

**State Water Infrastructure Authority
Meeting Date: September 16, 2021**

Agenda Item I – Approval of Timing for Reassessment of Distressed Designations

Division of Water Infrastructure Staff Report

Background

General Statute 159G-45 directs the State Water Infrastructure Authority (Authority) and Local Government Commission (LGC) to utilize an assessment and review process to identify distressed units, to develop evaluation criteria for grants from the Viable Utility Reserve (VUR) and, at their discretion, impose specific performance measures or conditions on any grant awarded from the VUR.

The assessment and review process has been implemented to identify distressed units. There are four Identification Criteria established by the Authority and LGC. Each criterion will need to be considered in establishing an assessment frequency. The four Identification Criteria are:

1. Under fiscal control of the LGC
2. Two consecutive years of missing annual audits
3. Assessment Criteria Score
4. Other information

G.S. 159G-45(d) requires that the Authority and the LGC establish the frequency of the cycle for assessment and review of local government units (LGUs) and stipulates that the frequency shall be no less than every two years.

Assessment Frequencies

Identification Criterion 1 – LGU control

The need for the LGC to assume financial control of a LGU has been rare and does not occur on a regular or predictable frequency. Division staff and LGC staff have routine quarterly meetings and others as needed to discuss the status of LGUs regarding their water and/or wastewater utility viability. The LGC considers recommendations from staff during their meetings.

Division staff recommend that the Authority approve consenting to its designation of a distressed LGU upon the LGC approving designation of the LGU as a distressed unit under Identification Criterion 1.

Identification Criterion 2 – Missing Audits

Similar to Identification Criterion 1, the determination of missing audits is made by the LGC. However, it will be beneficial to ensure that LGUs are made aware of the potential to be designated as distressed after missing their first annual audit. LGUs missing an annual audit will receive a letter from the Division and LGC informing them that if a second consecutive audit is not submitted, the LGU will be designated as distressed.

Division staff that the Authority approve consenting to its designation of a distressed LGU upon the LGC approving designation of the LGU as a distressed unit under Identification Criterion 2.

The timing for reassessment of Criteria 3 and 4 were approved during the July 14, 2021 SWIA meeting.

Staff Recommendation

Division staff recommend that the Authority approve the following:

- The Authority approve consenting to its designation of a distressed LGU upon the LGC approving designation of the LGU as a distressed unit under Identification Criterion 1.
- The Authority approve consenting to its designation of a distressed LGU upon the LGC approving designation of the LGU as a distressed unit under Identification Criterion 2.