LGC data
Debt Service Coverage Ratio (DSCR)	1	Measures unit's ability to cover loan payments by looking at revenue, expenses, and loan payments (principal and interest). Threshold value is less than 1.1.	(Operating revenues - operating expenses excluding depreciation) / (principal + interest payments)	Calculated from LGC data
Established, operational, and adequately funded program for repair, maintenance, and management		This criterion is measured by other parameters that are identified by an asterisk (*) including compliance, flow moratorium, and UAL control issues.		
<b>Infrastructure/Organizational Criteria</b>				
DW Compliance (*)	1	Point scored for more than 5 MCL violations in a 5-year period or for ongoing treatment technique violations.		NC DEQ-DWR

Parameter	Weight	Description	Formula / Other	Data Source
<b>Infrastructure/Organizational Criteria (continued)</b>				
WW / CS Compliance (*)	1	<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
Revenue Outlook	4	Reflects service unit's ability to generate income in the future. Points scored when the system has high rates AND declining population.		EFC rates; source of population varies
Affordability	1	Identifies economically disadvantaged communities by comparing the service area's population change rate, poverty rate, median household income (MHI), unemployment rate, and property valuation per capita to established state benchmarks. Point scored if 4 or 5 of these indicators are worse than the state benchmark. <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	Developed by DWI/SWIA
Rates	1	Point scored when rates are already high. Indicates that the system is unlikely to be able to increase rates to improve revenue. High rates thresholds are: > \$100/month for combined water and sewer service; > \$50/month for water service only; and > \$60/month for wastewater service only.	2019 inside rate for 5,000 gallons used	EFC
DW Pop / Mile	1	Evaluates population density. Lower density areas tend to face more service challenges. Threshold value is less than 100.	Service Population/ Miles of drinking water pipe	LWSP (see above for population)
Sewer Pop / Mile	1	Evaluates population density. Lower density areas tend to face more service challenges. Note that there is a significant lack of data on miles of sewer line for small systems. Threshold value is less than 100.	Service Population/ Miles of sewer pipe	NC DEQ-DWR

Parameter	Weight	Description	Formula / Other	Data Source
<b>Infrastructure/Organizational Criteria (continued)</b>				
UAL Control Issues - W/S only (*)	3	Points scored for systems that have been identified as medium risk (2) or high risk (1) of accounting control issues associated with water and/or sewer systems based on annual audits.		LGC
<b>Financial Criteria</b>				
UAL Missing Audit	3	If audit not submitted, then treat as if on the UAL for control issues (for FY 19 audits)		LGC
Surplus (deficit) w/ Debt	2	Identifies systems that are not generating enough revenue to cover expenses, asset depreciation, and debt payments. Threshold value is less than or equal to \$0.	Operating Revenues- ((Operating Expenses- Depreciation)+Long-term Debt Service)	Calculated from LGC data
No Debt DSCR Test	1	Similar to the DSCR calculated above but includes \$1 million "test" project if system has no debt to allow evaluation of the ability to finance a simple project. Threshold value is 1.1.		Calculated from LGC data
