



## North Carolina Department of Environmental Quality

# Priority Rating System Guidance for Division of Water Infrastructure Asset Inventory and Assessment Grants

(Last updated: March 2022)



This guidance aids the applicant in understanding and implementing the Priority Rating System when applying for **Asset Inventory and Assessment (AIA) grants**. This guidance applies to AIA grants funded out of the State Reserve Program and the Viable Utility Reserve. **Use this guidance only for AIA applications.** For any other project types, please use the guidance appropriate for that particular program.

The goal of an Asset Inventory and Assessment grant is to inventory the existing water and/or sewer system and document the condition of inventoried infrastructure. Other components of an asset management program may be eligible. The State Water Infrastructure Authority (Authority) and the Division of Water Infrastructure (Division) have structured the priority rating system to prioritize applications that reflect the greatest likelihood that information obtained through this project will be used by the utility to manage their infrastructure assets in the future.

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### **\*\*NEW FOR SPRING 2022 FUNDING ROUND\*\***

Applicants need only to submit a single application for AIA funding regardless of the desired funding source. All AIA applications must include a narrative responding to the questions below as well as the relevant supporting documentation. Local government units (LGUs) designated as distressed and their regional partners on the application will be funded from the Viable Utility Reserve (VUR). All other applicants will be funded out of the State Reserve Program (SRP). Some applications from LGUs designated as distressed and their regional partners on the application may be funded out of the SRP.

Applications that will be funded out of the Viable Utility Reserve will be funded in the order below.

1. Distressed criteria scores
2. First tie-break among distressed applicants:
  - Revenue Outlook (15 points)
  - Moratorium (15 points)
  - Service Population <1,000 (10 points)
  - Project addresses multiple distressed units (5 points)

All other applications, which will be funded out of the State Reserve Program, potentially including some LGUs designated as distressed, will be prioritized according to the Priority Rating System at the end of this document.

Only LGU applicants designated as distressed, or regional partners that apply for funding to work with an LGU designated as distressed, are eligible for Viable Utility Reserve funding. The Division

created a separate template for **Resolutions by Governing Bodies to apply for funding for LGUs designated as distressed and their regional partners (VUR Resolution)**. If your LGU is designated as distressed or is partnering with a LGU designated as distressed for this application, the application must include signed VUR Resolutions by each governing body of a LGU on the application. Upon receiving funding from the VUR, the Resolution commits the LGU designated as distressed to completing the viable utility requirements established in NCGS 159G-45(b).

Applicants that do not include LGUs designated as distressed as a partner in the application should complete the **Resolution by Governing Bodies to apply for funding by LGUs not designated as distressed**. This is the standard template resolution required of applications for the Division's other funding programs.

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## **Submittal Requirements**

**If an applicant desires to do asset inventory and assessments on both the water system and the sewer system, two separate applications must be submitted.**

- The completed application must include the application forms, Water & Sewer Financial Information Form, Fund Transfer Certification form, water and sewer rate sheets, the narrative, resolution(s), and supporting documentation. **Do not submit a completed priority rating system point sheet.**
- A Priority Rating System Narrative along with supporting documentation as required by this guidance must be submitted. The narrative is the main part of the application. Address every narrative question in the order they appear in the following sections.
- All supporting documentation to determine priority points must be submitted with the funding application. Please ensure that submittals provide clear information needed to determine points. Additional information will not be requested. Points will be determined based solely on the information submitted by the application due date.

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## **Asset Inventory and Assessment Narrative Guidance**

### **Categories 1 & 2 - Project Benefits and System Management**

#### **Narrative**

The following items must be addressed by the applicant in a narrative format to be used for scoring Category 1 - Project Benefits and Category 2 - System Management points:

1. What are the top three (3) challenges your system faces in the next 5 years? How will the proposed asset inventory and assessment project help address these challenges? Examples of such challenges might include age of infrastructure, high rates, high debt, public health issues, environmental compliance issues, lack of capacity, water loss, infiltration/inflow,

infrastructure at risk of failure, loss/lack of institutional knowledge, etc. Provide (via hard copy or CD/flash drive) any existing documentation of these challenges such as NOV's, a local water supply plan, water audits, inflow/infiltration study results, etc.

