

NC DEQ Division of Water Infrastructure’s Proposed Plan to Administer American Rescue Plan Act’s State Fiscal Recovery Fund Appropriated in the State Budget:

Draft Plan for Public Comment

Last updated December 15, 2021.

This document describes the proposed plan for administering the appropriated State Fiscal Recovery Fund as grants for drinking water, wastewater, and stormwater projects. The proposed plan is in public review until January 12, 2022. Instructions on providing public comments are included at the end.

Summary:

The North Carolina General Assembly appropriated \$1.69 billion from the state’s allocation of the American Rescue Plan Act (ARPA) for drinking water, wastewater, and stormwater investments in Sections 12.13 and 12.14 of the Current Operations Appropriations Act of 2021 ([S.L. 2021-180](#)). The North Carolina Department of Environmental Quality (NC DEQ) Division of Water Infrastructure (DWI) will administer approximately \$1.6 billion as grants for drinking water, wastewater, and stormwater systems in North Carolina, which excludes amounts that will be transferred to other agencies and up to 3% in administrative costs. The funds, some of which are appropriated for specific projects, are divided into different Reserves to be administered by DWI, shown in the table below, following statutory and budgetary requirements. In addition, federal requirements for the use of American Rescue Plan Act appropriations will apply. All funds must be expended by December 30, 2026.

NC DEQ Fund or Reserve	Purpose	Allocated directly for specific local governments and public entities (earmarked), approx.	Approximate remaining for grant funding (non-earmarked)
Viable Utility Reserve	Grants for water and wastewater systems that have been designated as distressed by the State Water Infrastructure Authority and the Local Government Commission, for the purposes set forth in subdivisions (1) through (5) of G.S. 159G-32(d).	\$89.7 million	\$353.0 million
Drinking Water Reserve and Wastewater Reserve (State Reserves)	Project construction grants for public water systems and wastewater systems NC DEQ categorizes as at-risk of becoming distressed .	\$116.6 million	\$191.3 million
	Project construction grants for public water systems and wastewater systems not designated as distressed or categorized as at-risk .	\$614.8 million	\$54.1 million
	Grants for asset inventory and assessments, rate studies, merger/regionalization feasibility, training, and planning grants to conduct project engineering, design, or other preconstruction activities.	\$0	\$77.6 million
Local Assistance for Stormwater Infrastructure Investments Fund	Grants for local governments for projects that will improve or create infrastructure for controlling stormwater quantity or quality.	\$18.5 million	\$82.0 million
	Total	\$839.6 million	\$758.0 million
		Total funds: approx. \$1.6 billion	

Administration plan for ARPA grants for directly-allocated (earmarked) projects:

Approximately \$839,600,000 has been directly allocated by the General Assembly to 115 recipients for water and wastewater projects and 11 recipients for stormwater projects in Sections 12.13 and 12.14 of the Current Operations Appropriations Act of 2021. The grants are subject to eligibility and federal and statutory requirements and will be processed on a reimbursement basis.

Administration plan for ARPA grants from the Viable Utility Reserve (for water/wastewater utilities designated as distressed):

Approximately \$353,000,000 will be available for applications for water and wastewater grants under the Viable Utility Reserve. Local government units that have been [designated as distressed](#) by the State Water Infrastructure Authority (SWIA) and the Local Government Commission (LGC) under NC G.S. 159G-45 may apply for these funds. Additional local government units may be designated as distressed by SWIA and the LGC prior to application due dates. The next evaluation based on the Assessment and Identification Criteria is scheduled for April 2022.

Grants from the Viable Utility Reserve must be used only for projects that meet subdivisions (1) through (5) of [G.S. 159G-32\(d\)](#). Additional statutory requirements apply to local government units designated as distressed, and conditions may apply to grants. SWIA and the LGC determine the criteria by which grants are awarded from the Viable Utility Reserve.