% Depreciated	1	Evaluates the financial impact of depreciation of water and sewer assets as they age. Threshold value is greater than 50%.		Calculated from LGC data
Operating Margin	1	Point scored if the system is not generating enough revenue to cover operating expenses. Threshold value is less than 0.	(Operating Revenue - Operating Expenses) / Operating Revenue Includes depreciation	Calculated from LGC data
Quick Ratio	1	Evaluates a system's ability to meet short-term financial obligations with cash or easily accessible funds. Threshold value is less than 1.1.	Current assets (excluding inventories and prepaids) / current liabilities	Calculated from LGC 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.	Days Receivables /billing period Days receivables=Net Customer Accounts Receivable/Charges for services /365	Calculated from LGC data

<b>List of Acronyms</b>		
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	

	A	B	D	E	I	J	K	L	M	N	O	P	Q	R	S	T	U	V	W	X	Y	Z	AA	AB	AC	AD	AE	
1								Criteria Required by Statute				Infrastructure/Organizational Criteria								Financial Criteria								
2	Local Government Unit	Utility Type	Distressed ID Category	Total Assessment Score	Total Statute Points	Total Infr/Org Points	Total Financial Points	Service Population (1)	Debt Service Coverage Ratio (1)	Transfers Out (1)	Transfers In (1)	Affordability (1)	UAL Control - W/S only (3)	DW Compliance (1)	WW / CS Compliance (1)	Flow Moratorium (4)	DW Pop / Mile (1)	Sewer Pop / Mile (1)	Rate (2019 inside) \$/5000 gal (1)	Revenue Outlook (4)	2 Missing Audits	Surplus (deficit) w/ Debt (2)	No Debt DSCR Test (1)	% Depreciated (1)	Operating Margin (1)	Quick Ratio	Receivables Ratio	
3	Cliffside Sanitary District	WW	D 1	4		4		NoData	NoData	LimitedData	LimitedData	NoData	3					1			Yes	NoData	NoData	NoData	NoData	NoData	LimitedData	
4	Eureka	WW	D 1	6	1	5		1	NoData			1	3					1		1		NoData	NoData	NoData	NoData	NoData	LimitedData	
5	Bethel	BOTH	D 3	17	2	10	5	1	1			1	3					1		1	4	2	NoData	NoData	NoData	NoData	LimitedData	
6	Kingstown	WW	D 3	11	1	10		1	NoData			1	3					1		1	4		NoData	NoData	NoData	NoData	LimitedData	
7	Robersonville	BOTH	1	7	1	6		1	NoData	LimitedData	LimitedData	1	3				1	1	1		Yes	NoData	NoData	NoData	NoData	NoData	LimitedData	
8	Askeville	0	2	5	1	4		1	NoData	NoData	NoData	1	3								Yes	NoData	NoData	NoData	NoData	NoData	LimitedData	
9	Castalia	0	2	5	1	4		1	NoData	NoData	NoData	1	3								Yes	NoData	NoData	NoData	NoData	NoData	LimitedData	
10	Ronda	DW	2	5	1	4		1	NoData	LimitedData	LimitedData		3			1					Yes	NoData	NoData	NoData	NoData	NoData	LimitedData	
11	Wilkesboro	BOTH	2	6	1	5		1	NoData	LimitedData	LimitedData		3			1	1				Yes	NoData	NoData	NoData	NoData	NoData	LimitedData	
12	Andrews	BOTH	3	10	2	5	3	1		1		1	3					1					1	1	NoData	1		
13	Autryville	DW	3	8	2	2	4	1	1			1					1					2		1	1	NoData		
14	Bailey	BOTH	3	9	1	7	1	1				1						4	1	1						1		
15	Bath	BOTH	3	21	2	14	5	1	1			1	3			4	1	1	1	4		2	1	1	1	1	1	
16	Bay River Metropolitan Sewage	WW	3	8	2	1	5	1	1			NoData						1	1			2		1	1	1	1	
17	Beaufort County	DW	3	9	1	7	1		1			1					1		1	4							1	
18	Belhaven	BOTH	3	12	2	7	3	1	1			1	3				1	1	1			2				1	1	
19	Bertie County	DW	3	9	1	5	3		1			1	3				1					2			1			
20	Bladenboro	BOTH	3	9	2	3	4	1	1			1					1	1				2			1		1	
21	Boardman	BOTH	3	11	1	6	4	1				1	3				1	1				2	1		1	NoData		
22	Bolton	BOTH	3	12	2	6	4	1	1			1	3				1	1				2			1	1		
