

State Water Infrastructure Authority
Meeting Date: September 17, 2025

Agenda Item J – 2025 Reassessment and Designation of Local Government Unit Systems as Distressed

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 (LGC) to develop criteria to assess and review local government units (LGUs) and to utilize the assessment and review process to identify distressed LGUs.

In the Fall of 2020, the Authority and the LGC developed the Identification Criteria and Assessment Criteria to evaluate LGUs and identify distressed LGUs. The Authority adopted the Assessment Criteria and the Identification Criteria at its meeting on November 18, 2020¹; revisions to the Assessment Criteria were adopted on February 13, 2024; and revisions to the Identification Criteria and Assessment Criteria were adopted on February 19, 2025.

Identification Criteria

The Authority and LGC adopted the following Identification Criteria (as revised) to be used to identify distressed units:

1. An LGU whose fiscal affairs are under the control of the LGC pursuant to its authority granted by G.S. 159-181 (“under LGC fiscal control”), or
2. An LGU that has not submitted its annual audits for the last two fiscal years to the LGC as required by G.S. 159-34, or
3. An LGU with a total Assessment Criteria score that equals or exceeds nine, or
4. An LGU for which other information is available to or known by the Authority or LGC 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.

Previous Assessments and Distressed Designations

In 2021, Division and LGC staff compiled LGU data in accordance with the approved Identification and Assessment Criteria to complete the first assessment to identify distressed LGUs. Session Law 2020-79 requires that the Authority and the LGC assess and review LGUs

¹ The LGC adopted the Identification Criteria at their subsequent meeting.

against the Identification Criteria on a frequency of no less than every two years. At its July 14, 2021, meeting, the Authority agreed that the Division will conduct an annual review of the Assessment Criteria each spring and use a two-year cycle for notifications and designations under Identification Criterion 3. The two-year cycle involves notifying LGUs when their assessment score exceeds the designation threshold under Criterion 3 for the first time. Upon notification, these LGUs may choose to request designation at that time, provide additional information for consideration, correct errors in their score, or wait and see if they score above the threshold in the next assessment. LGUs that exceed the threshold a second time are recommended for designation if they have not already been designated.

Reassessments have been completed in 2021, 2022, 2023, and 2024 using the Identification Criteria and Assessment Criteria for scoring under Criterion 3. One LGU has been designated outside of the annual assessments under Identification Criterion 4. Based on previous assessments, there are currently 151 LGUs with active water and/or sewer systems that are designated distressed. Once designated, LGUs must meet the requirements of the Viable Utility (VU) program before the designation is removed, even if future assessment scores drop below the threshold for designation. To date, no LGUs have had the distressed designation removed. (Note, however, that the total number of designated distressed units has shifted over time, as some previously designated LGUs no longer have active water and/or sewer systems.)

At the completion of the 2024 assessment round, there were five LGUs that had been notified that they exceeded the threshold for designation for the first year and did not opt to request designation at that time. These LGUs would be automatically recommended for designation if they score above the threshold in the next assessment.

2025 Reassessment Summary

The 2025 assessment incorporated the following changes to the identification and assessment criteria and process that were approved by the Authority in February 2025 and the LGC in March 2025:

- Updated the definition of the Unit Assistance List Control parameter for the assessment to reflect the changes LGC made to their Unit Assistance List identification process;
- Shifted the assessment timing from spring/early summer to late summer for consistency with LGC's audit submittal deadlines;
- Used audit data from the previous year (2023) when the most recent year (2024) is not available; and
- Set the updated designation threshold of nine points for all LGUs (previously had a threshold of eight for single service providers and nine for dual service providers).

In addition to the above changes, the assessment incorporated updated data for rates, audits, compliance information, and demographic data. Attachment 1 lists all LGUs currently assessed, along with their total scores from each of the annual assessments, current status if already

designated distressed, and recommendations based on the 2025 assessment. Attachment 2 provides the scoring details for all LGUs for the 2025 assessment. Attachment 3 includes summary tables for the distribution of scores for 2025 (Figure 1) and 2024 (Figure 2) by utility type (municipality, county, and authority/sanitary district) and service provider (single, dual, unknown). Score subtotals are shown by (A) distressed status - LGUs designated as distressed in all prior years (2021-2024), exceeded the first-year threshold without designation in prior year (2024), and not designated as distressed in all prior years (2021-2024) and (B) audit data used in 2025 – current year (2024), prior year (2023), or no audits (2023-2024).

