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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**  **Asset Inventory and Assessment Grants** |
|  | (Last updated: July 2022) |

This guidance aids applicants in understanding and implementing the Priority Rating System when applying for **Asset Inventory and Assessment (AIA) grants**. This guidance applies to AIA grants funded out of the State Reserve Program and the Viable Utility Reserve. **Use this guidance only for AIA applications.** For any other project types, please use the guidance appropriate for that particular program. The goal of an Asset Inventory and Assessment grant is to inventory the existing water and/or sewer system and document the condition of inventoried infrastructure. Other components of an asset management program may be eligible. The State Water Infrastructure Authority (Authority) and the Division of Water Infrastructure (Division) have structured the priority rating system to prioritize applications that reflect the greatest likelihood that information obtained through this project will be used by the utility to effectively and proactively manage their infrastructure assets in the future.

Please refer to the Division’s “Water and Wastewater Utility Asset Assessment Guidance” for a more complete guide to performing an AIA project. It can be found on the Division’s website at the following link:  
[https://deq.nc.gov/about/divisions/water-infrastructure/i-need-funding/application-forms-and-additional-resources#additional-resources](https://deq.nc.gov/about/divisions/water-infrastructure/i-need-funding/application-forms-and-additional-resources%23additional-resources)

*\*\*NEW FOR SPRING AND FALL 2022 FUNDING ROUNDS\*\**

All AIA applications must include a narrative responding to the questions below as well as the relevant documentation supporting the narrative and application responses. Most local government units (LGUs) designated as distressed and their regional partners (e.g. non-distressed systems who are partnering with one or more distressed systems in an adjoining and concurrent Merger/Regionalization Feasibility Study) 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 funded out of the SRP.

Applications that will be funded out of the Viable Utility Reserve will be prioritized for funding in the order 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
  1. Revenue Outlook (15 points)
  2. Moratorium (15 points)
  3. Service Population <1,000 (10 points)
  4. 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.

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| **For non-distressed applicants, separate applications must be submitted when applying for asset inventory and assessments on both the drinking water and wastewater systems.**  **For distressed applicants, single applications may be submitted when applying for asset inventory and assessments on both the drinking water and wastewater systems.**  **Non-distressed partners of distressed systems may also apply for an AIA grant to inventory and assess only the existing system components that may be used for a regional water/sewer system.** |

**Submittal Requirements (must read)**

* In order to be scored and prioritized for funding, a complete application must include completed and signed application forms, appropriate application resolution(s), Water & Sewer Financial Information Form, Fund Transfer Certification form, and a priority rating system narrative. **Do not submit a completed priority rating system point sheet with the AIA application.**
* The priority rating system narrative is the main part of the application and allows points to be awarded for each line item in the priority rating system. Address every narrative question in the order they appear below. Narrative questions that are not addressed will result in 0 points being awarded for that line item.
* All supporting documentation to determine priority points must be submitted via electronic copy with the funding application and explicitly discussed in the application narrative. Please ensure that submittals provide clear and concise information needed to determine points, and that the narrative clearly discusses how the supporting documentation supports the applicant’s claims including specific page references.
* Additional information will not be requested after applications are due, and points will be determined based solely on the information submitted by the application due date.

**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, financial forms, and other supporting information.

**Asset Inventory and Assessment Narrative Guidance**

The AIA grant provides funding for water and sewer utilities to help address their top three (3) challenges over the next five (5) years. Applications are generally scored based on the urgency and acuteness of the system’s challenges, and how clearly the applicant demonstrates their ability to execute this project in a way that will effectively address their challenges.

**Categories 1 & 2 - Project Benefits and System Management**

**Narrative**

The following items must be addressed by the applicant in a narrative format to be used for scoring Category 1 - Project Benefits and Category 2 - System Management points:

1. What are the top three (3) challenges your system faces in the next five (5) years? How will the proposed asset inventory and assessment project help address these challenges? Examples of challenges that affect a utility’s desired level of service might include age of infrastructure, high rates, high debt, public health issues, environmental compliance issues, lack of capacity, water loss, infiltration/inflow, infrastructure at risk of failure, loss/lack of institutional knowledge, etc. Provide (via hard copy or CD/flash drive) any existing documentation of these challenges such as NOVs, a local water supply plan, water audits, inflow/infiltration study results, etc., and specifically discuss in the narrative how the documentation supports these challenges.