23	Carteret County	DW	3	8	3	2	3	1	1		1						1		1						1			
24	Cerro Gordo	BOTH	3	10	1	6	3	1				1	3				1	1					1		1		1	
25	Colerain	WW	3	8	1	2	5	1				1						1	1	1		2	1	1	1			
26	Creswell	BOTH	3	11	1	8	2	1				1					1	1	1	4			1		1			
27	Cumberland County	BOTH	3	9	2	3	4		1		1	1					NoData	1	1			2			1	1	1	
28	Davidson County	WW	3	8	2	3	3		1		1	1						1	1	1		2			1			
29	Dover	BOTH	3	9	1	6	2	1				1	3				1	1							1		1	
30	Dublin	BOTH	3	9	2	3	4	1	1			1					1	1				2		1	1			
31	East Arcadia	DW	3	11	1	5	5	1				1	3				1					2			1	1		
32	East Bend	BOTH	3	9	1	3	5	1				1					1	1	1			2	1	1	1			
33	East Spencer	BOTH	3	14	2	6	6	1	1			1	3				1	NoData	1			2			1	1	1	1
34	Edenton	BOTH	3	11	1	9	1	1				1		1	1	4	1	1						1				
35	Edgecombe County	BOTH	3	13		11	2					1	3				1	1	1	1	4					1	1	
36	Ellerbe	BOTH	3	11	2	6	3	1	1			1	3				1	1				2			1			
37	Elm City	BOTH	3	16	2	10	4	1	1			1	3				1		1			2			1	1		
38	Enfield	BOTH	3	9	1	5	3	1				1	3						1					1	1		1	
39	Engelhard Sanitary District	WW	3	9		4	5	NoData				NoData				4		NoData				2	1		1		1	
40	Everetts	BOTH	3	12	2	5	5	1			1	3					1	1	NoData			2	1		1	1	LimitedData	
41	Fair Bluff	BOTH	3	11	2	6	3	1	1			1	3				1	1				2			1			
42	Fairmont	BOTH	3	12	2	7	3	1	1			1					1	1				2			1			
43	Fountain	BOTH	3	12	1	8	3	1				1					1	1	1	1	4		1	1	1			
44	Franklinville	BOTH	3	10	2	5	3	1	1			1	3				1	NoData	1			2			1			
45	Fremont	BOTH	3	17	2	11	4	1	1			1	3				1	1	1	4		2			1	1		
46	Gamewell	WW	3	12	2	5	5	1			1	1	3					1				2			1	NoData	1	
47	Gates County	BOTH	3	11	1	9	1				1	1	3			4	1	NoData				2	1		1	NoData	1	
48	Gibson	BOTH	3	10	1	3	6	1				1					1	1				2	1	1	1		1	
49	Glen Alpine	0	3	9	1	4	4	1				1	3									2	1		1		LimitedData	
50	Godwin	DW	3	15	1	10	4	1				1	3				1		1	4				1	1	1	1	
51	Granite Falls	BOTH	3	9	2	2	5	1	1								1	1				2		1	1		1	
52	Greene County	BOTH	3	11	3	5	3	1	1	1		1	3				1	NoData				2			1			
53	Greenevers	BOTH	3	13	2	7	4	1			1	1						1	1	4		2	1		1			
54	Grifton	BOTH	3	11	3	4	4	1	1	1		1	3									2			1	1		
55	Halifax	BOTH	3	11	1	6	4	1				1	3				1	1				2	1		1			
56	Hamilton	BOTH	3	9	2	4	3	1	1			1	3					1				2			1			
57	Hertford	BOTH	3	12	2	7	3	1	1			1					1		1	4		2			1			
58	Hookerton	BOTH	3	9	3	2	4	1	1	1							1	1				2			1		1	
59	Hot Springs	BOTH	3	9	2	6	1	1			1	1	3				1	1						1				
60	Hyde County	DW	3	10	2	5	3	1	1			1	3				1					2			1			
61	Jonesville	BOTH	3	9	1	7	1	1				1					1	NoData	1	4					1		1	
62	Landis	BOTH	3	11	2	9		1			1	3					1		1	4					1			
63	Lawndale	BOTH	3	9	1	3	5	1				1					1	1				2	1		1		1	
64	Lilesville	BOTH	3	9	1	7	1	1				1					1	1	1	4					1			
65	Macclesfield	BOTH	3	12	1	5	6	1				1	3					1				2	1		1	1	1	
66	Madison	BOTH	3	10	2	4	4	1	1			1				1	1	1				2		1	1			
67	Martin County	DW	3	8	2	3	3	1	1			1					1		1			2					1	
68	Maysville	BOTH	3	16	1	15		1				1	3				1		4	1	4				1			
69	Middlesex	BOTH	3	11	1	8	2	1				1					1	1	1	4				1	1			
70	Morven	BOTH	3	11	1	6	4	1				1	3				1	1				2	1		1			
71	Mount Olive	BOTH	3	15	2	10	3	1	1			1	3				1	4	1			2				1		
72	Nash County	BOTH	3	10	3	7		1			1	1					1	NoData	1	4					1	1	1	
73	Navassa	BOTH	3	13	2	6	5	1	1			1	3				1	NoData				2			1	1	1	
74	Newton Grove	BOTH	3	12	2	6	4	1	1			1	3				1		1			2		1	1			

	A	B	D	E	I	J	K	L	M	N	O	P	Q	R	S	T	U	V	W	X	Y	Z	AA	AB	AC	AD	AE
1								Criteria Required by Statute				Infrastructure/Organizational Criteria								Financial Criteria							