ARPA funds cannot be used to pay or replace existing debt. However, some of the local government units designated as distressed have recently been awarded loans from the Drinking Water State Revolving Fund and/or Clean Water State Revolving Fund (SRFs) for Viable Utility Reserve-eligible water and wastewater projects but have not yet started construction or drawn down their loans. The Division proposes to offer local government units designated as distressed the option to replace the awarded loan amount up to \$15,000,000 with an ARPA grant prior to construction or disbursement, subject to SWIA and LGC approval. This would allow units that are designated as distressed to use more favorable funding terms for construction projects, and to take advantage of planning and pre-construction preparations that have already taken place, expediting the start of construction.

Approximately 32 awarded projects and \$44 million in SRF loans could potentially be replaced with ARPA funds (12.5% of the non-earmarked Viable Utility Reserve ARPA funding). The actual number of projects and SRF funding amounts to be replaced with ARPA grants will change depending on project status, local government approval, SWIA and LGC approval, and pending SRF loans to be awarded by SWIA in February 2022 from the Fall 2021 funding applications.

Under NC G.S. 159G-45, all local government units designated as distressed must participate in the training and educational program approved by SWIA and the LGC. Training and educational programs impose costs on the local government. DWI proposes to recommend to SWIA and the LGC an award of \$2,000 for each local government unit designated as distressed for eligible training cost reimbursements. The award will be used to reimburse relevant registration costs and mileage costs incurred by utility staff and governing board members to attend training programs that are relevant to

NC G.S. 159G-32(d) activities. Funds from the \$2,000 grant must be expended within two years of award, by December 30, 2026 (if using ARPA funds), or prior to the local government unit completing the requirements of NC G.S. 159G-45(b), whichever comes first. Action by SWIA and the LGC are anticipated to occur on or after February 2022. Approximately \$190,000 could potentially be awarded to currently-designated units. Additional awards will be made as local government units are newly designated as distressed.

All remaining non-earmarked ARPA funding in the Viable Utility Reserve will be awarded to local government units designated as distressed through the Division's existing competitive funding process. Grants will be awarded for capital projects and planning activities listed in NC G.S. 159G-32(d) that:

- (1) Provide physical interconnection and extension of public water or wastewater infrastructure to provide regional service.
- (2) Rehabilitate existing public water or wastewater infrastructure.
- (3) Decentralize an existing public water system or wastewater system into smaller viable parts.
- (4) Fund a study of any one or more of the following:
 - a. Rates
 - b. Asset inventory and assessment
 - c. Merger and regionalization options
- (5) Fund other options deemed feasible which result in local government units generating sufficient revenues to adequately fund management and operations, personnel, appropriate levels of maintenance, and reinvestment that facilitate the provision of reliable water or wastewater services.

Grants are limited by NC G.S. 159G-36(d)(1) to \$15,000,000 to any single local government unit. Where two or more local government units are merging into a single utility, the total grant awarded will not exceed \$30,000,000. Previously-awarded Viable Utility Reserve grants, including amounts for directly-allocated projects from the Viable Utility Reserve, and loan replacements and trainings described above, will count towards the limit.

SWIA established and approved a Priority Rating System for evaluating applications for capital and planning projects to award funds from the Viable Utility Reserve. The approved Priority Rating System is [posted on the DWI website](#), and will be used for the Spring 2022 funding round. The Priority Rating System may be changed by SWIA prior to later funding rounds.

DWI proposes to accept applications for funding starting with the Spring 2022 funding round: applications due May 2, 2022 and awards determined as early as July 2022. Future funding rounds will be used to award remaining ARPA funds.

Administration plan for ARPA project construction grants from the Drinking Water Reserve and Wastewater Reserve (State Reserves) for At-Risk Systems:

Approximately \$191,300,000 will be available for grants for project construction for public water systems and wastewater systems that NC DEQ categorizes as at-risk, excluding grants for directly-allocated (earmarked) projects.

