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| Logo  Description automatically generated | **North Carolina Department of Environmental Quality** |  |
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| **Priority Rating System Guidance****for Division of Water Infrastructure** **Merger/Regionalization Feasibility Grants** |
|  | (Last updated: February 2022) |

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

The goal of a Merger/Regionalization Feasibility grant is to allow a utility to identify and then work with partnering utilities to investigate the challenges, benefits, and implications for both utilities to merge, in part or in whole, to regionalize, or some combination thereof. Applicants may already have existing cooperation agreements. Also, multiple utilities may intend to jointly cooperate with the applicant. The Division structured the rating system to give higher priority to applications that demonstrate the potential for a successful project in the future, beyond this study.

Each application earns priority points for the Project Benefits, System Management, and Affordability status of the applying system. The Division has structured the rating system to prioritize the applications that in general document fewer connections, more compliance issues, smaller staffs, greater financial barriers, or any combination of the above that may hinder system viability and the ability to self-fund or conduct a feasibility study. Thus, some points will be awarded by comparing applications received that round, and some points will be awarded based on the inherent LGU indicators of the applying system.

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| **Example language**The [Partnering system] acknowledges the [applying system’s] request to participate in a merger/regionalization feasibility study. By submittal of this letter, we commit our willingness to cooperate to the extent necessary to perform a merger/regionalization feasibility study for the purposes of ensuring the viability of all systems involved. Our collaboration in this study does not bind us to act on the recommendations of the study. |

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

Applicants need only to submit a single application for MRF funding regardless of the desired funding source. All MRF 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 funding 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.

**Submittal Requirements**

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| **If an applicant desires to do a merger/regionalization feasibility study 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), applicable partnering letter(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 with the funding application. The General discussion questions should address the existing conditions of the applying and partnering systems. Questions in Categories 1, 2, and 3 will be used for scoring purposes.

**Priority Rating System Narrative**

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|  | General Discussion |
| Category 1 | Project Benefits |
| Category 2 | System Management |
| Category 3 | Affordability  |

* The narrative must be consistent with information in the Application for Funding, LGC forms, and other supporting information.
* 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.
* An Acknowledgement Letter from each of the partnering utilities must also be submitted with the funding application. A partnering utility is defined as a utility that will be included in the options considered in the study. Each letter should establish the level of cooperation required to complete a successful MRF grant and must acknowledge that the applicant has applied for this funding. The letters must be signed by the elected official or authorized representative, if not authorized by resolution. Lastly, the letters do not commit the partnering utilities to act on the findings of the study.

**Merger/Regionalization Feasibility Narrative Guidance**

**General Discussion - Narrative**

This section is for discussing the top three (3) challenges facing the applicant in the next five (5) years and how the proposed MRF grant will help address these challenges. Narrative responses must be consistent with the approved Local Water Supply Plan, Water System Management Plan, I/I and other study results, various withdrawal/discharge permits, and internal control policies, as applicable.

**Previous Studies and Top 3 Challenges**

1. *Has the feasibility of a merger or regionalization been studied before? What have been the barriers to either conducting a feasibility study or to implementing the recommendations from any previous studies? If a study was previously done, how will this study differ? What are the top 3 challenges your system faces in the next 5 years?*

The narrative must discuss the top 3 challenges facing the in the next 5 years. Include in your discussion considerations for technical or operational challenges, organizational barriers, and financial limitations.

If the applicant has participated in a previous study, describe the study’s goals and intent, levels of commitment, areas of cooperation, and reason(s) for its success or failure. The narrative must also include a discussion of the trade-offs and alternatives considered by the previous study, specifically those relating to costs, operational changes, and organizational structure. Additionally, describe how this study will differ from past studies.

If the applicant has not participated in a previous study, discuss whether such a study has been previously considered, and the barriers which inhibited the study from proceeding. Reasons for the previous lack of consideration for a study may include, and are not limited to, unwillingness to potentially eliminate existing positions, inability to agree internally on the study’s goals, and financial barriers inhibiting the hiring of an experienced professional.

**Benefit to the Applicant**

1. *What are the benefits to the applying system of receiving this MRF grant? How might a merger or regionalization help address the top 3 challenges?*

Discuss how the top 3 challenges will be addressed with an MRF grant. Include in your discussion, the benefits to the applicant a MRF study potentially provides with respect to technical operations, organizational procedures, and financial controls. Also, address both the applicant and partner system’s perceived strengths and weaknesses.

Lastly, describe any additional information related to the benefits of a MRF grant that have not been previously mentioned in the top 3 challenges.

**Category 1 – Project Benefits**

Applications earn Project Benefits points by documenting and discussing the applying system’s existing technical and operational situation with respect to the top three (3) challenges.

**Line Item 1.A - Compliance History**

1. *Does the applying system have any ongoing environmental protection and/or public health issues, such as impaired watersheds, contaminated sources, failing infrastructure, etc.?*

Discuss how the top three (3) challenges affect the technical needs of the utility and whether the applicant or partner systems have existing violations. Specifically discuss whether the existing violations are acute or ongoing, the extent to which the violations impact the utility’s normal operations, the actions taken to address existing violations, and the potential for future violations. Provide documentation of the enforcement action (NOV, AO, etc.) from the past five (5) years, a brief discussion of the cause of the enforcement action, and whether the underlying violation was addressed and if so, how and when.

