

**State Water Infrastructure Authority**

**Meeting Date: March 9, 2022**

**Agenda Item E**

**Conversion of Funds from Clean Water State Revolving Fund / Drinking Water State Revolving Fund to Viable Utility Reserve Funds Division of Water Infrastructure Staff Report**

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**Background**

This staff report presents background information and recommendations for conversion of previously awarded State Revolving Funds (SRF) loans to local government units (LGUs) designated as distressed with grant funds from the Viable Utility Reserve (VUR).

As part of the state budget, in S.L. 2021-180, the VUR was appropriated more than \$456 million for water and wastewater infrastructure funding for local government units designated as distressed. There are currently 95 LGUs that have been designated as distressed by the State Water Infrastructure Authority (Authority) and the Local Government Commission (LGC). The appropriated funds in the annual budget were allocated to the state from the American Rescue Plan Act (ARPA) State Fiscal Recovery Fund. Projects eligible for ARPA funds passing through the VUR are limited by federal ARPA requirements of project eligibility as well as NC G.S. 159G-32(d) for projects funded through the VUR. American Rescue Plan Act funds must be expended by December 31, 2026.

The Division's ARPA Administration Plan specifies that LGUs designated as distressed that have recently awarded SRF loans for VUR-eligible projects but have not yet drawn down their loans will be given the option to replace their existing SRF loan funding with VUR grant funds. The option may provide those LGUs more streamlined access to ARPA funds, relieve financial burdens from pending debt, and better assure the success of existing projects. NC G.S. 159G-36(d)(1) establishes a funding limit of \$15 million per LGU from the VUR. Any VUR funds used to replace SRF loans will count toward this limit.

Only three requests were submitted to the Division with sufficient time to review prior to the March Authority meeting. The Division anticipates that additional requests to convert SRF loans to VUR grant funds from ARPA will be received and recommended for consideration in future meetings.

**Staff Recommendation**

Table 1 lists eligible projects for which LGUs have agreed to the potential funding source replacement and have acknowledged requirements of funding the project with ARPA funds from the VUR. Potential recipients were given the option to update project costs based on more up-to-date cost information, by providing a professional engineer-sealed cost estimate. The Division supports providing additional funds to meet increased project costs to assure projects are fully funded, provided that the scope of the project remains the same as initially approved by the Authority.

Division staff recommend that the Authority approve replacing the previously approved funding to VUR funds for the projects listed in Table 1.

<b>Table 1. Local Government Units Designated as Distressed with SRF-funded Projects Eligible for American Rescue Plan Act Grant Funds from the Viable Utility Reserve</b>						
<b>Local Government Unit</b>	<b>Project Number</b>	<b>Project</b>	<b>Total Project Cost</b>	<b>Awarded SRF Loan Amount (not yet disbursed)</b>	<b>Requested VUR (ARPA) Grant Funds</b>	<b>Notes</b>
Ellerbe, Town of	CS370671-04	Wastewater System Rehabilitation	\$2,097,000	\$1,047,461	\$1,047,461	<p>Project also funded with \$549,539 state grant and \$500,000 SRF Principal Forgiveness. These funds will not be replaced. Only the repayable loan portion is being considered for replacement.</p> <p>Town received \$150,000 direct appropriation from VUR in S.L. 2021-180.</p>
Pilot Mountain, Town of	CS370545-04	Wastewater Treatment Plant and Sewer Lift Stations Improvements Project	\$2,244,000	\$935,000	\$1,744,000	<p>Project cost increases reflected in updated budget. Scope of work remains the same.</p> <p>Project also funded with and \$500,000 SRF Principal Forgiveness, which will not be replaced. Only the repayable loan portion is being considered for replacement.</p>
Scotland Neck, Town of	WIF-1986	Replace existing aged waterlines, hydrants, and water services	\$750,000	\$153,000	\$291,000	<p>Project cost increases reflected in updated budget. Scope of work remains the same.</p> <p>Project also funded with and \$459,000 (75%) SRF Principal Forgiveness.</p>
<b>Total</b>				<b>\$2,135,461</b>	<b>\$3,082,461</b>	