

State Water Infrastructure Authority

Meeting Date: March 9, 2022

Agenda Item F – Informational Item – Potential Priority Rating System Updates for State Revolving Loan, State Reserve and Viable Utility Reserve Capital Projects

Division of Water Infrastructure Staff Report

Background

The federal Clean Water Act and federal Safe Drinking Water Act provide states with the broad authority to implement and operate State Revolving Fund (SRF) loan programs, including project funding prioritization. North Carolina General Statute G.S. 159G-71 empowers the State Water Infrastructure Authority (Authority) to establish priorities for making loans and grants consistent with federal law.

The US Environmental Protection Agency (EPA) requires the Division of Water Infrastructure (Division) to update its Intended Use Plan (IUP) for the Clean Water SRF (CWSRF) and Drinking Water SRF (DWSRF) programs. Included within each program's IUP is the Priority Rating System which contains the points that are applied by Division staff when an application for funding is evaluated. The Division proposes the Priority Rating System to the EPA each year in the IUP for each SRF and submits the IUPs to the EPA as part of the capitalization grant applications.

The same Priority Rating Systems are applied to infrastructure construction projects in the Division's State Reserve and Viable Utility Reserve (VUR) Programs. A similar system is applied in the Community Development Block Grant-Infrastructure (CDBG-I) program. The Priority Rating Systems include four categories:

1. Category 1 – Project Purpose
2. Category 2 – Project Benefits
3. Category 3 – System Management
4. Category 4 – Affordability

The current system provides a consistent and transparent methodology for prioritization that aligns with the Authority's Master Plan and with statutory requirements. The Priority Rating System supports applicants in their continued efforts to long-term utility viability.

Prior to recommending to the Authority to take changes to the Priority Rating System out for public review, the Division is seeking feedback on potential Priority Rating System changes and input from Authority members on other priorities or changes. The proposed changes to the Priority Rating System begins on page 5.

Potential Changes to the Priority Rating Systems

Increased prioritization for projects in disadvantaged areas.

The Division is interested in providing additional prioritization to projects that benefit disadvantaged, underserved areas. This would help further prioritize all funding to disadvantaged areas, which is a goal of the state and federal governments. Disadvantaged, underserved areas can be defined by DEQ and/or by federal definitions of locations that meet metrics as required by law, Executive Orders, and/or other initiatives. Disadvantaged, underserved areas often include socioeconomic and Environmental Justice considerations, and may be smaller areas than Census Places or Counties. The current Priority Rating System already prioritizes funding to projects serving areas with smaller population sizes, higher rates, lower population growth, lower median household income, higher poverty, higher unemployment, and lower wealth. These metrics are currently assessed at a Census Place or County level only. Some units of local government may have smaller areas of disadvantaged communities within their jurisdiction that may benefit from a proposed project but would not score priority points because the Census Place or County metrics do not meet the affordability criteria. The Authority may consider expanding the Affordability category by adding priority points for consideration as follows:

- **Line Item 4.D** – Consider expanding the Affordability category to include projects that serve disadvantaged areas (which may be smaller than a Census Place or County). Consider projects that document that at least 50 percent of the project cost directly serves customers or new customers in disadvantaged areas be eligible for Affordability priority points. Projects that receive these points would also be eligible to receive other Affordability points.

Prioritization for projects that provide service to residences in disadvantaged areas.

Many residents in disadvantaged areas lack access to clean water and reliable wastewater service and are unable to afford connections to the water/wastewater system. The Division is interested in providing prioritization to projects that provide water or wastewater utility services to residences in disadvantaged, underserved areas. Prioritization for projects that provide service to residences in disadvantaged, underserved areas could fit in Project Purpose and/or Project Benefit categories. Under the current Priority Rating System, projects can receive points for only one Project Purpose category (i.e. they are mutually exclusive), and any Project Benefit points (i.e. “all that apply”). It is common that a percentage of the project cost be directly related to a point category for the project to be eligible for those points. Potential additional priority points for consideration are as follows:

- **Line Item 1.B.** – Consider projects that document that at least 75 percent of the project cost is to provide new service to residences in disadvantaged areas be eligible for these priority points. Projects that receive these points would not be eligible to also receive other Project Purpose points.
- **Line Item 2.B.1** – Consider projects that document that at least 50 percent of the project cost is to provide new service to residences in disadvantaged areas be eligible

for these priority points. Projects that receive these points would also be eligible to receive other Project Benefits points. Projects that receive points in 1.B would automatically receive these points.

