

NC DEQ Division of Water Infrastructure’s Plan to Administer American Rescue Plan Act’s State Fiscal Recovery Fund Appropriated in the State Budget for Drinking Water, Wastewater and Stormwater Projects

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This document describes the plan for administering the appropriated State Fiscal Recovery Fund as grants for drinking water, wastewater, and stormwater projects.

Summary:

The North Carolina General Assembly appropriated \$1.69 billion from the state’s allocation of the American Rescue Plan Act (ARPA) for drinking water, wastewater, and stormwater investments in Sections 12.13 and 12.14 of the Current Operations Appropriations Act of 2021 ([S.L. 2021-180](#)). The North Carolina Department of Environmental Quality (NC DEQ) Division of Water Infrastructure (Division) will administer approximately \$1.6 billion as grants for drinking water, wastewater, and stormwater systems in North Carolina, which excludes amounts that will be transferred to other agencies and up to 3% in administrative costs. The funds, some of which are appropriated for specific projects, are divided into different Reserves to be administered by the Division, shown in the table below, following statutory and budgetary requirements. In addition, federal requirements for the use of American Rescue Plan Act appropriations will apply. All funds must be expended by December 30, 2026.

NC DEQ Fund or Reserve	Purpose	Allocated directly for specific local governments and public entities (earmarked), approx.	Approximate remaining for grant funding (non-earmarked)
Viable Utility Reserve	Grants for water and wastewater systems that have been designated as distressed by the State Water Infrastructure Authority and the Local Government Commission, for the purposes set forth in subdivisions (1) through (5) of G.S. 159G-32(d).	\$89.7 million	\$353.0 million
Drinking Water Reserve and Wastewater Reserve (State Reserves)	Project construction grants for public water systems and wastewater systems NC DEQ categorizes as at-risk of becoming distressed .	\$116.6 million	\$191.3 million
	Project construction grants for public water systems and wastewater systems not designated as distressed or categorized as at-risk .	\$614.8 million	\$54.1 million
	Grants for asset inventory and assessments, rate studies, merger/regionalization feasibility, training, and planning grants to conduct project engineering, design, or other preconstruction activities.	\$0	\$77.6 million
Local Assistance for Stormwater Infrastructure Investments Fund	Grants for local governments for projects that will improve or create infrastructure for controlling stormwater quantity or quality.	\$18.5 million	\$82.0 million
	Total	\$839.6 million	\$758.0 million
		Total funds: approx. \$1.6 billion	

Administration plan for ARPA grants for directly-allocated (earmarked) projects:

Approximately \$839,600,000 has been directly allocated by the General Assembly to 115 recipients for water and wastewater projects and 11 recipients for stormwater projects in Sections 12.13 and 12.14 of the Current Operations Appropriations Act of 2021. The grants are subject to eligibility and federal and statutory requirements and will be processed on a reimbursement basis.

Administration plan for ARPA grants from the Viable Utility Reserve (for water/wastewater utilities designated as distressed):

Approximately \$353,000,000 will be available for applications for water and wastewater grants under the Viable Utility Reserve. Local government units that have been [designated as distressed](#) by the State Water Infrastructure Authority (SWIA) and the Local Government Commission (LGC) under NC G.S. 159G-45 may apply for these funds. Additional local government units may be designated as distressed by SWIA and the LGC prior to application due dates. The next evaluation based on the Assessment and Identification Criteria is scheduled for April 2022.

Grants from the Viable Utility Reserve must be used only for projects that meet subdivisions (1) through (5) of [G.S. 159G-32\(d\)](#). Additional statutory requirements apply to local government units designated as distressed, and conditions may apply to grants. SWIA and the LGC determine the criteria by which grants are awarded from the Viable Utility Reserve.

ARPA funds cannot be used to pay or replace existing debt. However, some of the local government units designated as distressed have recently been awarded loans from the Drinking Water State Revolving Fund and/or Clean Water State Revolving Fund (SRFs) for Viable Utility Reserve-eligible water and wastewater projects but have not yet started construction or drawn down their loans. The Division will offer local government units designated as distressed with eligible projects the option to replace the awarded loan amount up to \$15,000,000 with an ARPA grant prior to construction or disbursement, subject to SWIA and LGC approval and meeting statutory and federal requirements. This allows units that are designated as distressed to use more favorable funding terms for construction projects, and to take advantage of planning and pre-construction preparations that have already taken place, expediting the start of construction.

