

**State Water Infrastructure Authority**

**Meeting Date: April 8, 2020**

**Agenda Item E – Request to go to Public Comment with Priority System Modifications for the 2020 Intended Use Plans (IUPs) for CWSRF and DWSRF Programs**

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**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 is applied in the Division's State Reserve Programs. A similar system is applied in the 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

**Overview**

The Division proposes the following modifications to the Intended Use Plan and Priority Rating Systems to be approved to go to public comment:

- I. Expand Project Benefits to include specific resiliency project priority points.
  - II. Establish Incremental principal forgiveness increases to utilize available funds.
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**Item I – Expand project benefit category to include specific resiliency project priority points.**

**Background**

During the February 2020 Authority meeting, a priority point system for the 2019 ASADRA funds was approved for this springs funding round. The approved ASADRA system include additional points for resiliency projects. The Division proposes that project benefits points be awarded to certain resiliency projects to continue to incentivize resiliency projects within the SRF programs, and to make the DWSRF and CWSRF priority point systems consistent.

**Proposal**

The Division proposes to include resiliency priority as shown below:

<b>Line Item #</b>	<b>Category 2 – Project Benefits</b>	<b>SDWR Pts</b>
<b>2.N</b>	Project provides resiliency for critical system functions	
2.N.1	Project relocates infrastructure out of a floodplain <b>OR</b>	5
2.N.2	Project fortifies or elevates infrastructure within floodplain, <b>OR</b> Project improves ability to assure continued operation during flood events <b>OR</b> Project downsizes infrastructure related to buyouts <b>OR</b>	4
2.N.3	Project provides redundancy/resiliency for critical treatment and/or transmission/distribution system functions including backup electrical power source.	3

**Item II – Establish incremental principal forgiveness increases to utilize available funds.**

**Background**

The current State Revolving Fund program includes requirements for additional subsidization to disadvantaged communities. The DWSRF program will provide between 20%-30% of the capitalization grant in additional subsidization, and the CWSRF program will provide approximately 10%. North Carolina provides additional subsidization as principal forgiveness of the awarded loan based on the authority approved Affordability Criteria. The DWSRF program is in jeopardy of not meeting the minimum 20% additional subsidization requirements even after maximizing principal forgiveness amounts allowed in the current Intended Use Plan. Staff recommends including allowances in the IUP to provide additional principal forgiveness when funds are available to assure Federal requirements are met. Staff recommends that principal forgiveness amounts be increased to eligible projects in 10% increments not to exceed 100% of the project costs. Staff does not recommend that principal forgiveness eligibility criteria (i.e. affordability criteria) be modified at this time.

**Proposal**

Staff Recommended changes for the IUP to provide additional principal forgiveness allowances are shown below. Changes from the current 2019 IUP are shown in red.

5.3.2.2. The Division will provide additional subsidization to projects in the categories provided in 5.3.2.2.1 – 5.3.2.2.2 in project priority order.

5.3.2.2.1. **Non-viable rescue:** Projects that eliminate a non-viable system to benefit a disadvantaged community with a financial need consistent with the criteria in 5.3.2.2.2 and served by a public wastewater system will receive principal forgiveness for the full amount of the loan up to \$3,000,000. The disadvantaged community either meets the affordability criteria listed in 5.3.2.2.2 or is representative of the criteria.

5.3.2.2.2. **Affordability:** Projects that receive project purpose points when the applicant has less than 20,000 residential wastewater connections, at least three (3) of five (5) LGU indicators worse than the state benchmark, an operating ratio (future) of less than 1.3, utility rates greater than the state median, and/or project cost per connection greater than \$1,150 per connection will receive principal forgiveness percentages will follow the affordability criteria grant percentage matrix found in Appendix E and will range from 25% to 100% in increments of 25% up to \$500,000 per applicant per round with the targeted interest rate as described under 5.3.1.7 applied to the remaining portion of the loan.

5.3.2.3. Notwithstanding the above limits in Items 5.3.2.2.2, if availability of principal forgiveness funds exceeds project demand, the limits may be exceeded to ensure all available funds are utilized in the following order:

5.3.2.3.1. Affordability limit of \$500,000 in item 5.3.2.2.2 may be exceeded up to the grant percentage determined in the affordability grant percentage matrix found in Appendix E.

5.3.2.3.2. Affordability percentages determined in 5.3.2.2.2 may be exceed by 10% not to exceed 100% for eligible projects in priority order. If funds remain after all eligible projects receive the percent increase, principal forgiveness percentages can be increased by additional 10% increments (not to exceed 100%) for eligible projects until principal forgiveness funds are utilized.

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### **Staff Recommendations**

- Approve for public review changes to Line Item 2.N that prioritize additional resiliency projects to Drinking Water and add resiliency priority to Clean Water as part of the draft Priority Rating Systems.
- Approve for public review changes to how principal forgiveness caps will be exceeded as recommended in the staff report.