Expand consideration for environmental and public health benefits.

The Division is interested in providing additional prioritization to projects that provide additional environmental and public health benefits specific to the elimination of failed or failing onsite wastewater and non-discharge systems and to projects that identify and replace lead service lines. Potential additional priority points for consideration are as follows:

Elimination of failed or failing onsite wastewater and non-discharge systems.

- **Line 2.C (Wastewater Priority Rating System)** – Consider expanding priority from eliminating only failed onsite wastewater systems to also include prioritization to eliminate malfunctioning onsite wastewater systems. Recommendations were provided by Department of Health and Human Services Onsite Wastewater Program to recognize different levels of documented failures. The Division is not aware of an equivalent level of documentation for non-discharge systems.
- **Line 1.B (both Drinking Water and Wastewater Priority Rating Systems)** – Consider expanding priority from resolved failed infrastructure issues to also include resolving failing infrastructure issues. Includes malfunctioning onsite wastewater systems. Definition for failing infrastructure for water systems (i.e. contaminated wells and dry wells) will not change.

Identification and replacement of lead service lines (Drinking Water Priority Rating System).

- **Line 1.C.2** – Consider expanding priority to include prioritization to identify and replace lead service lines as a project purpose. Consider projects that document that at least 75 percent of the project cost is for identification and replacement of lead service lines to be eligible for these priority points. Applicants can only receive points either for 1.C.1 or 1.C.2 but not both.
- **Line 2.B.3** – Consider expanding priority to include identification and replacement of lead service lines as a project benefit. Consider projects that document that at least 50 percent of the project cost is for identification and replacement of lead service lines to be eligible for these priority points. Projects that receive these points would also be eligible to also receive other Project Benefits points.

Expand to include additional surface water classifications.

At its September 16, 2021, meeting, the Authority approved prioritization of VUR construction projects matching the existing prioritization for State Revolving Loan and State Reserve construction projects. Comments were received in the public review process suggesting additional water bodies be added to Line Items 2.O and 2.P for wastewater projects and the Division was asked to explore those options. Based on discussions with the Divisions of Water Resources and Marine Fisheries, the Division has added the following waterbodies to Line Item

2.P for consideration: Unique Wetlands (UWL), Primary Nursery Areas (PNA), Androgenous Fish Nursery Area (AFNA) and Submerged Aquatic Vegetation (SAV).

UWLs have met an exceptional ecological significance standard and may serve as habitat essential for the conservation of state or federally listed threatened or endangered species. Many PNAs, AFNAs and SAVs are classified as HQW, ORW and/or SA which are listed in the priority points system but not all. Adding the three classifications would ensure all of these areas are included in Line Item 2.P.

Other Potential Changes

- **Line Items 1.G and 1.G.1** – Change Best Management Practices (BMPs) to Stormwater Control Measures (SCMs). It is recommended that Best Management Practices (BMPs) be changed to Stormwater Control Measures (SCMs) to better match practices and terminology used by the Division of Energy Mineral and Land Resources’ Stormwater Program.
- **Line Item 2.N.7** – Expand to include cybersecurity projects. Cybersecurity is an important and emerging element of utility resiliency that was not clearly identified as a project type eligible for additional prioritization.
- **Line Item 2.H.3** – Expand consideration for projects addressing emerging contaminants. Consider increasing priority points for projects addressing an emerging contaminant and remove the requirement that a Health Advisory Level must be exceeded. The Division is interested in using the latest science and developments by the Department of Environmental Quality and by EPA to define eligible projects. The Division anticipates strategies will evolve continuously.
- **Line Items 1.B – 1.G** – Adjust points for specific line items to use consistent points for the wastewater and drinking water priority rating systems for equivalent line items. Consider lowering the points for these line items in order to score below the maximum of 25 points for Project Purpose, which can now only be scored for projects that consolidate a nonviable drinking water or wastewater utility. Summary of these point adjustments are shown in Table 1.

