

North Carolina Department of Environmental Quality



Priority Rating System Guidance for Division of Water Infrastructure Merger/Regionalization Feasibility Grants

(Last updated: July 2023)



This guidance aids the applicant in understanding and implementing the Priority Rating System when applying for **Merger/Regionalization Feasibility (MRF) grants**. This guidance applies to MRF grants funded out of the Drinking Water or Wastewater State Reserve Program (SRP) and the Viable Utility Reserve (VUR). **Use this guidance only for MRF applications.** For any other project types, please use the guidance appropriate for that particular program.

The goal of a Merger/Regionalization Feasibility grant is to allow a utility to identify and then work with partnering utilities to investigate the challenges, benefits, and implications for both utilities to merge, in part or in whole, to regionalize, or some combination thereof. Applicants may already have existing cooperation agreements. Also, multiple utilities may intend to jointly cooperate with the applicant. The Division structured the rating system to give higher priority to applications that demonstrate the potential for a successful project in the future, beyond this study.

Each application earns priority points for the Project Benefits, System Management, and Affordability status of the applying system. The State Water Infrastructure Authority (Authority) and the Division of Water Infrastructure (Division) has structured the rating system to prioritize the applications that in general document fewer connections, more compliance issues, smaller staffs, greater financial barriers, or any combination of the above that may hinder system viability and the ability to self-fund or conduct a feasibility study. Thus, some points will be awarded by comparing applications received that round, and some points will be awarded based on the inherent LGU indicators of the applying system.

Division Staff are developing guidance for performing a MRF project. Current and future resources can be found on the Division's website at the following link:

<https://www.deq.nc.gov/about/divisions/water-infrastructure/i-need-funding/mergerregionalization-feasibility-grants>

Funding Requirements

1.5% Grant Fee (for all MRF grants)

All MRF grants funded from the State Reserves Program (SRP) and Viable Utility Reserve (VUR) are subject to a 1.5% Grant Fee to be invoiced with the formal Grant Offer. Full payment is due before the Division will process the first reimbursement request for incurred costs.

Submittal Requirements (must read)

For both distressed and non-distressed applicants, single applications may be submitted when applying for merger/regionalization feasibility studies on both the drinking water and wastewater systems.

Non-distressed partners of distressed systems may also apply for merger/regionalization feasibility studies of one or both water/sewer systems on behalf of their distressed partners.

- 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, a priority rating system narrative, and an acknowledgement letter or resolution from each partner to the study. **Do not submit a completed priority rating system point sheet with the MRF 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 each 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 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.
- The narrative must be consistent with information in the Application for Funding, financial forms, and other supporting information.

Priority Rating System Narrative

| | |
|------------|-------------------|
| Category 1 | Project Benefits |
| Category 2 | System Management |
| Category 3 | Affordability |

- An Acknowledgement Letter from each of the partnering utilities must also be submitted with the funding application. Each letter should establish the level of cooperation required to complete a successful MRF grant and must acknowledge that the applicant has applied for this funding. The letters must be signed by the elected official or authorized representative, if not authorized by resolution. Lastly, the letters do not commit the partnering utilities to act on the findings of the study.

Example acknowledgement letter/resolution language

The [Partnering system] acknowledges the [applying system's] request to participate in a merger/regionalization feasibility study. By submittal of this letter, we commit our willingness to cooperate to the extent necessary to perform a merger/regionalization feasibility study for the purposes of ensuring the viability of all systems involved. Our collaboration in this study does not bind us to act on the recommendations of the study.

Merger/Regionalization Feasibility Narrative Guidance

The MRF grant provides funding for water and sewer utilities to help determine the feasibility of alternative management, operation, and ownership arrangements among multiple systems. Narrative responses must be consistent with the approved Local Water Supply Plans, Water System Management Plans, I/I and other study results, various withdrawal/discharge permits, and internal control policies, as applicable. Applications are generally prioritized by the severity of long-term challenges faced by the systems and the likelihood of successfully enacting the study's most feasible recommendations for viability.

Category 1 – Project Benefits (0-6 points)

The following questions and items must be addressed by the applicant in a narrative format to be used for scoring Category 1 – Project Benefits:

Line Item 1.A – Top 3 Challenges and Compliance History

1.A.i Top 3 Challenges: What are the top 3 challenges your system faces in the next 5 years?

The narrative must discuss the top 3 challenges facing the applying systems in the next 5 years. Include in your discussion considerations for technical or operational challenges, organizational barriers, and financial limitations.

