**Distressed Unit Assessment Criteria**

| **Parameter** | **Weight** | **Description** | **Formula / Other** | **Data Source** |
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| **Criteria Required by Statute** |
| 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. |
| **Infrastructure/Organizational Criteria** |
| 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** |
| --- | --- | --- | --- | --- |
| **Infrastructure/Organizational Criteria (continued)** |
| WW / CS Compliance (\*) | 1 | * 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.
* CS: Point scored if either the following occur:
* 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
* 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.
 |  | 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. **Note that the benchmark values are updated every year.** | Current Benchmarks:Population change: 4.42%Poverty rate: 14.0%MHI: $52,413Unemployment 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** |
| --- | --- | --- | --- | --- |
| **Infrastructure/Organizational Criteria (continued)** |
| 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 |
| **Financial Criteria** |
| 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 periodDays receivables=Net Customer Accounts Receivable/Charges for services /365 | Calculated from LGC data |

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| **List of Acronyms** |
| 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 |