The complete Priority Rating System for Wastewater Projects and Priority Rating System for Drinking Water Projects including all proposed modifications are shown below in red:

## Proposed Changes to 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 infrastructure issues		15
1.C	Project <b>will</b> rehabilitate or replace infrastructure		15
1.C.1	Treatment units, pumps and/or pump stations to be rehabilitated or replaced are greater than 20 years old, <b>OR water/sewer</b> lines, storage tanks, drinking water wells or intake structures to be rehabilitated or replaced are greater than 40 years old		10
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, <b>OR</b> lines, storage tanks, drinking water wells or intake structures to be rehabilitated or replaced are greater than 40 years old		10
1.E – 1.E.2	Reserved for Other Programs		
1.F	Project will provide stream/wetland/buffer restoration		15*
1.F.1	Restoration project that includes restoration of a first order stream and includes stormwater infiltration BMPs		5*
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*

Line Item #	Category 1 – Project Purpose (Continued)	Claimed Yes/No	Points
1.G	Project will provide stormwater BMPs to treat existing sources of pollution		15*
1.G.1	Project that includes BMPs or BMPs in series that achieve at least 35% nutrient reduction (both TN and TP) and 85% TSS reduction		10*
1.H	Project will provide reclaimed water/usage or rainwater harvesting/usage		15*
*CWSRF Only			
	<b>Maximum Points for Category 1 – Project Purpose</b>		25
	<b>Subtotal claimed for Category 1 – Project Purpose</b>		
Line Item #	Category 2 – Project Benefits	Claimed Yes/No	Points
2.A – 2.B	Reserved for Other Programs		
2.C	Project provides a specific environmental benefit by replacement, repair, or merger; includes replacing failing septic tanks		15
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, <b>OR</b>		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	Reserved for Other Programs		

Line Item #	Category 2 – Project Benefits (Continued)	Claimed Yes/No	Points
<u>2.I</u>	Project improves treated water quality by adding or upgrading a unit process		3
<u>2.J – 2.M</u>	Reserved for Other Programs		
<u>2.N</u>	Project provides resiliency for critical system functions		
<u>2.N.1</u>	Project relocates infrastructure out of a floodplain <b>OR</b>		5
<u>2.N.2</u>	Project fortifies or elevates infrastructure within floodplain, <b>OR</b> Project improves ability to assure continued operation during flood events <b>OR</b> Project downsizes infrastructure related to buyouts <b>OR</b>		4
<u>2.N.3</u>	Project provides redundancy/resiliency for critical treatment and/or transmission/distribution system functions including backup electrical power source		3
<u>2.O</u>	Project <u>directly benefits</u> subwatersheds that are impaired as noted on the most recent version of the Integrated Report		20
<u>2.P</u>	Project <u>directly benefits</u> waters classified as HQW, ORW, Tr, SA, WS-I, WS-II, WS-III* or WS-IV* (* these classifications must be covered by an approved Source Water Protection Plan to qualify)		10
<u>2.Q</u>	Project will result in elimination of an NPDES discharge		3
<u>2.R</u>	Primary purpose of the project is to achieve at least 20% reduction in energy use		5*
*CWSRF Only			
	<b>Maximum Points for Category 2 – Project Benefits</b>		35
	<b>Subtotal claimed for Category 2 – Project Benefits</b>		
Line Item #	Category 3 – System Management	Claimed Yes/No	Points
<u>3.A</u>	<u>Capital Planning Activities</u>		

<u>3.A.1</u>	Applicant has implemented an Asset Management Plan as of the date of application <b>OR</b>		10
<u>3.A.2</u>	Applicant has a current Capital Improvement Plan (CIP) that spans at least 10-years and proposed project is included in the plan		2
<b>3.B</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
<b>Line Item #</b>	<b>Category 3 – System Management (Continued)</b>	<b>Claimed Yes/No</b>	<b>Points</b>
<b>3.C– 3.E</b>	Reserved for Other Programs		
	<b>Maximum Points for Category 3 – System Management</b>		15
	<b>Subtotal claimed for Category 3 – System Management</b>		
<b>Line Item #</b>	<b>Category 4 – Affordability</b>	<b>Claimed Yes/No</b>	<b>Points</b>
<b>4.A</b>	Residential Connections		
4.A.1	Less than 10,000 residential connections <b>OR</b>		2
4.A.2	Less than 5,000 residential connections <b>OR</b>		4
4.A.3	Less than 1,000 residential connections		8
<b>4.B</b>	Current Monthly Utility Rates at 5,000 gallons Usage		
4.B.1	Greater than \$33 <b>OR</b>		4
4.B.2	Greater than \$40 <b>OR</b>		6
4.B.3	Greater than \$47		8
4.B.4	Greater than \$58		10
<b>4.C</b>	Local Government Unit (LGU) Indicators		
4.C.1	3 out of 5 LGU indicators worse than state benchmark <b>OR</b>		3