1.A.ii Benefit to the Applicant: What are the benefits to the applying system of receiving this MRF grant? How might a merger or regionalization help address the top 3 challenges?

Discuss how the top 3 challenges will be addressed with an MRF grant. Include the benefits to the applicant a MRF study potentially provides with respect to technical operations, organizational procedures, and financial controls. Also, address both the applicant and partner system's perceived strengths and weaknesses.

Lastly, describe any additional information related to the benefits of a MRF grant that have not been previously mentioned in the top 3 challenges, such as addressing long-term challenges.

1.A.iii Previous Studies: Has the feasibility of a merger or regionalization been studied before?

What have been the barriers to either conducting a feasibility study or to implementing the recommendations from any previous studies? If a study was previously done, how will this study differ?

If the applicant has participated in a previous study, describe the study's goals and intent, levels of commitment, areas of cooperation, and reason(s) for its success or failure. The narrative must also include a discussion of the trade-offs and alternatives considered by the previous study, specifically those relating to costs, operational changes, and organizational structure. Additionally, describe how this study will differ from past studies.

If the applicant has not participated in a previous study, discuss whether such a study has been previously considered, and the barriers which inhibited the study from proceeding. Reasons for the previous lack of consideration for a study may include, and are not limited

to, unwillingness to potentially eliminate existing positions, inability to agree internally on the study's goals, and financial barriers inhibiting the hiring of an experienced professional.

1.A.iv Compliance History: Does the applying system have any ongoing environmental protection and/or public health issues, such as impaired watersheds, contaminated sources, failing infrastructure, etc.?

Discuss whether the applicant or partner systems have existing violations and/or environmental protection/public health issues. Specifically discuss whether the existing violations/issues are acute or ongoing, the extent to which the violations impact the utilities' normal operations, the actions taken to address existing violations, and the potential for future violations. Provide documentation of enforcement actions (NOV, AO, etc.), SSO reports, boil water notices, etc. from the past five (5) years, a brief discussion of the causes, and whether the issues have been addressed and if so, how and when.

Line Item 1.A Scoring Rationale

Points earned for this line item will be based on a comparison of the other applications submitted during that funding round. Generally: the maximum three (3) points will be awarded to applications that document the most severe, long-term challenges and compliance issues; zero (0) points will be awarded to applications that document having the fewest and/or least severe challenges; and, either one or two (1 or 2) points will be awarded to applications that have some combination of severe/acute challenges and some compliance issues.

Line Item 1.B – Past Collaboration and/or Proximity

1.B.i Past Collaboration: Who are the partnering systems? Have the applicant and partner system(s) previously collaborated on utility or other issues, either on a project basis or for ongoing management? If so, describe the reasons, achievements, and benefits of the collaboration for both the applicant and partner system(s).

List the partnering systems, and discuss past collaboration efforts, regardless of success, between the applicant and partner systems. Past collaboration is not limited to utility-utility collaboration, for example past land development, joint permitting and planning, and service-sharing activities should all be documented here. Additionally, discuss the goals and outcomes of the collaborative efforts. Documentation must include copies of Inter Local Cooperation and other resource sharing agreements.

Provide a map which includes sufficient labels of geographical references and is at a readable scale.

1.B.ii Proximity: Where are the partnering systems?

Provide a map which includes sufficient labels of geographical references, such as treatment plants, pump stations, and interconnections, and is at a readable scale.

Discuss the source/effluent, collection/distribution, storage, and treatment needs of the applicant and partner systems with respect to existing and approved Local Water Supply Plans, Water System Management Plans, discharge/withdrawal permits, etc.

- 1.B.iii Adequate Unallocated Capacity to Expand:** Do either the applicant or partner system(s) have adequate unallocated capacity to accommodate the needs of the other systems in this study?

The application narrative must document which systems have adequate unallocated capacity to expand (per NCGS 130A-317(g)).

Discuss the partners who appear to have adequate unallocated capacity to expand and interconnect. Discuss the source/effluent, collection/distribution, storage, and treatment needs of the applicant and partner systems with respect to existing and approved Local Water Supply Plans, Water System Management Plans, discharge/withdrawal permits, etc.

Line Item 1.B Scoring Rationale

Points earned for this line item will be based on a comparison of the other applications submitted during that funding round. Generally: the maximum three (3) points will be awarded to applications that document the closest proximity to a partner utility with adequate capacity to expand and where the applicant and partner utilities have previously collaborated in any activity; zero (0) points will be awarded for applications that show neither of these; and, either one or two (1 or 2) points will be awarded to applications with a combination of no proximity but previous collaboration, and vice versa.