**Scoring Rationale:**

To maximize points, the narrative should discuss challenges that would benefit from an AIA project, and there should be a clear link between each challenge and the AIA benefit. Narratives that demonstrate the water/sewer system is old and leaks or frequently breaks generally receive 4 benefit points. Applications with documented excessive I/I or excessive water loss usually receive 2 additional benefit points. Applications with documented NOV's or significant SSOs (other than during hurricanes) or documented significant waterline breaks or drinking water quality issues usually receive 2 additional benefit points. Narratives with growth as a top challenge or systems that are not old usually lose 2 benefit points. Including supporting documentation is essential to earn maximum project points.

2. Has the utility done any asset management or capital planning work previously? Give specific examples (i.e., immediate operational changes or longer-term changes in business practices) of how the system has benefited by having this information. Provide a copy (hard copy or CD) of any existing asset inventory map, smoke testing results or other condition assessment report, flow monitoring results, asset management plan or capital improvement plan.

**Scoring Rationale:**

Applications that document previously completed asset management work or capital planning work and clearly describe the benefit to the applicant of doing this work and how the proposed project will build on the work that has been done usually receive 2 additional benefit points. Applications for AIA projects with a very limited scope that have not completed other components of an asset management program may lose 2 benefit points (e.g., application is for hydraulic modeling, but no mapping or condition assessment has been completed).

3. Identify (by title) the utility's asset management team that will be assembled to develop the asset inventory and assessment project. Describe any asset management and/or capital planning experience or training each team member has had. Include any external partners (consultants, county, COG, or nonprofit staff, etc.) that will participate on the team and describe the role of each member during this project. Differentiate between external members that are temporary (e.g., surveying companies) and those that will be continuously assisting in asset management planning (e.g., company providing long-term data management). In addition, describe the future role of each team member to continue to inventory, assess, prioritize, and plan for water infrastructure assets after completion of the project.

**Scoring Rationale:**

To receive 4 points for knowledge base of team, the team should include members with system knowledge, financial knowledge, the ability to make decisions (i.e., management), asset management experience (e.g., capital improvement planning, rate setting, GIS), and the narrative should describe this experience. If the applicant does not have anyone with asset management experience, the team should include external partners with this

experience. If the narrative does not explain the role of each team member and how the team will manage the asset management program now and in the future, fewer points will be awarded.

4. How does the utility currently set rates to generate revenue for appropriate levels of infrastructure maintenance, operations, and replacement? Has the process for setting rates changed in the last five (5) years, and how has it changed? How does the rate setting process blend with the CIP planning process?

**Scoring Rationale:**

A narrative that clearly documents the process used to set rates, and that this process utilizes a CIP (even if incomplete or limited), usually receives 2 points for rate setting practices. The rates should be sufficient to maintain an operating ratio above 1.0. The rate history on the application should show consistent increases. Applications that cannot meet these criteria generally score lower for this item.

5. How will the utility use the information developed through this project to develop future infrastructure projects, and how will these projects be prioritized? How will these projects be incorporated into the CIP planning process in the future, and how will the source of funding be determined?

**Scoring Rationale:**

A narrative that clearly describes how the AIA information will be used to develop and prioritize projects helps document good system management practices and can receive additional points for management of asset inventory data. Further, a narrative that clearly describes how the AIA team will coordinate and make level of service decisions typically receives more points than a narrative that outlines how to perform a condition assessment.

6. How will the utility's asset inventory developed through this project be kept up to date, and how will the utility pay for this ongoing effort? Include any information about partnering with the county, Council of Government (COG), or others to maintain and update the asset inventory.

**Scoring Rationale:**

If the data developed through this AIA project is to be managed by an applicant who is already managing GIS data, or by the county or by a COG, applications usually receive 4 points for data management. The narrative should indicate which of these options is to be utilized. Applicants that cannot demonstrate that the team has experience managing data may not score as high.

7. Provide the System Operating Ratio each year for the past three (3) years. Explain any discrepancies in the Operating Ratio from year to year. See below for Operating Ratio calculation instructions.

**Scoring Rationale if all three operating ratios are not consistently above or below 1.00:**

Points will be awarded based on how many years were less than 1.0, whether the OR trend is up or down, how high the bill is for 5,000 gallons, and if the narrative gives any explanation of why the ORs are less than 1.00.

