

State Water Infrastructure Authority
March 10, 2021 Meeting
Agenda Item I – Prioritization of Distressed Units

Division of Water Infrastructure Staff Report

Background

Session Law 2020-79, entitled in part “An Act to Improve the Viability of the Water and Wastewater Systems of Certain Units of Local Government...”, created the Viable Utility Reserve (VUR). Pursuant to § 159G-39, the division must rank each application for the Authority’s review. The Authority must consider the Division's determination of rank when the Authority determines an application's rank. The Authority's determination of rank is conclusive. In addition, for the Viable Utility Review, the Department shall not award a grant from the Viable Utility Reserve Fund unless the Local Government Commission approves the award of the grant.

Initial Evaluation Criterion for Grants from the Viable Utility Reserve

At the November 18th meeting, the Authority approved the sole criterion for Viable Utility Reserve – that a unit be identified as distressed. At that time there were only four distressed units. Since then, additional units have been designated as distressed, and over 100 other units meet the assessment criteria. The Division has developed draft prioritization for VUR funding for those designated distressed units. This prioritization only addresses non-construction projects due to the limited VUR funding availability. Until and if additional funding is provided for the VUR, other funding programs will be used for construction projects.

VUR Grant Prioritization

Grant prioritization is proposed to be divided into two categories. The first category is the highest priority, and the second category will only be considered if there are remaining funds in the VUR after meeting all needs in the first category. The second category will be based on points.

Category 1

Units who are identified as distressed due to fiscal affairs are under the control of the Local Government Commission (i.e., meets Identification Criteria 1) and those systems working with these highest priority units will be categorially the highest priority (i.e., Category 1).

Within this category, priority will be determined using the factors in Category 2, should funding needs exceed existing VUR funding availability. These systems and their potential distressed regional partners will be invited to apply for grants to assist in developing long-term solutions. These other distressed regional partners will need to commit to the requirements of viable utility process as discussed under Category 2.

Category 2

Category 2 considerations are those units that want assistance in meeting the requirements of SL 2020-79. Grant funding for this category will be a competitive process for those seeking funding (without an invitation). Units must be willing to commit to the viable utility process of board education, developing short-term action plan, implementing rate changes to meet the operation and maintenance levels resulting from the asset assessment (per DEQ guidance), and to pursue long-term financial plans that are reasonably affordable. Rates needed to implement capital projects is not part of the commitment as those may not be affordable without grant funding.

Distressed Unit assessment scores could be placed into bins of score ranges such as shown in Table 1. Each subcategory bin would be prioritized until funding is exhausted or all applicant needs are funded within that bin. Within the same overall score bin, priority could be further distinguished by prioritizing:

1. Revenue Outlook: 15 points
2. Moratorium: 15 points
3. Service Population <1,000: 10 points
4. Ability to address multiple distressed units: 5 points

Overall Score Bin Range	# Units	# Rev Outlook	#Moratorium	#<1,000 population
8 (single provider) – 10	54	9	3	20
11-12	39	9	6	21
>13	19	11	4	8

A unit's priority could also be adjusted by the Authority when considering other factors that reflect the utility's situation that are not completely reflected in the assessment score. For example, a unit may have several parameters that just meet the thresholds established in the assessment criteria or they may be missing data / audits. This may be particularly important in working with distressed units that meet Category 2 (2 years of missing audits) and Category 4.

Summary of Input Sought

The Division is seeking feedback from the Authority on the priority of VUR grants including:

- General feedback on the approach (distressed unit assessment score is main priority).
- Other priority consideration in addition to or in lieu of Revenue Outlook, Moratoriums, and Service Population < 1,000 such as an already determined long-term solution, the number of regional partners, rates (independent of Revenue Outlook), etc.
- The relative priority of Revenue Outlook, Moratoriums, and Service Population < 1,000.

- Considering less distressed units with higher priority distressed unit partners collectively to facilitate regional approaches.
- Should non-distressed units be eligible for the VUR study grant when working with distressed unit on a regional solution.