2	Local Government Unit	Utility Type	Distressed ID Category	Total Assessment Score	Total Statute Points	Total Infr/Org Points	Total Financial Points	Service Population (1)	Debt Service Coverage Ratio (1)	Transfers Out (1)	Transfers In (1)	Affordability (1)	UAL Control - W/S only (3)	DW Compliance (1)	WW / CS Compliance (1)	Flow Moratorium (4)	DW Pop / Mile (1)	Sewer Pop / Mile (1)	Rate (2019 inside) \$/5000 gal (1)	Revenue Outlook (4)	2 Missing Audits	Surplus (deficit) w/ Debt (2)	No Debt DSCR Test (1)	% Depreciated (1)	Operating Margin (1)	Quick Ratio	Receivables Ratio
75	Northwest	DW	3	8	2	5	1	1	1			1	3				1		NoData						1		LimitedData
76	Norwood	BOTH	3	11	1	9	1	1				1	3			4	1	1						1			
77	Orange County	DW	3	9	1	3	5			LimitedData	1		3				NoData					2	1		1	1	
78	Ossipee	DW	3	12	1	8	3	1				1	3						1	4			1		1	1	
79	Parmele	BOTH	3	10	1	7	2	1									1	1	1	4			1		1		
80	Pender County	BOTH	3	9	3	6			1	1	1		3		1		NoData		1								
81	Pikeville	BOTH	3	19	1	16	2	1				1	3		1	4	1	1	1	4				1	1		
82	Pilot Mountain	BOTH	3	13	3	6	4	1	1		1	1	3				1	1						1	1	1	1
83	Pinetops	BOTH	3	12	1	5	6	1				1	3									2	1	1	1		1
84	Pink Hill	BOTH	3	9	2	4	3	1	1			1					1	1	1			2		1			
85	Plymouth	BOTH	3	10	2	6	2	1			1	1							1	4					1		1
86	Polkville	0	3	10	1	4	5	1				1	3									2	1		1	1	LimitedData
87	Pollockville	BOTH	3	11	2	6	3	1	1			1	3				1	1				2			1		
88	Ramseur	BOTH	3	9	1	7	1	1				1	3		1		1	1					1				
89	Rich Square	BOTH	3	13	1	11	1	1				1	3		1	4	1	1	NoData						1		
90	Riegelwood Sanitary District	WW	3	8	1	3	4	NoData	1			NoData	3									2		1	1		LimitedData
91	Robbins	BOTH	3	10	2	4	4	1	1						1		1	1	1			2		1	1		
92	Rockingham County	BOTH	3	15	3	9	3	1	1		1	1		1			1	1	1	4			2		1		
93	Rowland	BOTH	3	15	2	9	4	1	1			1			1		1	1	1	4			2		1	1	
94	Rutherfordton	WW	3	9	2	3	4	1	1			1			1		1	1				2			1		1
95	Saint Pauls	BOTH	3	9		7	2	NoData				NoData	3			4				NoData				1	1		
96	Scotland Neck	BOTH	3	9	1	6	2	1				1	3		1		1							1	1		
97	Seaboard	BOTH	3	9	1	6	2	1				1	3				1	1							1		1
98	Sharpsburg	BOTH	3	13	2	7	4	1	1			1	3				1	1	1			2			1		1
99	Sims	BOTH	3	9	1	6	2	1				1	3				1	1					1		1		
100	Snow Hill	BOTH	3	11	2	5	4	1	1			1	3				1	1				2		1	1		
101	Southport	BOTH	3	10	2	5	3	1	1			1	3					1	1	1		2		1	1		
102	Spring Lake	BOTH	3	10	2	4	4		1	1		1	3						1			2		1	1		
103	Stanly County	DW	3	11	2	7	2		1		1	1			1	4	1		NoData					1	1		LimitedData
104	Star	BOTH	3	11	1	4	6	1				1			1		1	1				2	1	1	1		1
105	Stovall	BOTH	3	10	3	4	3	1	1		1			1			1	1	1			2			1		
106	Surry County	DW	3	13	3	7	3	1	1		1	1					1		1	4		2			1		
107	Taylortown	BOTH	3	12	1	5	6	1					3				1	1				2	1	1	1	1	
108	Topsail Beach	DW	3	9	2	6	1	1			1						1		1	4							1
109	Trenton	BOTH	3	12	2	6	4	1			1				1	4	NoData	1	NoData			2	1		1		LimitedData
110	Trinity	WW	3	11	3	5	3	1	1		1								1	4		2			1		
111	Tryon	BOTH	3	12	2	6	4	1	1				3		1		1	1				2		1	1		
112	Vance County	DW	3	9	2	7		1			1	1					1		1	4							
113	Vanceboro	BOTH	3	11	2	5	4	1	1			1	3		1							2		1	1		
114	Wade	DW	3	8	3	1	4	1	1		1						1					2		1	1		
115	Walstonburg	BOTH	3	10	1	7	2	1									1	1	1	4			1		1		
116	Warrenton	BOTH	3	9	2	3	4	1	1			1					1	1				2		1	1		
117	Washington County	DW	3	11	2	7	2	1	1			1					1		1	4		2					
118	Whitakers	BOTH	3	12	2	7	3	1	1			1	3				1	1	1			2			1		
119	Williamston	BOTH	3	11	2	8	1	1			1	1					1	1	1	4				1			
120	Wilson County	DW	3	8	1	7		1				1					1		1	4							
121	Yadkin County	BOTH	3	14	3	8	3	1	1		1	1					1	1	1	4		2			1		

\*D = Previously designated as distressed; 1 = LGC Assumed Control; 2 = No audit last 2 years; 3 = Score Based; 4 = Other