Viable Utility Committee of the State Water Infrastructure Authority
November 13, 2026, Meeting
Agenda Item D – De-Designation Discussion

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…," and NCGS 159G-45 authorize the State Water Infrastructure Authority (SWIA) and the Local Government Commission (LGC) to develop criteria to determine how local government units (LGUs) should be assessed (NCGS 159G-45(a)), and to identify distressed units (NCGS 159G-45(b)). Furthermore, NCGS 159G-45(c) states that "once an identified distressed unit has completed all of the requirements" …" that unit shall no longer be identified as a distressed unit for the remainder of that assessment and review cycle":

To support the identification of distressed LGUs (a process termed "designation"), the Division performs an annual assessment of all government-owned and operated water and wastewater utilities in North Carolina. Although these designation processes have been developed and refined by SWIA and the LGC multiple times since the inception of the Viable Utilities program, to date the program has not had an established off-ramp for distressed LGUs that have completed their statutory requirements, including the development of a Long-Term Viability Plan (LTVP). The Division, LGC Staff, and SWIA have termed this process, "de-designation".

The purpose of this staff report is to provide the Viable Utility Committee with ideas that could be incorporated into a de-designation process and to solicit feedback to identify preferred options for incorporation into a future policy envisioned to be approved by SWIA and the LGC.

Draft De-Designation Process

1. LGU Completes Statutory Requirements.
    a. **Asset assessment** – minimum standards approved by SWIA July 16, 2024
    b. **Rate study** – minimum standards approved by SWIA July 16, 2024
    c. **Training and education** – minimum standards approved by SWIA July 14, 2021
    d. **Action plan** (LTVP, incl. short- and long-term infrastructure plan, continuing education, long-term financial management, other) – needs to show path to viability**

** LTVP must show path to viability (i.e., ability to provide perpetual service to customers without grant funding) including, but not limited to:

- Internal improvements that make system viable

- Merging with or into a new or existing viable system (acquisition/merger, new regional authority)
- Divest/dissolve system (e.g., decentralize)

2. Viable Utilities Program (VUP) case manager works with the LGU to ensure that all elements of their statutory requirements have been completed in accordance with established guidance and policy, including the LTVP.
    a. Assigned case manager(s) will work with the distressed LGU on completing their statutory requirements, including their LTVP, in accordance with SWIA- and LGC-approved guidance
    b. Assigned staff will complete checklist of required activities and information for de-designation compliance
    c. Assigned staff will bring LGU's case to a standing committee of VUP staff. Committee findings and decisions (approved, conditionally approved, or not approved) will be documented, and any additional work on the LGU's statutory requirements will be handled by the case managers with the LGU as needed.
3. After VUP program is in agreement, VU staff will notify LGC staff (e.g., in monthly coordination meetings or new ad hoc meetings) and solicit additional feedback. Once agreement on LGU LTVP and de-designation is reached, the case will be referred for discussion once per year at the December SWIA designation meeting and subsequent LGC (January) meeting. (Question 1)
    a. Cases for de-designation will be described in SWIA staff reports prepared by VU staff
    b. Representative from LGU must be present for this SWIA meeting item, virtually or in-person
    c. Once SWIA approves LGU de-designation, case is referred to LGC for final approval at their next scheduled meeting. LGC to determine internal processes for de-designation.
    d. Units that have no path towards viability or de-designation will be identified and will continue active involvement in VU program and prioritized for other assistance or actions. SWIA and/or LGC may recommend legislative actions to assist those systems.

4. De-designated units have several paths towards implementation. (Question 2)
    a. Retain eligibility for VUR grants for five years after de-designation provided the project is a priority on their CIP/LTVP to implement the viability plans
        i. Require continued education and training especially for new staff or Board members (i.e., maintain compliance) to retain eligibility to VUR grants in the first five years after de-designation

ii. Require project applications to be reviewed by VUP staff prior to submitting funding request.

b. VU program will offer optional annual check-in on LTVP and other assistance as needed, at least initially. VUP will prioritize continuing to assist systems with low capacity or complex pathways to help implement their LTVP.
    i. Supervised de-designation for select units
    ii. Optional annual LTVP check-ins for other units

5. All units continue to be assessed annually as required by approved process. In order to provide time for system improvements to affect the metrics used to assess the system, de-designated units that exceed the assessment scoring threshold two years in a row will not automatically be recommended for re-designation. (Question 3)
    a. Evaluate condition versus metrics established in LTVP
    b. Evaluate progress on viability plan and cross-check with assessment criteria scores
    c. Buffer de-designated units from being redesignated for a certain number of years or as defined in their LTVP

6. Potential fast-track de-designation for D2 (late audits) LGUs. (Question 4)
    a. Require compliance with education and training requirements
    b. When LGU catches up with audits, VU program will fully score them using the most recent audits per the annual assessment. If they score below the threshold, they will be de-designated.
    c. Distressed LGUs that are de-designated without an LTVP would not be eligible for VUR grants

Questions for VUC Consideration

1. Should SWIA/LGC have an approval role in de-designating LGUs?
    a. Statute only references completion of statutory requirements
        i. Should only certain units' de-designation approvals come before SWIA?
    b. What would SWIA and LGC want us to present for an Action Plan/LTVP and to de-designate unit?
    c. Would SWIA prefer to consider de-designation cases once annually (e.g., December, consistent with annual designation process) or on more of a rolling basis?
2. Do we want to keep funding de-designated units to allow them access to $15M VUR grant limit? Or do we want to keep them designated if they need VUR funding (up to cap)?
3. How do we want to treat de-designated units as it relates to the annual assessment and designations?
    a. Could evaluate condition versus metrics established in LTVP
    b. Could evaluate progress on viability plan and cross-check with assessment criteria scores
    c. Could buffer de-designated units from being redesignated for a certain number of years (five, for example) or as defined in their LTVP
4. Are there other circumstances where fast-track or other process deviations should be considered?

Next Steps and Timeline

The Division's intent is to develop de-designation processes in coordination with LTVP development and approval, with a goal of fully adopting a de-designation process at the same time as LTVP approval or shortly thereafter.

This is currently intended to be an informational item only for the VUC. The VUC should weigh in on next steps for de-designation program development, and specifically whether the VUC should review and approve a more formal de-designation proposal before it is brought to the full SWIA.