***Scoring Rationale****:*

To maximize points, the narrative should discuss challenges that would benefit from an AIA project, and there should be a clear link between each challenge and the AIA’s benefits. To receive the baseline 4 points, narratives (via supporting documentation and specific references in the narrative) must demonstrate either the water/sewer system is old and leaks or frequently breaks, or the water/sewer system has recently invested in significant rehabilitation/replacement and an AIA project will be used to develop proactive operation and maintenance programs. Applications with documented excessive I/I or excessive water loss within the past five (5) years usually receive 2 additional benefit points. Applications with documented NOVs or significant SSOs (e.g., other than during hurricanes) or documented significant waterline breaks or drinking water quality issues within the past five (5) years usually receive 2 additional benefit points. Applications that will proactively address upcoming regulatory changes, such as the 2022 Lead and Copper Rule Revisions, nutrient and capacity limits, and/or emerging contaminants, must include reference of the applicable regulation/requirement and usually receive 1 additional benefit point. Narratives for projects to promote growth as a top challenge or systems that are not old and without leaks or frequent breaks usually lose benefit points. To earn maximum project benefit points, the narrative must specifically discuss how the supporting documentation validates the applicant’s challenges and the benefits of receiving an AIA.

1. Has the utility done any asset management or capital planning work previously? Does the utility have reliable system maps? If so, how are they utilized, and what do the maps lack? In the narrative, give specific examples of how the system has benefited by having information from past efforts (e.g., improved operations, change in maintenance practices, bill collection methods/procedures, staffing levels and qualifications, etc.). Supporting documentation must be submitted via an electronic copy, including but not limited to any existing asset inventory, map, smoke testing results or other condition assessment report, flow monitoring results, asset management plan, or capital improvement plan as they apply to the utility’s challenges.

***Scoring Rationale:***

Narratives that demonstrate (via supporting documentation and specific references in the narrative) previously completed asset management work, capital planning work, or system mapping and clearly describe the benefit to the applicant of doing the previous work and how the proposed AIA project will build on the work that has been done usually receive 2 additional benefit points. Applications for AIA projects with a very limited scope that have not completed other components of an asset management program may lose 2 benefit points (e.g., application is for hydraulic modeling, but no mapping or condition assessment has been completed). To earn maximum project benefit points, discuss how specific past efforts were utilized including references to specific excerpts in the supporting documentation and how this AIA project will benefit the applicant’s challenges. Supporting documentation may include past CIPs where completed projects are specifically referenced in the narrative, maps and work orders that clearly support regular operation and maintenance efforts, and excerpts from the most recent asset management plans.

1. Identify (by title) the utility’s asset management team that will be assembled to develop the asset inventory and assessment project. Describe any asset management and/or capital planning experience or training each team member has had. Include any external partners (consultants, county, COG, or nonprofit staff, etc.) that will participate on the team and describe the role of each member during this project. Differentiate between external members that are temporary (e.g., surveying companies) and those that will be continuously assisting in asset management planning (e.g., company or COG providing long-term data management). In addition, describe the future role of each team member to continue to inventory, assess, prioritize, and plan for water infrastructure assets after completion of the project.

***Scoring Rationale:***

To receive the maximum of 4 points for knowledge base of team, the narrative must present a team that includes members internal to the utility who hold operational, managerial, and financial positions within the system, and a description of any asset management experience or certifications (e.g., capital improvement planning, rate setting, GIS). Additionally, the narrative must clearly explain the role of each team member during and after the completion of the project and how the team will manage the asset management program now and in the future, to receive the maximum score of 4. If the applicant lacks asset management experience or a single team member holds multiple positions within the utility, the team should include external partners. If external partners are needed, more points will be awarded if the narrative clearly discusses how the internal asset management team will lead the project and how the external partners will support the team’s efforts. Avoid discussing position descriptions within the utility as a whole, and instead focus on the roles and expertise needed to accomplish the team’s asset management goals.

1. How does the utility currently set rates to generate revenue for appropriate levels of infrastructure maintenance, operations, and replacement? Has the process for setting rates changed in the last five (5) years, how has it changed, when did it change, and why did it change? How does the rate setting process blend with the capital improvement planning (CIP) process?

***Scoring Rationale:***

A narrative that clearly discusses the process used to set rates, and that demonstrates that this process utilizes an adopted CIP (including a discussion of completed projects even if the CIP is incomplete or limited), usually receives the maximum of 2 points for rate setting practices. The rates should be sufficient to maintain an operating ratio above 1.0. The rate history on the application should ideally show consistent rate increases and high rates of bill collection. Applications that do not meet these criteria generally score lower for this item.

1. How will the utility use the information developed through this project to develop future infrastructure projects and/or proactive management practices? How will the future infrastructure projects be prioritized to address the utility’s challenges and meet the utility’s desired level of service? How will these projects be incorporated into the CIP planning process in the future, and how will funding sources be determined?

***Scoring Rationale:***

To receive the maximum points for system management, the narrative must clearly describe how the AIA information will be utilized to develop and prioritize projects and help document good system management practices. Further, a narrative that clearly describes how AIA team members will coordinate (e.g. duties, frequency) and make level of service decisions usually receives more points than a narrative that outlines how to perform a condition assessment. Applications that do not demonstrate that the utility will effectively utilize the data to address their challenges will not score as high.