Points earned for this line item will be based on a comparison of the other applications submitted during that funding round. Applications that document the most severe violations will generally receive three points for this line item, applications that document fewer and less sever violations will generally receive either one or two points, and applications with no violations will receive zero points.

**Line Item 1.B - Proximity and Past Collaboration**

1. *Do either the applicant or partner system(s) have adequate unallocated capacity to accommodate the needs of the other systems in this study?*

List the partners identified for this study. Partners may include private utilities. Discuss the applicant’s proximity to potential partners who appear to have adequate unallocated capacity to expand and interconnect. Discuss the source/effluent, collection/distribution, storage, and treatment needs of the applicant and partner systems with respect to existing and approved Local Water Supply Plans, Water System Management Plans, discharge/withdrawal permits, etc. Provide copies of the supporting documentation via hard copy or CD/flash drive. Also, provide a map which includes sufficient labels of geographical references and is at a readable scale.

The application narrative must document proximity to systems with adequate unallocated capacity to expand (per NCGS 130A-317(g)).

1. *Have the applicant and partner system(s) previously collaborated on utility or other issues, either on a project basis or for ongoing management? If so, describe the reasons, achievements, and benefits of the collaboration for both the applicant and partner system(s).*

Discuss past collaboration efforts, regardless of success, between the applicant and partner systems. Past collaboration is not limited to utility-utility collaboration, for example past land development, joint permitting and planning, and service-sharing activities should all be documented here. Additionally, discuss the goals and outcomes of the collaborative efforts. Provide copies of Inter Local Cooperation and other resource sharing agreements via hard copy or CD/flash drive.

Points earned for this line item will be based on a comparison of the other applications submitted during that funding round. Three points will be award to applications that document the closest proximity to a partner utility with adequate capacity to expand and where the applicant and partner utilities have previously collaborated in any activity, zero points will be awarded for applications that show neither of these, and applications with a combination of no proximity but previous collaboration, and vice versa, will be awarded either one or two points.

**Category 2 – System Management**

Applications earn System Management points by discussing the applying system’s organizational structure and financial controls with respect to the top three (3) challenges.

**Line Item 2.A - Size and Capabilities**

1. *What are the organizational characteristics of the applying system, including the number, roles, and responsibilities of the utility and finance staff as well as elected officials, and, if applicable, any existing operation or management contracts?*

Discuss the applicant’s organization size, structure, and responsibilities of each group within the utility. Include the number of part- and full-time employees in the utility and across the applicant and partner systems. Describe the organizational characteristics with respect to hiring and personnel policies, operation and management contracts, formal job descriptions, and other internal procedures that delineate the responsibilities within the utility.

1. *How does each of the top 3 challenges affects the applying system’s desired level of service?*

Discuss how the top 3 challenges inhibit the system’s organizational and financial goals. Specifically discuss the organizational and financial resources available to the utility, existing levels of asset management and capital project planning, and the regular and acute barriers to enforcing established policies. Describe the decision-making process when faced with multiple priorities, such as rate setting practices and capital improvement planning, asset management and maintenance policies, etc.

**Line Item 2.B - Distressed System Designation**

1. *Has 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 so, discuss the issues presented in the letter, and how the applicant is addressing the issues.*

The State Water Infrastructure Authority and Local Government Commission may designate a system as distressed per §159G-45(b). Provide a copy of the letter, and discuss whether or not action has been taken to address the issues in the letter.

Points for this line item will be awarded to applications that document having received a Distressed Designation Letter. Three points will be awarded for documenting and discussing the issues contained in the letter.

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

Calculate the most recent Operating Ratio using the formula below and include the calculation in the narrative.

Operating Revenues

OR =

Total Expenditures + Debt Principal + Interest + Capital Outlay

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| **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.
* Do not include any future revenues.
* 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 = 2 points
* Greater than $107/month = 4 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

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| **Merger/Regionalization Feasibility Grant Priority Rating System** |
| **Line Item #** | **Category** | **Points** |
| **1.** | Project Benefits |  |
| 1.A | Compliance History | 0, 1, 2, or 3 |
| 1.B | Past Collaboration and/or Proximity | 0, 1, 2, or 3 |
| **2.** | System Management |  |
| 2.A | Size and Capabilities | 0, 1, or 2 |
| 2.B | 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 outline in 45(b) as determined by the Division. If it receives a MRF grant, the LGU commits to completing the grant in accordance with the requirements of the VU program. | 3 |
| 2.C | Operating Ratio < 1.00 | 1 |
| **3.** | Affordability |  |
| 3.A | Current Monthly Utility Rate at 5,000 gallons usage | 0, 2, or 4 |
| 3.B | Local Government Unit (LGU) Indicators |  |
| 3.B.1 | 3 out of 5 LGU indicators are worse than the state benchmark **OR** | 0 |
| 3.B.2 | 4 out of 5 LGU indicators are worse than the state benchmark **OR** | 2 |
| 3.B.3 | 5 out of 5 LGU indicators are worse than the state benchmark | 4 |
|   | **Total Points** | **20 Max** |