Under NC G.S. 159G-45, all local government units designated as distressed must participate in the training and educational program approved by SWIA and the LGC. Training and educational programs impose costs on the local government. Pending SWIA and LGC approval, an award of \$2,000 will be made for each local government unit designated as distressed for eligible training cost reimbursements. Awards will be made for all local government units designated as distressed currently or newly-designated by 2025, while ARPA funds remain available in the Viable Utility Reserve. The award will be used to reimburse relevant registration costs and mileage costs incurred by utility staff and governing board members to attend training programs that are relevant to NC G.S. 159G-32(d) activities. Funds from the \$2,000 grant must be expended within two years of award, by December 30, 2026 (if using ARPA funds), or prior to the local government unit completing the requirements of NC G.S. 159G-45(b), whichever comes first. Actions by SWIA and the LGC are anticipated to occur on or after February 2022.

All remaining non-earmarked ARPA funding in the Viable Utility Reserve will be awarded to local government units designated as distressed through the Division's existing competitive funding process. Grants will be awarded for capital projects and planning activities listed in NC G.S. 159G-32(d) that:

- (1) Provide physical interconnection and extension of public water or wastewater infrastructure to provide regional service.
- (2) Rehabilitate existing public water or wastewater infrastructure.
- (3) Decentralize an existing public water system or wastewater system into smaller viable parts.
- (4) Fund a study of any one or more of the following:
 - a. Rates
 - b. Asset inventory and assessment
 - c. Merger and regionalization options
- (5) Fund other options deemed feasible which result in local government units generating sufficient revenues to adequately fund management and operations, personnel, appropriate levels of maintenance, and reinvestment that facilitate the provision of reliable water or wastewater services.

Grants are limited by NC G.S. 159G-36(d)(1) to \$15,000,000 to any single local government unit. Where two or more local government units are merging into a single utility, the total grant awarded will not exceed \$30,000,000. Previously-awarded Viable Utility Reserve grants, including amounts for directly-allocated projects from the Viable Utility Reserve, and loan replacements and trainings described above, will count towards the limit.

SWIA established and approved a Priority Rating System for evaluating applications for capital and planning projects to award funds from the Viable Utility Reserve. The approved Priority Rating System is [posted on the Division's website](#), and will be used for the Spring 2022 funding round. The Priority Rating System may be changed by SWIA prior to later funding rounds.

The Division will accept applications for funding starting with the Spring 2022 funding round: applications due May 2, 2022 and awards made as early as July 2022. Not all of the ARPA funds are expected to be awarded after one funding round. Future funding rounds will be used to award remaining ARPA funds.

Administration plan for ARPA project construction grants from the Drinking Water Reserve and Wastewater Reserve (State Reserves) for At-Risk Systems:

Approximately \$191,300,000 will be available for grants for project construction for public water systems and wastewater systems that NC DEQ categorizes as at-risk, excluding grants for directly-allocated (earmarked) projects.

Grants must be used for construction projects for public water systems, wastewater collection systems, and wastewater treatment works. Eligibility and federal and statutory requirements of State Reserves funds and ARPA funds will apply, and ARPA funds must be expended by December 30, 2026. Specific performance measures or conditions may be imposed by the Department to ensure an adequately funded program for the repair, maintenance, and management of the water or wastewater infrastructure. SWIA determines the criteria by which grants are awarded from the State Reserves.

Categorization of at-risk (which defines eligibility for ARPA construction grants for at-risk systems) will be determined for each applicant considering data provided in the application and using the following criteria:

- Local government water and/or wastewater utilities providing service to residential customers, that are not designated as distressed by SWIA and the LGC, and that:
 - scored six points or higher in the [Viable Utility Program’s Assessment Criteria](#) approved by SWIA and the LGC and at least three out of five local government unit indicators used in the Affordability Criteria for funding applications (see [the Priority Rating System Guidance](#) or [the Affordability Calculator](#)) are worse than the state benchmarks,

or

- serve between 1 and 1,000 residential service connections and at least three out of five local government unit indicators used in the Affordability Criteria for funding applications (see [the Priority Rating System Guidance](#) or [the Affordability Calculator](#)) are worse than the state benchmarks.