1. How will the utility’s asset inventory developed through this project be managed and kept up to date, and how will the utility pay for this ongoing effort? Include any information about partnering with the county, Council of Government (COG), or others to maintain and update the asset inventory.

***Scoring Rationale:***

If the narrative indicates that data developed through this AIA project is to be managed by an applicant who is already managing GIS data, or by the county or by a COG, and that funding will be budgeted to maintain the data, applications usually receive the maximum system management points. The narrative should indicate which of these options is to be utilized and discuss how the utility will ensure continual data maintenance. Applications that cannot demonstrate that the utility will effectively manage the data will not score as high.

1. Calculate the System Operating Ratios each year for the past three (3) years and include the calculations in the narrative. These values must reflect the same information as shown on the Financial Information Form and/or audited financial statements. Discuss in the narrative any discrepancies, differences, or extraneous circumstances which led to inconsistent ORs. If the applicant has separate enterprise funds for their drinking water and wastewater systems, calculate a single operating ratio using the values from both funds.

***Scoring Rationale:***

Applications showing all three ORs above 1.0 will typically receive the maximum of 2 points. If all three operating ratios are not consistently above or below 1.0, points will be awarded based on how many years were less than 1.0, whether the OR trend is increasing or decreasing, how high the bill is for 5,000 gallons, and if the narrative gives any explanation of why the ORs are less than 1.00. Ensure the application form includes the utility’s rate increase and bill collection history to receive full consideration.

1. Describe any additional benefits to the utility of receiving this Asset Inventory & Assessment grant that have not been previously mentioned.

Vulnerability to storms and flooding can be an important part of the risk analysis of water and sewer assets. If the AIA project includes one of these types of risk analysis, describe the benefit here. Also, discuss whether this AIA will be utilized to develop programmatic approaches for addressing energy efficiency, hidden leak detection/non-revenue water, emerging contaminants, and/or lead-and-copper rule revisions.

***Scoring Rationale:***

Additional benefits discussed here will be evaluated in the scoring process and may increase points awarded for project benefits.

**Line Item 1.A - Distressed designation per §159G-45(b)**

The LGU has been designated as "distressed" by the Authority and Commission per NCGS 159G-45(b).

Points will be awarded if the applicant has been designated as distressed by the State Water Infrastructure Authority (Authority, SWIA) and the Local Government Commission (Commission, LGC). If designated as distressed, the narrative should discuss any of the steps taken thus far in fulfilling the requirements outlined in 159G-45(b) and the benefits of receiving an AIA grant.

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

Calculate each of the three (3) most recent Operating Ratios using the formula below and include the calculations in the narrative. These values must reflect the same information as shown on the Financial Information Form and/or audited financial statements. If the applicant has separate enterprise funds for their drinking water and wastewater systems, calculate a single operating ratio using the values from both funds.

Operating Revenues

OR =

Total Expenditures + Debt Principal + Interest + Capital Outlay

Scoring:

* all three operating ratios are less than 1.00 and the rates for 5,000 gallons is less than $107/month = 0 points
* all three operating ratios are less than 1.00 and the rates for 5,000 gallons is greater than or equal to $107/month = 1 point
* all three operating ratios are greater than 1.00 = 2 points

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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. * 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. |

**Category 3 – Affordability**

**Line Item 3.A - Current Rate**

In the narrative, show a calculation of the current water/sewer bill per 5,000 gallons, and provide a copy of the utility’s water/sewer rate sheet. Applications that do not include the utility’s current water/sewer rate sheet will receive 0 points for this line item.

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 = 1 points
* Greater than $107/month = 2 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

**Match Requirement (in effect for both Spring and Fall 2022 funding rounds)**

A match is not required for projects funded in this round.

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| **Asset Inventory and Assessment Grant Priority Rating System** | | |
| **Line Item #** | **Category** | **Points** |
| **1.** | Project Benefits | 0 - 8 |
| 1.A | The LGU has been identified as "distressed" by the Authority and Commission per NCGS 159G-45(b). | 2 |
| **2.** | System Management |  |
| 2.A | Knowledge base of utility’s internal asset management team | 0 - 4 |
| 2.B | Current and past rate setting practices, CIPs, etc. | 0, 1, or 2 |
| 2.C | Management of asset inventory data | 0 - 4 |
| 2.D | Operating Ratio (OR) is greater than or equal to 1.00 based on a current audit, or is less than 1.00 and water/sewer rates are greater than $107/month | 0, 1, or 2 |
| **3.** | Affordability |  |
| 3.A | Current Monthly Utility Rate at 5,000 gallons usage | 0, 1, or 2 |
| 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** | 1 |
| 3.B.3 | 5 out of 5 LGU indicators are worse than the state benchmark | 2 |
| **Total Points** | | **24 Max** |