8. Describe any additional benefits to the utility of receiving this Asset Inventory & Assessment grant that have not been previously mentioned.

Vulnerability to storms can be an important part of the risk analysis of water and sewer assets. If the AIA project includes this type of risk analysis, describe the benefit here.

***Scoring Rationale:***

Additional benefits discussed here will be evaluated in the scoring process and may increase points awarded for project benefits.

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**Line Item 1.A - Distressed designation per §159G-45(b)**

The LGU has been designated as “distressed” by the Authority and Commission, has initiated fulfilling the requirements outlined in §159G-45(b), and continues to make adequate progress fulfilling the requirements outlined in §159G-45(b) as determined by the Division. If it receives an AIA grant, the LGU commits to completing the grant in accordance with the requirements of the VU program.

Points will be awarded if the applicant provides a copy of the distressed designation letter. Discuss the steps taken thus far in fulfilling the requirements outlined in 159G-45(b) and the benefits of receiving an AIA grant.

**Line Item 2.D - Operating Ratio**

Calculate each of the three (3) most recent Operating Ratios using the formula below and include the calculations in the narrative.

$$\text{OR} = \frac{\text{Operating Revenues}}{\text{Total Expenditures} + \text{Debt Principal} + \text{Interest} + \text{Capital Outlay}}$$

Scoring:

- all three operating ratios are less than 1.00 and the rates for 5,000 gallons is less than \$107/month = 0 points
- all three operating ratios are less than 1.00 and the rates for 5,000 gallons is greater than or equal to \$107/month = 1 point
- all three operating ratios are greater than 1.00 = 2 points

**Calculation Notes:**

- In the narrative and calculations, use the same values entered in Financial Information Form.
- Do not include “Non-operating Revenues” in the numerator.
- Present “Total Expenditures” from Financial Information Form.
- Present “Debt Principal”, “Interest” and “Capital Outlay” from Financial Information Form; “Capital Outlay” is defined as funded from the enterprise fund.
- Report the Operating Ratio to two decimal points.

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**Category 3 – Affordability****Line Item 3.A - Current Rate**

Points will be scored based on the current monthly utility rate at 5,000 gallons provided on the application form for in-town rates. The Division has determined that the median rate in NC for 5,000 gallons of combined water and sewer is \$79/month for in-town rates.

- Less than or equal to \$79/month = 0 points
- More than \$79/month and less than or equal to \$107/month = 1 points
- Greater than \$107/month = 2 points

**Line Item 3.B - Local Government Unit Indicators**

Points will be awarded based on the Local Government Unit (LGU) indicators provided on the application form and how these indicators compare with the state benchmarks. For systems that serve multiple local government units, a weighted average of indicators will be used.

- Percent population change
- Poverty rate
- Median household income
- Unemployment
- Property valuation per capita

**Match Requirement (change as of Spring 2022)**

A match is not required for projects funded in this round.

Asset Inventory and Assessment Grant Priority Rating System		
Line Item #	Category	Points
1.	Project Benefits	0 - 8
1.A	The LGU has been designated as “distressed” by the Authority and Commission, has initiated fulfilling the requirements outlined in 45(b), and continues to make adequate progress fulfilling the requirements outlined in 45(b) as determined by the Division. If it receives an AIA grant, the LGU commits to completing the grant in accordance with the requirements of the VU program. If it receives an AIA grant, the LGU commits to completing the grant in accordance with the requirements of the VU program.	2
2.	System Management	
2.A	Knowledge base of utility’s internal asset management team	0 - 4
2.B	Current and past rate setting practices, CIPs, etc.	0, 1, or 2
2.C	Management of asset inventory data	0 - 4
2.D	Operating Ratio (OR) is greater than or equal to 1.00 based on a current audit, or is less than 1.00 and water/sewer rates are greater than \$107/month	0, 1, or 2
3.	Affordability	
3.A	Current Monthly Utility Rate at 5,000 gallons usage	0, 1, or 2
3.B	Local Government Unit (LGU) Indicators	
3.B.1	3 out of 5 LGU indicators are worse than the state benchmark <b>OR</b>	0
3.B.2	4 out of 5 LGU indicators are worse than the state benchmark <b>OR</b>	1
3.B.3	5 out of 5 LGU indicators are worse than the state benchmark	2
<b>Total Points</b>		<b>24 Max</b>