

**State Water Infrastructure Authority
Viable Utility Committee
January 30, 2024 Meeting
Agenda Item C – Priority Rating Systems for Planning Projects Related to the
Viable Utilities Reserve**

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 Authority has decided to use the existing Priority Rating Systems (PRSs) to prioritize awards made from various funding programs, including Asset Inventory and Assessment (AIA) and Merger/Regionalization Feasibility Study (MRF) grants. The Authority has also opted to use the PRS to prioritize awards to distressed local government units (LGUs), including awards made from the VUR.

Following the Authority’s awards from the Spring 2022 funding round, the Chair of the LGC, State Treasurer Dale R. Folwell, sent a letter on September 7, 2022, to the Authority requesting that the Authority consider prioritizing funding for construction projects for LGUs under the financial control of the LGC per their authority under G.S. 159-181(c). The Authority and the Viable Utility Committee discussed this request at prior meetings. Today’s meeting continues these discussions for planning projects.

Local government units under the financial control of the LGC are automatically designated distressed under Identification Criterion 1 of the Identification Criteria adopted by the Authority and the LGC (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”)

Discussion

The Division of Water Infrastructure (Division) and Authority recognize that addressing the needs of D1 units can be challenging for several reasons:

- These LGUs are among the most distressed in the state, and paths to viability are often complex and require significant advanced planning to implement.
- Local government unit management of D1 water and wastewater systems is typically insufficient, and decision-making becomes the responsibility of the LGC and its staff.
- The LGC and its staff typically have neither the background nor the available financial resources to effectively manage the water and wastewater systems for D1 LGUs, thus

requiring an inordinate amount of staff effort coupled with emergency operating grants (EOGs) to continue providing services to customers.

- D1 planning project funding applications may or may not score well under the Authority's existing PRS, depending on the specific attributes of the LGU and its application.

This issue for Division construction funding has been discussed during several Viable Utility Committee (VUC) and Authority meetings. Authority members have previously decided to continue to operate consistently with the existing PRSs for VUR-funded construction projects, which is the same as that used for prioritizing projects for the State Reserve Program (SRP) and State Revolving Funds (SRFs). Because distressed LGUs are eligible for other funding programs in addition to the Viable Utility Reserve (VUR), and because the Division typically tries to provide “the best” funding for the project, there is an efficiency for both applicants and application reviewers to use a common PRS.

Accordingly, the Division has implemented efforts short of formally revising the PRS to better facilitate D1 unit viability and support Commission staff. These include:

- Suggested legislative change to G.S. 159G to relax funding caps and time limits on EOGs (which are only available to the LGC for D1 LGUs).
- Convening monthly planning meetings between DWI and DST to coordinate activities regarding D1 LGUs, including providing technical support to DST staff as needed.
- Offering application preparation assistance (complementary reviews of draft applications to ensure that all available points are adequately justified) to all distressed LGUs.

Additionally, the Authority and Commission previously approved modifications to the PRS for AIA grants starting with the Fall 2021 application cycle. This was:

- Approved an automatic 2 points to Category 1 – Project Benefits for the AIA PRS for all distressed LGUs.

From a bigger picture perspective, Division staff are considering moving toward a “programmatically funded” framework for VUR funding. Under such a framework, the Action Plans required of distressed LGUs under NC GS 159G will typically include an LGU-specific “project priority list”, developed by consensus between the LGU and the Division, along with a funding plan, including (but not necessarily limited to) the eligible funding available from the VUR (i.e., \$15M per unit, and up to \$30M for mergers). This framework could also allow the Division and Authority to prioritize among the group of distressed LGUs, so that LGUs with the most acute problems could preferentially receive funding.

However, such a framework relies on having stable, recurring funding. To date, the VUR has only received non-recurring funding at the discretion of the General Assembly.

Nevertheless, the VU program was designed by the legislature to require asset inventory and assessment and the development of short- and long-term action plans that would be used to direct capital project funding or funding for other efforts to improve LGU viability (e.g., paying off historical debt). The current structure of the VUR funding and prioritization process does not always facilitate these “other efforts” as some of the actions may not score well under the approved PRS.

The Division intends to move towards a programmatic funding framework for the VUR, which would:

- Depend on having a relatively consistent and reliable amount of VUR grant funding for at least a 10-year period (requires legislative action).
- Establish funding plans as part of the long-term plan and financial plan required of distressed LGUs. Approved funding plans from distressed LGUs could then be compiled by the Division, prioritized internally and with the Authority and LGC, and programmed out over a Departmental planning horizon (again, 10-year minimum is suggested). This would ensure that projects funded by the VUR derive from approved Action Plans, and that projects best reflecting state (e.g., Authority and LGC) priorities are preferentially funded.

Current PRS for VUR-Eligible AIA and MRF Applications

Including for the Fall 2023 application cycle, AIA and MRF applications that are eligible for funding from the VUR are prioritized in decreasing priority as shown below:

1. Distressed Category 1 (LGUs under fiscal control of the LGC) by Assessment Score
2. Distressed Categories 2, 3, and 4 by Assessment Score
 - Tiebreaker Criteria
 - a. Revenue Outlook (15 points)
 - b. Moratorium (15 points)
 - c. Service Population <1,000 (10 points)
 - d. Project addresses multiple distressed units (5 points)

Staff Recommendations

Division staff recommend that the VUC consider the following modifications to bring to the full Authority regarding modifications to the prioritization of AIA and MRF applications that are eligible for funding from the VUR in decreasing priority as shown below:

1. Distressed Category 1 (LGUs under fiscal control of the LGC) by Assessment Score
2. Priority Rating System Score by using the Priority Rating Systems for the AIA and MRF programs that are currently used by the SRP
 - Tiebreaker Criteria (for multiple applicants with the same PRS score)
 1. Assessment Score
 2. Number of LGU Indicators that exceed the state benchmarks