All of the data, except for the Viable Utility Program’s Assessment Criteria score, will be provided by the applicant in the funding application and [Affordability Calculator](#), and will be used by the Division to provide a final determination of at-risk categorization, similar to the process used in reviewing the Affordability Criteria in funding applications. The [Viable Utility Program’s Assessment Criteria scores](#) for all local government units are posted on the Division’s website and will be updated as new assessments are made each year. The next evaluation is scheduled for April 2022. For the Spring 2022 applications, the Division will use the highest Assessment Criteria score that applies to a local government unit before and after the April 2022 re-assessment in order to maximize the number of local governments that qualify for the funds reserved for at-risk systems.

Utilities that may or may not be eligible for funding under the distressed or at-risk funding categories described above may have projects that serve at-risk communities within or adjacent to their service area. These projects, by any local government utility or nonprofit water corporation, will be eligible for at-risk systems ARPA construction grant funding. To be eligible, 75 percent or more of the project cost must be used to connect existing residences in disadvantaged, underserved areas that voluntarily choose to connect to the water and/or wastewater utility, replacing on-site service to the residence with a connection to the utility’s water distribution or wastewater collection system. Connection/tap-on fees and capacity/system development fees would be covered by the grant and must not be charged to the residents.

Disadvantaged, underserved areas will be based on either NC DEQ’s determination of “Potentially Underserved Block Groups” or Tribal boundaries displayed on the [NC DEQ Community Mapping System](#), or information provided in the application as described below. Potentially Underserved Block Groups on the map include the following demographics: the share of nonwhites and Hispanic or Latino (of any race) is over fifty percent or at least ten percent higher than the County or State share, and the share of population experiencing poverty is over twenty percent or at least five percent higher than the County or State share. The eligible applicant can use this map to demonstrate that the proposed project primarily connects residences located within block groups classified on the map as Potentially Underserved or within Tribal boundaries. If the proposed project does *not* fall within a Potentially

Underserved Block Group or Tribal boundary layer on the map, the applicant must provide information in the application explaining what factors would qualify the project area as disadvantaged and underserved (such as demographic, historical, cultural, linguistic, or low-wealth factors; existing contamination, or other considerations deemed relevant).

Non-earmarked ARPA funding in the State Reserves for at-risk systems will be awarded through the Division's competitive funding process. Applications for water and wastewater construction grants will be reviewed and evaluated according to the Priority Rating System established by SWIA for the Drinking Water Reserve and Wastewater Reserve. The approved Priority Rating System is [posted on the Division's website](#), and will be used for the Spring 2022 funding round. The Priority Rating System may be changed by SWIA prior to later funding rounds.

The Division will accept applications for funding at-risk systems starting with the Spring 2022 funding round: applications due May 2, 2022 and awards made as early as July 2022. Not all of the ARPA funds are expected to be awarded after one funding round. Remaining ARPA funds for at-risk systems will be awarded in the Fall 2022 funding round.

For the Spring 2022 funding round: ARPA funding in the State Reserves for at-risk systems will be limited to up to \$15,000,000 per applicant. For regional projects interconnecting multiple utilities or merging two or more utilities into a single utility, the total grant awarded will not exceed \$30,000,000. Eligible applications that do not receive any ARPA funding or are only partially funded with ARPA grants will be reconsidered for additional funds in the Fall 2022 funding round. The Division anticipates reserving some of the at-risk system funds for the Fall 2022 application round.

For the Fall 2022 funding round: any remaining ARPA funding in the State Reserves for at-risk systems will be initially limited to up to \$15,000,000 per applicant in the Fall 2022 funding round. For regional projects interconnecting multiple utilities or merging two or more utilities into a single utility, the total grant awarded will initially not exceed \$30,000,000. ARPA funding awarded to at-risk systems in the Spring 2022 funding round will count towards these initial limits. If funds remain available after all eligible projects are fully funded or funded up to the aforementioned limits, projects will be awarded up to an additional \$5,000,000 increment per applicant (not to exceed funding requested) in project priority order until all ARPA funding for at-risk systems have been obligated.