Category 2 – System Management (0-6 points)

The following questions and items must be addressed by the applicant in a narrative format to be used for scoring Category 2 – System Management:

Line Item 2.A – Size and Capabilities

- 2.A.i Organizational Size and Capabilities:** What are the organizational characteristics of the applying system, including the number, roles, and responsibilities of the utility and finance staff as well as elected officials, and, if applicable, any existing operation or management contracts?

Discuss the applicant’s organization size, structure, and responsibilities of each group within the utility. Include the number of part- and full-time employees in the applying and partner systems. Describe the organizational characteristics with respect to hiring and personnel policies, operation and management contracts, formal job descriptions, and other internal procedures that delineate the responsibilities within the utility.

- 2.A.ii Desired Level of Service:** How does each of the top 3 challenges effects the applying system’s desired level of service?

Discuss how the top 3 challenges inhibit the system’s organizational and financial goals. Specifically discuss the organizational and financial resources available to the utility, existing levels of asset management and capital project planning, and the regular and acute barriers to enforcing established policies. Describe the decision-making process when faced with multiple priorities, such as rate setting practices and capital improvement planning, asset management and maintenance policies, etc.

Line Item 2.A Scoring Rationale

Points earned for this line item will be based on a comparison of the other applications submitted during that funding round. Generally: the maximum two (2) points will be awarded to applications that include systems with the least robust organizational structures and that struggle to meet service level goals; zero (0) points will be awarded for applications that include systems with the most robust organizational structures and that regularly meet most, if not all, service level goals, and one (1) point will be awarded to applications that include systems with some combination of capabilities and meeting service level goals.

2.B Distressed System Designation: Has the LGU has been designated as “distressed” by the Authority and Commission per GS 159G-45(b)? If so, discuss the issues presented in the letter, and how the applicant is addressing the issues.

Line Item 2.B Scoring Rationale

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 MRF grant.

2.C Operating Ratio: Calculate the most recent Operating Ratio using the formula below and include the calculation 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. One (1) point will be awarded to applications that show an OR < 1.00.

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.

$$OR = \frac{\text{Operating Revenues}}{\text{Total Expenditures} + \text{Debt Principal} + \text{Interest} + \text{Capital Outlay}}$$

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.
- Do not include any future revenues.
- 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 (0-8 points)

The following items must be addressed by the applicant in a narrative format to be used for scoring Category 3 – Affordability:

3.A Current Water/Sewer Rates: 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. Discuss any recent rate increases or bill collection issues. Applications that do not include the utility’s current water/sewer rate sheet will receive 0 points for this line item.

Line Item 3.A Scoring

Points will be awarded 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.

- Greater than or equal to \$107/month = 2 points
- Greater than \$79/month and less than or equal to \$107/month = 1 points
- Less than or equal to \$79/month = 0 points

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

End of MRF PRS Narrative

MRF Priority Rating System for Viable Utility Reserve Funding for Distressed Applicants

All MRF 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 Asset/Inventory and Assessment project) on the application will likely be funded from the Viable Utility Reserve (VUR).

Applications that will be funded out of the VUR will be prioritized for funding in the order below and must be approved by both the State Water Infrastructure Authority and the Local Government Commission.

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)

Some applications from LGUs designated as distressed and their regional partners on the application may be funded out of the State Reserve Program (SRP). These will be funded out of the SRP based on the Priority Rating System at the end of this document.

| DW and WW SRP Merger/Regionalization Feasibility Study Priority Rating System | | |
|---|--|---------------|
| Line Item # | Category | Points |
| 1. | Project Benefits | |
| 1.A | Top 3 Challenges and Compliance History | 0, 1, 2, or 3 |
| 1.B | Past Collaboration and/or Proximity | 0, 1, 2, or 3 |
| 2. | System Management | |
| 2.A | Size and Capabilities | 0, 1, or 2 |
| 2.B | The LGU has been designated as "distressed" by the Authority and Commission per NCGS 159G-45(b). | 3 |
| 2.C | Operating Ratio < 1.00 | 1 |
| 3. | Affordability | |
| 3.A | Current Monthly Utility Rate at 5,000 gallons usage | 0, 2, or 4 |
| 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 | 2 |
| 3.B.3 | 5 out of 5 LGU indicators are worse than the state benchmark | 4 |
| | Total Points | 20 Max |