Line Item	Project Purpose	2021 Prioritization Points	Potential 2022 Prioritization Points
1.A	Consolidate nonviable utility	25	25
1.B	Resolve failing infrastructure/ service disadvantaged areas	WW: 15 DW: 25	15-20
1.C	Rehab/Replacement	WW: 15 – 25 DW: 12 – 20	12 – 20
1.D	Expansion	WW: 2 – 12	2 – 10

		DW: 2 – 10	
1.F (WW only)	Stream/wetland/buffer restoration	15 – 25	12 – 20
1.G (WW only)	Stormwater SCMs	20 – 30 (maxed at 25)	12 – 20
1.H (WW only)	Reclaim/rainwater harvesting	15	15

DRAFT 2022 PRIORITY RATING SYSTEM for Wastewater Projects

Instructions: For each line item, mark "X" to claim the points for that line item. Be sure that your narrative includes justification for every line item claimed. At the end of each Category, provide the total points claimed for each program in the subtotal row for that category. Then add the subtotals from each category and enter the Project Total in the last line. Note that some categories have a maximum allowed points that may be less than the total of individual line items.

Line Item #	Category 1 – Project Purpose	Claimed Yes/No	Points
1.A	Project will consolidate a nonviable drinking water or wastewater utility		25
1.B	Project will resolve failed failed or failing infrastructure issues or provide service to residences in disadvantaged areas		15 20
1.C	Project will rehabilitate or replace infrastructure		15 12
1.C.1	Treatment units, pumps and/or pump stations to be rehabilitated or replaced are greater than 20 years old, OR water/sewer lines, storage tanks, drinking water wells or intake structures to be rehabilitated or replaced are greater than 40 years old		10 8
1.D	Project will expand infrastructure		2
1.D.1	Treatment units, pumps and/or pump stations to be rehabilitated or replaced are greater than 20 years old, OR lines, storage tanks, drinking water wells or intake structures to be rehabilitated or replaced are greater than 40 years old		10 8
1.E – 1.E.2	Reserved for Other Programs		
1.F	Project will provide stream/wetland/buffer restoration		15 12
1.F.1	Restoration project that includes restoration of a first order stream and includes stormwater infiltration BMPs		5 4
1.F.2	Restoration project that includes restoration and / or protection of riparian buffers to at least 30 feet on both sides of the stream		5 4
1.G	Project will provide stormwater SCMs to treat existing sources of pollution		20 12

1.G.1	Project that includes BMPs <u>or SCMs</u> in series that achieve at least 35% nutrient reduction (both TN and TP) and 85% TSS reduction		10 8
1.H	Project will provide reclaimed water/usage or rainwater harvesting/usage		15
Maximum Points for Category 1 – Project Purpose			25
Subtotal claimed for Category 1 – Project Purpose			
Line Item #	Category 2 – Project Benefits	Claimed Yes/No	Points
2.A 2.B	Reserved for Other Programs		
2.B	Project provides a specific public health benefit		
2.B.1	Project provides service to residences in disadvantaged areas		10
2.C	Project provides a specific environmental benefit by replacement, repair, or merger; includes replacing failing septic tanks. Project provides a specific environmental benefit		
2.C.1	Project eliminates failed onsite wastewater system or non-discharge system		15
2.C.2	Project eliminates malfunctioning onsite wastewater systems		10
2.D	Project addresses promulgated but not yet effective regulations		10
2.E	Project directly addresses enforcement documents		
2.E.1	Project directly addresses an EPA Administrative Order for a local government Applicant located in a Tier 1 county, or addresses an existing or pending SOC, or a DEQ Administrative Order, OR		5
2.E.2	Project directly resolves a Notice of Violation or Notice of Deficiency		3
2.F	Project includes system merger		10
2.G 2.H.2	Reserved for Other Programs		

2.H.3	Project addresses an emerging compound		10
2.I	Project improves treated water quality by adding or upgrading a unit process		3
2.J – 2.M	Reserved for Other Programs		
2.N	Project provides resiliency for critical system functions		
2.N.1	Project relocates infrastructure from inside 100-year floodplain to outside 500-year floodplain OR		8
2.N.2	Project relocates infrastructure out of a 100-year floodplain or adds new infrastructure solely outside the 100-year floodplain OR		5
2.N.3	Project relocates infrastructure from between the 100-year and 500-year floodplains to outside the 500-year floodplain OR		3
2.N.4	Project fortifies or elevates infrastructure within floodplain OR		4
2.N.5	Project improves ability to assure continued operation during flood events OR		4
2.N.6	Project reduces the size of infrastructure as a result of a buyout or other abrupt loss of population OR		4
2.N.7	Project provides redundancy/resiliency for critical treatment and/or transmission/distribution system functions including cybersecurity and backup electrical power source.		3
2.O	Project directly benefits subwatersheds that are impaired as noted on the most recent version of the Integrated Report		20
2.P	Project directly benefits waters classified as HQW, ORW, Tr, SA, UWL, PNA, AFNA, SAV , WS-I, WS-II, WS-III* or WS-IV* (* these classifications must be covered by an approved Source Water Protection Plan to qualify)		10
2.Q	Project will result in elimination of an NPDES discharge		3
2.R	Primary purpose of the project is to achieve at least 20% reduction in energy use		5

