

**State Water Infrastructure Authority
Viable Utility Committee
January 26, 2023 Meeting
Agenda Item C – Proposed Priority Rating System Changes**

Division of Water Infrastructure Staff Report

Background

General Statute 159G-35(c) directs the State Water Infrastructure Authority (Authority) and Local Government Commission (LGC) to develop evaluation criteria for grants from the Viable Utility Reserve (VUR), among other responsibilities.

The Chair of the LGC, State Treasurer Dale R. Folwell, sent a letter (dated September 7, 2022) to the Authority by way of Chair Shadi Eskaf (Division of Water Infrastructure Director), requesting that the Authority consider prioritizing funding for construction projects for local government units (LGU) under the financial control of the LGC per their authority under NCGS 159-181(c). These units are designated distressed under Identification Criterion 1 of the Identification Criteria (“D1 units”):

A unit whose fiscal affairs are under the control of the Commission pursuant to its authority granted by G.S. 159-181 (“under Commission fiscal control”)

The letter was discussed during the Authority’s September 14, 2022 meeting. Authority members expressed a desire to continue to operate consistent with the existing Priority Rating System (PRS) for VUR-funded construction projects, which is the same as that used for prioritizing projects for the State Revolving Fund (SRF) and State Reserve Program (SRP). Furthermore, the Authority referred a more detailed discussion and consideration of the State Treasurer’s request to the Viable Utility (VU) Committee, which first considered this issue during their most recent meeting on October 12, 2022.

This staff report provides a summary of efforts to date and preliminary recommendations for modifications to the construction project PRS to better integrate with the activities and objectives of the VU program. The Department is soliciting input from the VU Committee on these proposed modifications and discussion about other modifications that may be warranted, with the objective of bringing a revised PRS forward for public comment this spring and SWIA review and approval in July for the Fall 2023 funding round.

Discussion

Based on discussions with the Authority, staff focused on adjusting existing PRS priority points and/or guidance to incentivize functionally equivalent options for priority points and further prioritize distressed units making progress on statutory requirements and/or projects promoting viability (e.g., 1.C.1 guidance adjusted to credit water meter replacement projects for distressed units for Fall 2022 round). These preliminary recommendations and approaches for modifying priority points and application guidance are presented for consideration and discussion.

- Category 1 Project Purpose
 - Consider incentivizing (via points) projects generated from a VU-related planning effort/document: asset inventory and assessment (AIA)/asset management plan (AMP), capital improvement plan (CIP)/short-term action plan (STAP), Master Plan/long-term action plan (LTAP)
 - Consider incentivizing revenue-increasing activities, particularly if part of an approved action plan for distressed units (e.g., increasing the number of connections, which is generally disincentivized by the existing PRS)
 - Consider incentivizing other good, generally low-scoring project types that may help distressed LGUs
- Category 2 Project Benefits
 - Item 2.E.1: Edit guidance to further prioritize distressed systems on statutory and/or SOC moratorium (recommend removing 80/90 rule moratoria from the PRS altogether since some slow-growing units will willingly stay on it indefinitely.
 - Item 2.J: For reduction of non-revenue water, could tie points to water loss reduction progress from a unit’s water balance/audit
 - Item 2.R: Make DW projects eligible for energy efficiency credit, further incentivize energy use reduction for distressed units
- Category 3 System Management
 - Items 3.A.1/3.A.2: clarify that an approved STAP (which should include AMP, CIP, O&M Plan) scores 10 pts
 - Could consider intermediate or incremental scores for distressed units making progress (e.g., bonus points for any unit completing VU Utility Basic Management Principles training for distressed unit-mandated staff, additional bonus points for AIA/rate study, additional bonus points for STAP, full score for LTAP)
- Category 4 Affordability
 - Item 4.C.1:
 - Award all distressed units the minimum LGU indicator score (3 pts), regardless of affordability scoring, but still award higher points if they have more than three indicators
 - D1 units with EOGs: automatically max out at 7 points for highest score for affordability criteria (i.e., 5 out of 5 indicators), OR D1s with EOGs automatically max out entire Category 4 at 25 points
- Other
 - Consider treating D2 (missing audit only) units differently – *note: may also address in assessment protocol*
 - Study Grant PRS modifications