Any ARPA funds from the State Reserves directly-allocated to recipients in the Current Operations Appropriations Act of 2021, or funding awarded for at-risk systems in the Spring 2022 application round, will count towards the funding limits and incremental awards specified above.

Administration plan for ARPA project construction grants from the Drinking Water Reserve and Wastewater Reserve (State Reserves) for All Other Systems:

Approximately \$54,100,000 will be available for grants for project construction for public water systems and wastewater systems that are not designated as distressed and that are not categorized as at-risk (herein referred to as "All Other Systems"), excluding grants for directly-allocated (earmarked) projects. Eligible recipients include local government units with public water systems or wastewater systems (including those that provide wholesale service to other utilities) and nonprofit water corporations.

Grants must be used for construction projects for public water systems, wastewater collection systems, and wastewater treatment works. Eligibility and federal and statutory requirements of State Reserves funds and ARPA funds will apply, and ARPA funds must be expended by December 30, 2026. Specific performance measures or conditions may be imposed by the Department to ensure an adequately funded program for the repair, maintenance, and management of the water or wastewater infrastructure. SWIA determines the criteria by which grants are awarded from the State Reserves.

Grants will be awarded through the Division's competitive funding process. Applications for water and wastewater construction grants will be reviewed and evaluated according to the Priority Rating System established by SWIA for the Drinking Water Reserve and Wastewater Reserve. The approved Priority Rating System is [posted on the Division's website](#), and will be used for the Spring 2022 funding round. The Priority Rating System may be changed by SWIA prior to later funding rounds.

The Division will accept applications for funding starting with the Spring 2022 funding round: applications due May 2, 2022 and awards determined as early as July 2022. It is anticipated that sufficient applications will be submitted to award all of the available ARPA funds in this section in the Spring 2022 funding round. If funds remain available, future funding rounds will be used to award remaining ARPA funds.

ARPA project construction funds for All Other Systems will be limited to up to \$5,000,000 per applicant, or up to \$15,000,000 for regional projects interconnecting multiple utilities or merging two or more utilities into a single utility. If funds remain available after all eligible projects are fully funded or funded up to the aforementioned limits, projects will be awarded up to an additional \$5,000,000 increment per applicant (not to exceed funding requested) in project priority order until all ARPA funding in this section has been obligated or all eligible projects are fully funded. Any ARPA funds from the State Reserves directly-allocated to recipients in the Current Operations Appropriations Act of 2021 will count towards a utility's initial award and additional incremental awards.

Administration plan for ARPA planning and study grants from the Drinking Water Reserve and Wastewater Reserve (State Reserves):

Approximately \$77,600,000 will be available for all local government water and wastewater utilities and nonprofit water corporations (regardless of system size, designation of distressed, or categorization of at-risk) for the following planning and study grants:

- 1) Asset Inventory and Assessment grants, as defined in G.S. 159G-33(a)(3a) and G.S. 159G-34(a)(3a).
- 2) Rate study grants intended to determine a rate structure that will enable a public water system or wastewater system to generate sufficient revenues to adequately fund management and operations, personnel, appropriate levels of maintenance, and reinvestment to facilitate the provision of reliable water or wastewater services,
- 3) Merger/Regionalization Feasibility grants, as defined in G.S. 159G-33(a)(3) and G.S. 159G-34(a)(3),

- 4) Training grants to increase the capacity of a public water system or wastewater system to operate efficiently and maintain adequate maintenance and revenue collection practices, and
- 5) Planning grants to conduct project engineering, design, or other preconstruction activities.

ARPA State Reserve funds for planning and study grants are limited to \$400,000 per recipient for the 2021-2023 biennium. Eligibility and federal and statutory requirements for State Reserves funds and ARPA funds will apply, and ARPA funds must be expended by December 30, 2026. There will be no match requirements for Asset Inventory and Assessment grants or Merger/Regionalization Feasibility grants. Specific performance measures or conditions may be imposed by the Department to ensure an adequately funded program for the repair, maintenance, and management of the water or wastewater infrastructure. SWIA determines the criteria by which grants are awarded from the State Reserves.