	Maximum Points for Category 2 – Project Benefits	35	
	Subtotal claimed for Category 2 – Project Benefits		
Line Item #	Category 3 – System Management	Claimed Yes/No	Points
3.A	Capital Planning Activities		
3.A.1	Applicant has implemented an Asset Management Plan as of the date of application OR		10
3.A.2	Applicant has a current Capital Improvement Plan (CIP) that spans at least 10-years and proposed project is included in the plan		2
3.B	System Operating Ratio is greater than or equal to 1.00 based on a current audit, or is less than 1.00 and unit cost is greater than 2.5%		5
3.C – 3.E	Reserved for Other Programs		
	Maximum Points for Category 3 – System Management	15	
	Subtotal claimed for Category 3 – System Management		
Line Item #	Category 4 – Affordability	Claimed Yes/No	Points
4.A	Residential Connections		
4.A.1	Less than 10,000 residential connections OR		2
4.A.2	Less than 5,000 residential connections OR		4
4.A.3	Less than 1,000 residential connections		8
4.B	Current Monthly Single Utility Rates at 5,000 Usage		
4.B.1	Greater than \$79 OR		4
4.B.2	Greater than \$90 OR		6
4.B.3	Greater than \$107 OR		8
4.B.4	Greater than \$129		10

4.C	Local Government Unit (LGU) Indicators		
4.C.1	3 out of 5 LGU indicators worse than state benchmark OR		3
4.C.2	4 out of 5 LGU indicators worse than state benchmark OR		5
4.C.3	5 out of 5 LGU indicators worse than state benchmark		7
<u>4.D</u>	<u>Project Serves Disadvantaged Area</u>		<u>5</u>
4.D – 4.F <u>4.E – 4.F</u>	Reserved for Other Programs		
	Maximum Points for Category 4 – Affordability	25	
	Subtotal claimed for Category 4 – Affordability		
	Total of Points for All Categories		

DRAFT 2022 PRIORITY RATING SYSTEM for Drinking Water Projects

Instructions: For each line item, mark "X" to claim the points for that line item. Be sure that your narrative includes justification for every line item claimed. At the end of each Category, provide the total points claimed for each program in the subtotal row for that category. Then add the subtotals from each category and enter the Project Total in the last line. Note that some categories have a maximum allowed points that may be less than the total of individual line items.

Line Item #	Category 1 – Project Purpose	Claimed Yes/No	Points
1.A	Project will consolidate a nonviable drinking water or wastewater utility		25
1.B	Project will resolve failed <u>failed or failing</u> infrastructure issues <u>or provide service to residences in disadvantaged areas</u>		25 <u>20</u>
1.C	Project will rehabilitate or replace infrastructure		12
1.C.1	Treatment units, pumps and/or pump stations to be rehabilitated or replaced are greater than 20 years old, OR water/sewer lines, storage tanks, drinking water wells or intake structures to be rehabilitated or replaced are greater than 40 years old OR		8
<u>1.C.2</u>	<u>Identification and replacement of lead service lines</u>		<u>8</u>
1.D	Project will expand infrastructure		2
1.D.1	Treatment units, pumps and/or pump stations to be rehabilitated or replaced are greater than 20 years old, OR lines, storage tanks, drinking water wells or intake structures to be rehabilitated or replaced are greater than 40 years old		8
1.E – 1.H	Reserved for Other Programs		
	Maximum Points for Category 1 – Project Purpose		25
	Subtotal claimed for Category 1 – Project Purpose		
Line Item #	Category 2 – Project Benefits	Claimed Yes/No	Points
2.A – 2.A1.	Reserved for Other Programs		
2.B	<u>Project provides a specific public health benefit</u>		
2.B.1	<u>Project replaces dry wells, addressing contamination of a drinking water source by replacing or additional treatment; or resolves managerial, technical & financial issues</u>		<u>20</u>
2.B.2	<u>Project provides service to residences in disadvantaged areas</u>		<u>10</u>
2.B.3	<u>Projects that eliminate lead service lines</u>		<u>10</u>