Key findings from the 2025 reassessment are as follows:

- **Automatic Recommendations:** In 2024, five LGUs received the “first year” notice indicating that they had exceeded the scoring threshold. In this year’s assessment, four of those LGUs had their scores drop below the threshold. One of them (City of Trinity) received the same score of eight points again this year; however, the threshold was changed to nine for all LGUs (previously 8 for single service providers like Trinity), so Trinity no longer scores above the designation threshold. For this year’s assessment, no LGUs have exceeded the threshold for designation under Criterion 3 for the second consecutive year and have not yet been designated; therefore, there are no recommendations for designation.
- **“First Year” Notices and Designation Requests:** Eight LGUs exceeded the scoring thresholds for Criterion 3 for the first time and were sent notification letters in mid-September. These LGUs have the option to request designation this year. Division staff will be following up with these LGUs over the next few weeks. If any LGUs wish to request designation, they will be instructed to submit a resolution from their board in order to be recommended for designation at the December Authority meeting.
- **2-Year Late Audits:** The reassessment also identified five LGUs that had not submitted audit data for the last two years as of June 30, 2025, and are not already designated as distressed. In the first few rounds of annual assessments, the LGC chose to designate all LGUs with two or more years of late audits as distressed under Criterion 2. Beginning with the 2023 assessment round, LGC staff has been more selective about choosing which LGUs with late audits would be recommended for designation under Criterion 2. LGC staff are currently reviewing the five LGUs with two years of late audits and will present any recommendations for designation at a future LGC meeting. By prior agreement, any such LGUs that are designated by the LGC under Criterion 2 are automatically designated by the Authority without further action. Staff will keep the Authority informed of any such designations.
- **Missing Audit Data:** Two changes that were adopted by the Authority and LGC in February 2025 have resulted in a much more complete audit data set for assessment: (1) a shift of the timing of the assessment to later in the summer, and (2) the use of data from one year prior when the most recent year of audits is not available. Last year (2024), 95 out of 491 LGUs were missing audit data at the time of the assessment. In the

2025 round, 429 of the 492 LGUs were assessed using 2024 audit data, and 29 LGUs were assessed using 2023 audit data, leaving only 34 with missing audit data in the 2025 assessment, most of which have already been designated distressed. Filling these financial data gaps improves the accuracy of the assessment because LGUs that are missing audit data cannot be assessed for 10 out of a possible 25 total points.

- ***Revised Designation Threshold:*** In previous assessment rounds (2021-2024), two different thresholds were applied for Identification Criterion 3: greater than or equal to nine for dual service providers, and greater than or equal to eight for single (water or sewer only) service providers. Different thresholds were initially established because of a difference in total points that could be scored for dual service versus single service providers, including the water and sewer population per mile criteria (dropped in 2024) and water and sewer compliance criteria. As revisions were made to the assessment criteria, the difference in potential points for dual versus single service providers became less significant, so the criterion was revised to use a single threshold of greater than or equal to nine points for all LGUs in 2025. In the 2025 assessment, out of 29 LGUs that scored eight points, there are two single-service providers and five dual-service providers not already designated distressed that scored 8 points. The two single-service providers (City of Trinity and Town of Spindale) would have been over the 2024 designation threshold of eight points if it had not been changed to nine points in 2025.
- ***Score Distribution:*** Attachment 3 displays the distribution of assessment scores (max 25 points) by LGU type and utility type and highlights the number of LGUs missing 2023-2024 audits by score in parentheses. Note that LGUs with two or more missing audits cannot be evaluated for up to ten (38.5 percent) out of a potential 25 points due to missing financial data. Without the financial data from audits, these LGUs cannot score high enough to exceed the threshold for designation under Criterion 3, though LGUs with two years of missing audits may be considered by LGC for designation under Criterion 2. Comparing the 2024 and 2025 assessment scores, both years had the same range of points scored (0 to 13), but the weighted average increased from 3.62 points to 4.08 points from 2024 to 2025 respectively. This increase is, at least in part, due to two changes in 2025. First, the audit data pull was shifted to later in the year (June 30), increasing the current year audits from 396 to 429, respectively, from 2024. Second, the replacement of missing financial data from current year (2024) audits with prior year (2023) audits where available, contributed financial data for an additional 32 LGUs in 2025.

LGUs that are designated distressed by the Authority and LGC will be notified of that designation by letter following the LGC's meeting.

Staff Recommendation

Staff do not have any designation recommendations at this time.