Grants must be used for construction projects for public water systems, wastewater collection systems, and wastewater treatment works. Eligibility and federal and statutory requirements of State Reserves funds and ARPA funds would apply, and ARPA funds must be expended by December 30, 2026. Specific performance measures or conditions may be imposed by the Department to ensure an adequately funded program for the repair, maintenance, and management of the water or wastewater infrastructure. SWIA determines the criteria by which grants are awarded from the State Reserves.

The Division proposes to categorize the following public water systems and wastewater systems as at-risk of becoming distressed according to criteria adopted by SWIA, and as proposed to SWIA in December 2021:

- Local government water and/or wastewater utilities providing service to residential, non-bulk customers, that are not designated as distressed by SWIA and the LGC, and that:
 - scored six points or higher in the [Viable Utility Program's Assessment Criteria](#) approved by SWIA and the LGC and at least three out of five local government unit indicators used in the Affordability Criteria for funding applications (see [the Guidance Form](#) or [the Affordability Calculator](#)) are worse than the state benchmarks,
- or*
- serve 2,000 or fewer people (or 1,000 or fewer service connections) and at least three out of five local government unit indicators used in the Affordability Criteria for funding applications (see [the Guidance Form](#) or [the Affordability Calculator](#)) are worse than the state benchmarks.

Approximately 170 local government units (almost 34% statewide) would meet the proposed criteria to be categorized as at-risk using existing data. The number of utilities that will meet the at-risk criteria may change as the utilities' Assessment Criteria scores and the local government unit indicators are updated. The next evaluation is scheduled for April 2022. The Division proposes to categorize a unit as at-risk as long as the criteria above were met at any time since December 2021. Data provided by the applicant in the funding application will be used by the Division to provide a final determination of at-risk categorization, similar to the process used in reviewing the Affordability Criteria in funding applications.

Utilities that would otherwise not be eligible for funding under the distressed or at-risk funding categories described above may have projects that serve at-risk communities within or adjacent to their service area. The Division proposes to qualify such projects as eligible for at-risk system ARPA construction grant funding. To be eligible, 75 percent or more of the project cost must be used to connect existing residences in disadvantaged, underserved areas that voluntarily choose to connect to the water and/or wastewater utility, replacing on-site service to the residence with a connection to the utility's water distribution or wastewater collection system. Connection/tap-on fees and capacity/system development fees would be covered by the grant and must not be charged to the residents. Disadvantaged, underserved areas will be based on NC DEQ's determination of "Potentially Underserved Block Groups" displayed on the [NC DEQ Community Mapping System](#). The eligible applicant will use this map to demonstrate that the proposed project primarily connects residences located within block groups classified on the map as Potentially Underserved.

Non-earmarked ARPA funding in the State Reserves for at-risk systems will be awarded through the Division's competitive funding process. Applications for water and wastewater construction grants will be reviewed and evaluated according to the Priority Rating System established by SWIA for the Drinking Water Reserve and Wastewater Reserve. The approved Priority Rating System is [posted on the DWI website](#), and will be used for the Spring 2022 funding round. The Priority Rating System may be changed by SWIA prior to later funding rounds.

The Division is proposing to limit initial funding of State Reserves funds for at-risk systems to up to \$15,000,000 per utility. Where two or more local government units are merging into a single utility, the total grant awarded will not exceed \$15,000,000 per utility in the project. If funds remain available for the funding round, additional funds may be awarded to applicants above the initial \$15 million award in \$5 million increments, up to total funding request, in priority order until available funds are fully allocated for the funding round. Any ARPA funds from the State Reserves directly-allocated to recipients in the Current Operations Appropriations Act of 2021 will count towards a utility's initial award and additional incremental awards.

DWI proposes to accept applications for funding starting with the Spring 2022 funding round: applications due May 2, 2022 and awards determined as early as July 2022. Future funding rounds will be used to award remaining ARPA funds.