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2.C	Reserved for Other Programs		
2.D	Project addresses promulgated but not yet effective regulations		10
2.E	Project directly addresses enforcement documents		
2.E.1	Project directly addresses an EPA Administrative Order for a local government Applicant located in a Tier 1 county, or addresses an existing or pending SOC, or a DENR Administrative Order, OR		5
2.E.2	Project directly resolves a Notice of Violation or Notice of Deficiency		3
2.F	Project includes system merger		10
2.G	Project addresses documented low pressure		10
2.H	Project addresses contamination		
2.H.1	Project addresses acute contamination of a water supply source OR		15
2.H.2	Project addresses contamination of a water supply source other than acute OR		10
2.H.3	Project addresses an emerging compound without a MCL but above a health advisory level		7 10
2.I	Project improves treated water quality by adding or upgrading a unit process		3
2.J	Water loss in system to be rehabilitated or replaced is 30% or greater		3
2.K	Project provides a public water system interconnection		
2.K.1	Project creates a new interconnection between systems not previously interconnected OR		10
2.K.2	Project creates an additional or larger interconnection between two systems already interconnected which allows one system's public health water needs to be met during an emergency OR		10
2.K.3	Project creates any other type of interconnection between systems		5
2.L – 2.M	Reserved for Other Programs		
2.N	Project provides resiliency for critical system functions		
2.N.1	Project relocates infrastructure from inside the 100-year floodplain to outside the 500-year floodplain OR		8
2.N.2	Project relocates infrastructure from inside the 100-year floodplain to outside the 100-year floodplain OR		5

DRAFT 2022 PRIORITY RATING SYSTEM for Drinking Water Projects			
2.N.3	Project relocates infrastructure from between the 100-year and 500-year floodplains to outside a 500-year floodplain OR		3
2.N.4	Project fortifies or elevates infrastructure within floodplain, OR		4
2.N.5	Project improves ability to assure continued operation during flood events OR		4
2.N.6	Project downsizes infrastructure related to buyouts OR		4
2.N.7	Project provides redundancy/resiliency for critical treatment and/or transmission/distribution system functions including <u>cybersecurity and</u> , backup electrical power source		3
2.O – 2R	Reserved for Other Programs		
	Maximum Points for Category 2 – Project Benefits		35
	Subtotal claimed for Category 2 – Project Benefits		
Line Item #	Category 3 – System Management	Claimed Yes/No	Points
3.A	Capital Planning Activities		
3.A.1	Applicant has implemented an Asset Management Plan as of the date of application OR		10
3.A.2	Applicant has a current Capital Improvement Plan (CIP) that spans at least 10-years and proposed project is included in the plan		2
3.B	System Operating Ratio is greater than or equal to 1.00 based on a current audit, or is less than 1.00 and unit cost is greater than 2.5%		5
3.C	Applicant has an approved Source Water Protection Plan and/or a Wellhead Protection Plan		5
3.D	Applicant has implemented a water loss reduction program		5
3.E	Applicant has implemented a water conservation incentive rate structure		3
	Maximum Points for Category 3 – System Management		15
	Subtotal claimed for Category 3 – System Management		
Line Item #	Category 4 – Affordability	Claimed Yes/No	Points
4.A	Residential Connections		
4.A.1	Less than 10,000 residential connections OR		2
4.A.2	Less than 5,000 residential connections OR		4

DRAFT 2022 PRIORITY RATING SYSTEM for Drinking Water Projects			
4.A.3	Less than 1,000 residential connections		8
4.B	Current Monthly Combined Utility Rates at 5,000 Usage		
4.B.1	Greater than \$79 OR		4
4.B.2	Greater than \$90 OR		6
4.B.3	Greater than \$107		8
4.B.4	Greater than \$129		10
4.C	Local Government Unit (LGU) Indicators		
4.C.1	3 out of 5 LGU indicators worse than state benchmark OR		3
4.C.2	4 out of 5 LGU indicators worse than state benchmark OR		5
4.C.3	5 out of 5 LGU indicators worse than state benchmark		7
4.D	<u>Project Serves Disadvantaged Area</u>		<u>5</u>
4.E - F	Reserved for the CDBG Program		
	Maximum Points for Category 4 – Affordability		25
	Subtotal claimed for Category 4 – Affordability		
	Total of Points for All Categories		