

The LGC's Unit Assistance List And Takeover Process For Water And Wastewater Systems



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The [N.C. Local Government Commission \(LGC\)](#) in the [Department of State Treasurer](#) provides financial oversight for over 1,100 units of local government, including public water and wastewater local government units (LGUs). The LGC's Unit Assistance List (UAL) identifies financially distressed enterprises or LGUs. In extreme cases, N.C. General Statutes authorize the LGC to assume financial control of distressed LGUs. **This resource identifies key provisions of the UAL and the LGC Takeover Process.**

The Unit Assistance List (UAL)



NC UAL Background

- The Unit Assistance List (UAL) is developed by LGC staff to assist in prioritizing the allocation of staff resources, developing guidance and resources for units, and engaging in enhanced fiscal monitoring. The UAL is published on the LGC website approximately four months after the June 30 fiscal year and identifies units with concerns related to units' general fund, water/sewer quick ratio, income, and cash flow, and internal controls, or that have not yet submitted their audited financial statements (due four months following fiscal year end).
- The UAL is different than the list of **distressed LGUs** maintained by the Division of Water Infrastructure (DWI) under the Viable Utility Program, although some of the criteria overlap, and LGUs may be on both lists simultaneously. For more information, see: [Viable Utilities](#).

How do LGUs get on the UAL?

- The LGC grades water and wastewater systems annually on scales of financial criteria.
- Systems that **fail to meet a minimum score, or display other financial-management concerns**, are placed on the UAL.

How do LGUs get notified?

- Systems placed on the UAL receive direct correspondence from LGC staff.
- The UAL is published on the [LGC website](#) approximately four months after the June 30 fiscal year.

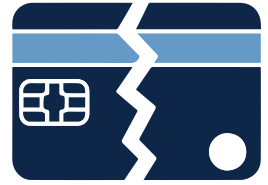
What happens to LGUs when they are placed on the UAL?

- Managers of the UAL LGU must complete a minimum of six hours of fiscal management education.
- UAL LGUs must obtain LGC approval of financing contracts relating to the lease, acquisition, or construction of capital assets under certain conditions.
- UAL LGUs have enhanced access to the LGC's "Coach Team" for consultation on financial management issues.

How are LGUs removed from the UAL?

- **LGC staff will work with UAL LGUs to develop a plan for removal.** LGC staff will identify financial indicators for the LGU and the LGC to monitor. Failure to meet these thresholds requires a written report explaining the circumstances. Removal from the UAL is recommended by LGC staff after financial performance is improved and voted on by the LGC.

The LGC Takeover Process



What are the conditions for LGC takeover?

- The LGU **defaults on debt, or in the opinion of the LGC, may default on debt** if financial management is not improved.
- The LGU **willfully or negligently refuses to comply** with LGC compliance and oversight after notice and warning.
- When the **General Assembly suspends the charter** of the LGU.
- Placement on the UAL is not a necessary prerequisite for LGC takeover.

Are there specific conditions for water and wastewater government systems?

Yes, [North Carolina's General Statutes](#) lists specific provisions authorizing the LGC to take over public water and/or wastewater system or take lesser action to improve financial management. The system must demonstrate one or more of the following conditions for three consecutive years:

- The system experienced negative working capital.
- The system experienced a quick ratio* less than one.
- The system experienced a net loss of revenue.



*What is the Quick Ratio?

The Quick Ratio is a measure of short-term liquidity calculated by dividing current assets (excluding restricted assets and prepaid items) by current liabilities (excluding deposits and bond anticipation notes). It is a measure of the LGU's ability to pay its bills with its unrestricted assets. A quick ratio of less than one indicates the LGU's liabilities are more than its current assets. The formula is below.

$$\frac{\text{Current Assets (excluding restricted assets and prepaid items)}}{\text{Current Liabilities (excluding deposits and bond anticipation notes)}}$$

How do distressed LGUs resume control?

- When the LGC assumes financial control, LGC staff serve as the LGU's finance officers, directly managing all financial operations, and is vested with all powers of the LGU's governing board.
- **LGC staff will work with the LGU to develop a plan for restoring local control** and make a recommendation to the LGC when it deems those conditions have been met.

Need online resources?

- [The North Carolina Local Government Commission](#)
- [Current Unit Assistance List](#)
- [UNC Environmental Finance Center Sustainability Tools and Rates Dashboards](#)

For more information, contact:

NC Division of Water Infrastructure
Viable Utilities Program
Victor D'Amato, PE, Supervisor
victor.damato@deq.nc.gov

UNC Environmental Finance Center
efc@sog.unc.edu