Administration plan for ARPA project construction grants from the Drinking Water Reserve and Wastewater Reserve (State Reserves) for All Other Systems:

Approximately \$54,100,000 will be available for grants for project construction for public water systems and wastewater systems that are not designated as distressed and that are not categorized as at-risk, excluding grants for directly-allocated (earmarked) projects.

Grants must be used for construction projects for public water systems, wastewater collection systems, and wastewater treatment works. Eligibility and federal and statutory requirements of State Reserves funds and ARPA funds would apply, and ARPA funds must be expended by December 30, 2026. Specific performance measures or conditions may be imposed by the Department to ensure an adequately funded program for the repair, maintenance, and management of the water or wastewater infrastructure. SWIA determines the criteria by which grants are awarded from the State Reserves.

Grants will be awarded through the Division's competitive funding process. Applications for water and wastewater construction grants will be reviewed and evaluated according to the Priority Rating System established by SWIA for the Drinking Water Reserve and Wastewater Reserve. The approved Priority Rating System is [posted on the DWI website](#), and will be used for the Spring 2022 funding round. The Priority Rating System may be changed by SWIA prior to later funding rounds.

The Division is proposing to limit initial funding of State Reserves funds to up to \$15,000,000 per utility. Where two or more local government units are merging into a single utility, the total grant awarded will not exceed \$15,000,000 per utility in the project. If funds remain available for the funding round, additional funds may be awarded to applicants above the initial \$15 million award in \$5 million increments, up to total funding request, in priority order until available funds are fully allocated for the funding round. Any ARPA funds from the State Reserves directly-allocated to recipients in the Current

Operations Appropriations Act of 2021 will count towards a utility's initial award and additional incremental awards.

DWI proposes to accept applications for funding starting with the Spring 2022 funding round: applications due May 2, 2022 and awards determined as early as July 2022. Future funding rounds will be used to award remaining ARPA funds.

Administration plan for ARPA planning and study grants from the Drinking Water Reserve and Wastewater Reserve (State Reserves):

Approximately \$77,600,000 will be available for all local government water and wastewater utilities and nonprofit water corporations for the following planning and study grants:

- 1) Asset Inventory and Assessment grants, as defined in G.S. 159G-33(a)(3a) and G.S. 159G-34(a)(3a).
- 2) Rate study grants intended to determine a rate structure that will enable a public water system or wastewater system to generate sufficient revenues to adequately fund management and operations, personnel, appropriate levels of maintenance, and reinvestment to facilitate the provision of reliable water or wastewater services,
- 3) Merger/Regionalization Feasibility grants, as defined in G.S. 159G-33(a)(3) and G.S. 159G-34(a)(3),
- 4) Training grants to increase the capacity of a public water system or wastewater system to operate efficiently and maintain adequate maintenance and revenue collection practices, and
- 5) Planning grants to conduct project engineering, design, or other preconstruction activities.

Grants are limited to \$400,000 per recipient for the 2021-2023 biennium. Eligibility and federal and statutory requirements for State Reserves funds and ARPA funds will apply, and ARPA funds must be expended by December 30, 2026. Specific performance measures or conditions may be imposed by the Department to ensure an adequately funded program for the repair, maintenance, and management of the water or wastewater infrastructure. SWIA determines the criteria by which grants are awarded from the State Reserves.

Grants will be awarded for Asset Inventory and Assessment (AIA) and Merger/Regionalization Feasibility (MRF) studies through the Division's competitive funding process. Applications for AIA and MRF grants will be reviewed and evaluated according to the Priority Rating Systems established by SWIA for AIA and MRF grants. The approved Priority Rating Systems are [posted on the DWI website](#), and will be used for the Spring 2022 funding round. The Priority Rating Systems may be changed by SWIA prior to later funding rounds.

Applications for water and wastewater preconstruction planning grants only (without actual construction) will be reviewed and evaluated according to the Priority Rating System established by SWIA for construction projects for the Drinking Water Reserve and Wastewater Reserve. The approved Priority Rating System is [posted on the DWI website](#), and will be used for the Spring 2022 funding round. The Priority Rating System may be changed by SWIA prior to later funding rounds.