Line Item #	Category 4 – Affordability (Continued)	Claimed Yes/No	Points
4.C.2	4 out of 5 LGU indicators worse than state benchmark <b>OR</b>		5
4.C.3	5 out of 5 LGU indicators worse than state benchmark		7
<b>4.D – 4.E</b>	Reserved for Other Programs		
	<b>Maximum Points for Category 4 – Affordability</b>		25
	<b>Subtotal claimed for Category 4 – Affordability</b>		
<b>Total of Points for All Categories</b>			



## Proposed Changes to 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	<u>Project will consolidate a nonviable drinking water or wastewater utility</u>		25
1.B	Project will resolve failed infrastructure issues		25
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, <b>OR</b> water/sewer lines, storage tanks, drinking water wells or intake structures to be rehabilitated or replaced are greater than 40 years old		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, <b>OR</b> 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		
	<b>Maximum Points for Category 1 – Project Purpose</b>		25
	<b>Subtotal claimed for Category 1 – Project Purpose</b>		
Line Item #	Category 2 – Project Benefits	Claimed Yes/No	SDWR Pts
2.A – 2.A.1	Reserved for Other Programs		
2.B	Project provides a specific public health benefit to a public water supply system by replacement, repair, or merger; includes replacing dry wells, addressing contamination of a drinking water source by replacing or additional treatment; or resolves managerial, technical & financial issues		20
2.C	Reserved for Other Programs		

Line Item #	Category 2 – Project Benefits	Claimed Yes/No	SDWR Pts
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, <b>OR</b>		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 <b>OR</b>		15
2.H.2	Project addresses contamination of a water supply source other than acute <b>OR</b>		10
2.H.3	<u>Project addresses an emerging compound without a MCL but above a health advisory level</u>		<u>7</u>
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 <b>OR</b>		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 <b>OR</b>		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 out of a floodplain <b>OR</b>		5
2.N.2	Project fortifies or elevates infrastructure within floodplain, <b>OR</b> Project improves ability to assure continued operation during flood events <b>OR</b> Project downsizes infrastructure related to buyouts <b>OR</b>		4

2.N.3	Project provides redundancy/resiliency for critical treatment and/or transmission/distribution system functions including backup electrical power source.		3
<b>Line Item #</b>	<b>Category 2 – Project Benefits (Continued)</b>	<b>Claimed Yes/No</b>	<b>Points</b>
<u>2.O – 2.R</u>	Reserved for Other Programs		
	<b>Maximum Points for Category 2 – Project Benefits</b>		35
	<b>Subtotal claimed for Category 2 – Project Benefits</b>		
<b>Line Item #</b>	<b>Category 3 – System Management</b>	<b>Claimed Yes/No</b>	<b>Points</b>
<u>3.A</u>	Capital Planning Activities		
<u>3.A.1</u>	Applicant has implemented an Asset Management Plan as of the date of application <b>OR</b>		10
<u>3.A.2</u>	Applicant has a current Capital Improvement Plan (CIP) that spans at least 10-years and proposed project is included in the plan		2
<u>3.B</u>	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
<u>3.C</u>	Applicant has an approved Source Water Protection Plan and/or a Wellhead Protection Plan		5
<u>3.D</u>	Applicant has implemented a water loss reduction program		5
<u>3.E</u>	Applicant has implemented a water conservation incentive rate structure		3
	<b>Maximum Points for Category 3 – System Management</b>		15
	<b>Subtotal claimed for Category 3 – System Management</b>		
<b>Line Item #</b>	<b>Category 4 – Affordability</b>	<b>Claimed Yes/No</b>	<b>Points</b>
<u>4.A</u>	Residential Connections		
4.A.1	Less than 10,000 residential connections <b>OR</b>		2
4.A.2	Less than 5,000 residential connections <b>OR</b>		4
4.A.3	Less than 1,000 residential connections		8
<u>4.B</u>	Current Monthly Utility Rates at 5,000 Usage		
4.B.1	Greater than \$33 <b>OR</b>		4
4.B.2	Greater than \$40 <b>OR</b>		6

Line Item #	Category 4 – Affordability (Continued)	Claimed Yes/No	Points
4.B.3	Greater than \$47 <b>OR</b>		8
4.B.5	Greater than \$58		10
<b>4.C</b>	Local Government Unit (LGU) Indicators		
4.C.1	3 out of 5 LGU indicators worse than state benchmark <b>OR</b>		3
4.C.2	4 out of 5 LGU indicators worse than state benchmark <b>OR</b>		5
4.C.3	5 out of 5 LGU indicators worse than state benchmark		7
<b>4.D</b>	Reserved for the CDBG Program		
<b>4.E</b>	Reserved for the CDBG Program		
	<b>Maximum Points for Category 4 – Affordability</b>		25
	<b>Subtotal claimed for Category 4 – Affordability</b>		
	<b>Total of Points for All Categories</b>		