

State Water Infrastructure Authority

Meeting Date: July 20, 2016

Agenda Item K.1

Connect NC Bond Administration – State Drinking Water Reserve Priority Rating System Modification

Division of Water Infrastructure Staff Report

Background

North Carolina General Statute G.S. 159G-71 contains the powers and the duties of the State Water Infrastructure Authority (Authority) which include the following:

- Establish priorities for making loans and grants under this Chapter, consistent with federal law.
- Review the criteria for making loans and grants under G.S. 159G-23 and make recommendations, if any, to the Department for additional criteria or changes to the criteria, consistent with federal law.
- Develop guidelines for making loans and grants under this Chapter, consistent with federal law.

This agenda item addresses eliminating potential confusion that may arise when an applicant submits a single application that seeks funding from both the Drinking Water State Revolving Fund (DWSRF) and the State Drinking Water Reserve.

Line Item 1.B of the current *State Drinking Water Reserve Priority Rating System* groups projects that eliminate failing public water systems with all other failed infrastructure into a single priority line item. Currently, there is no Line Item 1.A in this rating system.

However, the current *DWSRF Priority Rating System* includes two line items that deal with failing/failed infrastructure as follows:

- Line Item 1.A – Project will eliminate, by merger or dissolution, a failing public water supply system
- Line Item 1.B – Project will resolve failed infrastructure issues

In order to continue to streamline and consolidate the application process across all funding programs, it would be useful for Line Items 1.A and 1.B to be consistent in both Priority Rating Systems. This action would also facilitate the development of a combined guidance document for both the State Revolving Fund and State Reserve.

For comparison, the tables below show the current State Drinking Water Reserve Priority Rating System, the proposed change to add Line Item 1.A to the State Drinking Water Reserve Priority Rating System (highlighted in yellow), and the current DWSRF Priority Rating System.

New Line Item 1.A of the State Drinking Water Reserve Priority Rating System would score the same as Line Item 1.B.

Staff Recommendation

Staff recommends that the Authority approve the proposed change to add Line Item 1.A to the State Drinking Water Reserve Priority Rating System so that it is consistent with the DWSRF Priority Rating System.

CURRENT STATE DRINKING WATER RESERVE PRIORITY RATING SYSTEM			
Line Item #	Category 1 – Project Purpose	Points	Points Claimed
1.A	Reserved for the DWSRF Program		
1.B	Project will resolve failed infrastructure issues	25	

<u>PROPOSED</u> STATE DRINKING WATER RESERVE PRIORITY RATING SYSTEM			
Line item #	Category 1 – Project Purpose	Points	Points Claimed
1.A	Project will eliminate, by merger or dissolution, a failing public water supply system	25	
1.B	Project will resolve failed infrastructure issues	25	

CURRENT DWSRF PRIORITY RATING SYSTEM – for All DWSRF Projects			
Line item #	Category 1 – Project Purpose	Points	Points Claimed
1.A	Project will eliminate, by merger or dissolution, a failing public water supply system	25	
1.B	Project will resolve failed infrastructure issues	25	

State Water Infrastructure Authority

Meeting Date: July 20, 2016

Agenda Item K.2

Connect NC Bond Administration – Grant Percentage Matrix Proposed Modification

Division of Water Infrastructure Staff Report

Background

North Carolina General Statute 159G-71 contains the powers and the duties of the State Water Infrastructure Authority (the Authority) which include the following:

- Establish priorities for making loans and grants consistent with federal law
- Develop guidelines for making loans and grants
- Make recommendations on ways to maximize the use of current funding resources and ensure that funds are used in a coordinated manner

In September 2015, the legislature revised NCGS 159G to include the following definition of affordability:

- The relative affordability of a project for a community compared to other communities in North Carolina based on factors that shall include, at a minimum, water and sewer service rates, median household income, poverty rates, employment rates, or the population of the served community, and past expenditures by the community on water infrastructure compared to that community's capacity for financing of water infrastructure improvements

A public comment period for the new criteria closed on February 19, 2016. The Authority approved the affordability criteria at its March 4, 2016 meeting. Division staff implemented the affordability criteria as part of the April 2016 funding round.

Overview

During application training for the April 2016 funding round, Division staff received comments and feedback about the criteria. While no comments were received about Steps 1 through 3 of the affordability methodology, several commented that the grant percentage matrix shown in Figure 1 below (approved by the Authority) was too restrictive for small systems.

- Smaller (systems < 1,000 connections) tend to have higher debt service per connection due to the lack of economies of scale; this results in most of the small systems being above the debt service per connection median.
- When considering a \$1 million project, the rate increase that would be required to cover the loan would result in systems moving upward on the monthly utility bill axis of the matrix. Most of these systems would then move above the median for monthly utility bill and require some amount of grant.