DWI proposes to accept applications for funding starting with the Spring 2022 funding round: applications due May 2, 2022 and awards determined as early as July 2022. Future funding rounds will be used to award remaining ARPA funds.

Expenses for training, rate studies and preconstruction planning activities can be included in applications for other construction and planning projects from the State Reserves and Viable Utility Reserve, as described above, subject to aforementioned limits. Training expenses will be limited to \$2,000 per utility for registration and mileage costs to attend training events for utility staff and governing board members.

Anticipated timeline of the administration plan for ARPA grants for drinking water and wastewater projects:

- 1) February 2022: NC DEQ finalizes and announces State Fiscal Recovery Fund Administration Plan, releases updated Spring 2022 funding application materials.
- 2) February-April 2022: SWIA and LGC award Viable Utility Reserve funds for training and replacement of SRF loans for units designated as distressed.
- 3) May 2, 2022: Application deadline for water and wastewater projects (1st round).
- 4) July 2022 and later: SWIA (and LGC) award Spring 2022 ARPA grants.
- 5) January-July 2022: SWIA reviews Priority Rating Systems ahead of the Fall 2022 funding round.

If ARPA funding remains available for a second round of funding:

- 6) August 2022: NC DEQ announces remaining funds and releases updated Fall 2022 funding application materials.
- 7) September 30, 2022: Application deadline for water and wastewater projects (2nd round).
- 8) February 2023: SWIA (and LGC) award Fall 2022 ARPA grants.

Future application funding rounds will be used to award remaining funds.

Administration plan for ARPA grants from the Local Assistance for Stormwater Infrastructure Investments Fund:

Approximately \$82,000,000 will be available for cities and counties and their regional councils of government and nonprofit entity partners for projects that will improve or create infrastructure for controlling stormwater quantity and quality, excluding grants for directly-allocated (earmarked) projects. Seventy percent of the funds are allocated for construction grants and thirty percent are allocated for planning grants.

A Priority Rating System specific to stormwater infrastructure funding has not yet been developed. The Division proposes to work with SWIA on establishing a Priority Rating System specific to funding stormwater projects, based on federal and statutory requirements and input from stakeholders. The Division proposes to develop the Priority Rating System in the first six months of 2022 and seek SWIA approval of a Priority Rating System by July 2022.

DWI proposes to accept applications for stormwater funding starting with the Fall 2022 funding round: applications due September 30, 2022 and awards determined as early as February 2023. Future funding rounds will be used to award remaining ARPA funds.

Anticipated timeline of the administration plan for ARPA grants for stormwater projects:

- 1) January-July 2022: SWIA develops a Priority Rating System for stormwater infrastructure investments, including public review and stakeholder input.
- 2) July 2022: NC DEQ develops and releases Fall 2022 funding application materials.
- 3) September 30, 2022: Application deadline for stormwater projects (1st round).
- 4) February 2023 and later: SWIA awards Fall 2022 ARPA stormwater grants.

If ARPA funding remains available for a second round of funding:

- 5) February 2023: NC DEQ announces remaining stormwater funds, releases updated Spring 2023 funding application materials.
- 6) May 1, 2023: Application deadline for stormwater projects (2nd round).
- 7) July 2023: SWIA awards Spring 2023 ARPA stormwater grants.

Future application funding rounds will be used to award remaining funds.

Public comments:

Interested parties are invited to provide comments on the proposed plan by **January 12, 2022 at 5:00 p.m.** Comments can be submitted:

- by email to dwi.publiccomments@ncdenr.gov with subject line *Comments on Division of Water Infrastructure Proposed Plan for State Fiscal Recovery Funds*
- by voicemail to 919-707-9187
- by mail to:

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Information about the water, wastewater and stormwater funding administered by the Division of Water Infrastructure is available at: <https://deq.nc.gov/about/divisions/water-infrastructure>