Planning and study grants will be awarded for Asset Inventory and Assessment (AIA) and Merger/Regionalization Feasibility (MRF) studies through the Division's competitive funding process. Applications for AIA and MRF grants will be reviewed and evaluated according to the Priority Rating Systems established by SWIA for AIA and MRF grants. The approved Priority Rating Systems are [posted on the Division's website](#), and will be used for the Spring 2022 funding round. The Priority Rating Systems may be changed by SWIA prior to later funding rounds.

Applications for water and wastewater preconstruction planning grants only (without actual construction) will be prioritized based on the potential construction project being considered. Applications will be reviewed and evaluated according to the Priority Rating System established by SWIA for construction projects for the Drinking Water Reserve and Wastewater Reserve. The approved Priority Rating System is [posted on the Division's website](#), and will be used for the Spring 2022 funding round. The Priority Rating System may be changed by SWIA prior to later funding rounds.

The Division will accept applications for funding starting with the Spring 2022 funding round: applications due May 2, 2022 and awards determined as early as July 2022. Future funding rounds will be used to award remaining ARPA funds.

Expenses for training, rate studies and preconstruction planning activities can be included by any local government unit or nonprofit water corporation in applications for construction projects, Asset Inventory and Assessment studies and Merger/Regionalization Feasibility studies. Training, rate studies, and preconstruction planning activities must be related to the project described in the application. Expenses for these activities are included in the funding requests, which are subject to the limits specified previously. Training expenses will be limited to \$2,000 per utility for registration and mileage costs to attend training events for utility staff and governing board members.

Timeline of the administration plan for ARPA grants for drinking water and wastewater projects:

- 1) February-May 2022: SWIA and LGC award Viable Utility Reserve funds for training and replacement of SRF loans for units designated as distressed.
- 2) May 2, 2022: Spring 2022 application deadline for water and wastewater projects (1st round).
- 3) July 2022 and later: SWIA (and LGC) award Spring 2022 ARPA grants.
- 4) March-July 2022: SWIA reviews Priority Rating Systems ahead of the Fall 2022 funding round.

- 5) September 30, 2022: Fall 2022 application deadline for water and wastewater projects (2nd round).
- 6) February 2023: SWIA (and LGC) award Fall 2022 ARPA grants, if funding is available.

Future application funding rounds will be used to award remaining funds.

Administration plan for ARPA grants from the Local Assistance for Stormwater Infrastructure Investments Fund:

Approximately \$82,000,000 will be available for cities and counties and their regional councils of government and nonprofit entity partners for projects that will improve or create infrastructure for controlling stormwater quantity and quality, excluding grants for directly-allocated (earmarked) projects. Seventy percent of the funds are allocated for construction grants and thirty percent are allocated for planning grants.

A Priority Rating System specific to stormwater infrastructure funding has not yet been developed. The Division will work with SWIA to establish a Priority Rating System specific to funding stormwater projects, based on federal and statutory requirements and input from stakeholders. Development of the Priority Rating System will occur in the first six months of 2022 and seek SWIA approval of a Priority Rating System by July 2022.

The Division anticipates accepting applications for stormwater funding starting with the Fall 2022 funding round: applications due September 30, 2022 and awards determined as early as February 2023. Future funding rounds will be used to award remaining ARPA funds.

Anticipated timeline of the administration plan for ARPA grants for stormwater projects:

- 1) January-July 2022: the Division and SWIA develop a Priority Rating System for stormwater infrastructure investments, including public review and stakeholder input.
- 2) July 2022: NC DEQ develops and releases Fall 2022 funding application materials.
- 3) September 30, 2022: Fall 2022 application deadline for stormwater projects (1st round).
- 4) February 2023 and later: SWIA awards Fall 2022 ARPA stormwater grants.
- 5) May 1, 2023: Spring 2023 application deadline for stormwater projects (2nd round).
- 6) July 2023: SWIA awards Spring 2023 ARPA stormwater grants, if funding is available.

Future application funding rounds will be used to award remaining funds.