Had Division staff received these comments during the public comment period, the comments would have been considered before the Authority approved the methodology. Note that one of the considerations in the original methodology was the very small amount of grant funds available.

The new Connect NC Bond grant and loan funds will result in a substantial increase in the amount of grant funds available for projects. The bond funds will be administered through the State Wastewater Reserve and State Drinking Water Reserve program and the affordability criteria will also be used. While bond funds for wastewater projects have specific priorities attached that may result limited grant funds for wastewater projects, the funds allocated to drinking water projects have no such prioritization.

Based on a review of supporting data and the recent feedback received from potential applicants, Division staff propose modifications to the grant percentage matrix utilized in Step 4 of the affordability criteria methodology during the funding rounds in which Connect NC bond funds will be available. Note that staff will reevaluate the matrix after all of the Connect NC bond funds have been awarded by the Authority, based on the experience gained during those funding rounds.

The proposed modified matrix is shown in Figure 2. The proposed modified matrix would provide 25% grant funding for some entities that have higher than median debt service per connection but lower than median monthly bills (as opposed to 0% grant funding using the current matrix). The primary effect of the proposed modified matrix is that some systems with fewer than 1,000 connections (approximately 73% of drinking water systems and 69% of sewer systems), and with projects greater than \$1,000,000, could be considered for 25% grants. Note however that these smaller systems would still need to significantly raise rates to compensate for the loan portion of their funding.

Example

The following example for the Town of East Arcadia illustrates the difference in funding scenarios when using the current matrix and when using the proposed modified matrix for a project cost of \$1,000,000.

Using the current matrix (Figure 1):

- The Town's water system has 238 connections, a monthly utility bill for 5,000 gallons of water of \$25.50 and a debt service per connection with the project of \$210.08, which is above the median for debt service per connection. Under the current system, the Town would receive 0% grant funding. In order to construct the project, the Town would need a loan, and would need to significantly raise rates to cover the loan debt.

Using the proposed modified matrix (Figure 2):

- The Town would qualify for a 25% grant because the proposed modified matrix provides for some grant funding for entities that have higher than median debt service per connection but lower than median monthly bills. In this case, East Arcadia would still need to significantly raise its rates to cover the remaining cost of the project (i.e., the grant award would not provide sufficient funds to allow the Town to maintain its current low rates).

As illustrated in this example, use of the proposed modified matrix would qualify the Town for a 25% grant (instead of 0% using the current matrix) based on its current monthly bill and current debt service per connection. Note however that the Town would still need to raise its rates to fund the loan portion of the project.

Staff Recommendations

Staff recommends that the Authority approve the use of the proposed modified matrix in Step 4 of the affordability criteria methodology during the funding rounds in which Connect NC bond funds will be available.

Figure 1. Grant Percentage Matrix as Approved by Authority on March 4, 2016

Monthly Bill for 5,000 Gallons	Lower-than-Median Debt Service per Connection		Higher-than-Median Debt Service per Connection				
	≤ \$110	> \$110 to ≤ \$210	> \$210 to ≤ \$350	> \$350 to ≤ \$550	> \$550 to ≤ \$1,000	> \$1,000	
>\$58	100%	100%	100%	100%	100%	100%	Higher-than-Median Bill for 5,000 Gallons Usage
>\$47 to ≤ \$58	75%	75%	75%	75%	100%	100%	
>\$40 to ≤ \$47	50%	50%	50%	50%	75%	75%	
>\$33 to ≤ \$40	25%	25%	25%	25%	50%	50%	
>26 to ≤ \$33	0%	0%	0%	0%	25%	25%	Lower-than-Median Bill for 5,000 Gallons Usage
≤ \$26	0%	0%	0%	0%	0%	25%	

Figure 2. Proposed Modified Grant Percentage Matrix

Monthly Bill for 5,000 Gallons	Lower-than-Median Debt Service per Connection		Higher-than-Median Debt Service per Connection				
	≤ \$110	> \$110 to ≤ \$210	> \$210 to ≤ \$350	> \$350 to ≤ \$550	> \$550 to ≤ \$1,000	> \$1,000	
>\$58	100%	100%	100%	100%	100%	100%	Higher-than-Median Bill for 5,000 Gallons Usage
>\$47 to ≤ \$58	75%	75%	75%	75%	100%	100%	
>\$40 to ≤ \$47	50%	50%	50%	50%	75%	75%	
>\$33 to ≤ \$40	25%	25%	25%	25%	50%	50%	
>26 to ≤ \$33	0%	0%	25%	25%	25%	25%	Lower-than-Median Bill for 5,000 Gallons Usage
≤ \$26	0%	0%	25%	25%	25%	25%	