

**State Water Infrastructure Authority
Viable Utility Reserve Committee
June 23, 2021 Meeting
Agenda Item C – Inclusion of Non-Designated Systems in Regional Solutions**

Division of Water Infrastructure Staff Report

Background

General Statute 159G-45 directs the State Water Infrastructure Authority (Authority) and Local Government Commission (Commission) to utilize an assessment and review process to identify distressed local government units (LGUs), to develop evaluation criteria for grants from the Viable Utility Reserve (VUR) and, in their discretion, impose specific performance measures or conditions on any grant awarded from the VUR.

The assessment and review process has been implemented to identify distressed LGUs, and initial evaluation criteria have been developed for study grants from the VUR. The Authority has approved criteria for study grant funding for distressed LGUs that are under the Commission's fiscal control and their distressed regional partners (Category 1 -study grants). Non-Distressed LGUs may also be regional partners in evaluating potential viable utility solutions for a regional area and may have assessment scores indicating they are facing challenges which could lead to them becoming a distressed LGU. The Authority should consider funding eligibility for non-distressed LGUs that could provide benefit for distressed LGUs in potential regional solutions while keeping the non-distressed unit from becoming distressed.

§159-34.5(a) Grant Types Available from Viable Utility Reserve

Asset inventory and assessment (AIA) and rate study grants from the VUR will assist LGUs to better understand the infrastructure and financial aspects of their systems. Merger / regionalization feasibility (MRF) grants offer funding to determine the feasibility of consolidating the management of multiple water or wastewater systems or providing regional treatment or water supply, and the best way of carrying out the consolidation or regionalization.

During the May 21, 2021 Viable Utility (VU) Committee meeting, Division Staff presented this item, specifically highlighting a proposal involving the Towns of Lawndale (Cleveland County) and Jamesville (Martin County), which are currently not designated as distressed for their water and wastewater utilities but have assessment scores close to the thresholds for designation (eight points and six points, respectively), and are potential regional partners to distressed LGUs currently eligible for VUR study grant funding. Additionally, the Town of Black Creek is a potential regional partner with distressed LGUs in Wilson County for water and wastewater services and has an assessment score of seven points.

Since the May VU Committee meeting, several regional partnerships involving distressed and non-distressed LGUs have begun coordinating on study grant applications, as summarized in Table 1.

Table 1. Summary of Potential Regional Partnerships and their Designation		
Regional Partnership	Distressed LGUs	Non-Distressed LGUs
Wayne County	Fremont Pikesville Eureka Mount Olive	Goldsboro Wayne County Fork Township Sanitary District Southern Wayne Sanitary District Wayne Water Districts Walnut Creek
Cleveland County	Kingstown Grover Lawndale Polkville	Fallston Cleveland Water NC Shelby
Martin County	Everetts Hamilton Martin County Parmele Robersonville Williamston	Jamesville

Two options for funding study grants for non-distressed LGUs were discussed during the May VU Committee meeting:

1. The Authority and Commission could use Identification Criteria 4 to designate an LGU.
2. The Authority and Commission could expand funding criteria to allow study grant funding for an LGU not designated as distressed but at risk of being designated during the assessment and review cycle, provided that the LGU is a partner in regional viable utility studies with distressed units.

The VU Committee agreed in principle that non-distressed units could be considered for VUR funding, provided that they are partnering with a distressed LGU on a MRF study, and that such funding to the non-distressed unit only applies to those system attributes impacted by a potential merger or regionalization arrangement. The VU Committee requested Division staff to

flesh out a process for assessing and awarding VUR funds to non-distressed units under such a partnership with a distressed unit.

Recommendations (note that LGC is currently reviewing these)

Division staff propose that VUR funds be made available to non-distressed units for the purpose of AIAs, rate studies, and/or MRF studies involving solutions for designated distressed units.

Proposed minimum process steps are as follows:

- Non-distressed and distressed LGUs agree in principle to work together on assessing the feasibility of a merger and/or regionalization effort.
 - Staff recommends and can help coordinate a meeting of all potential regional partners to discuss working arrangements (grant management, contractor management, etc.) and process questions with the Division.
 - Justification must be provided showing that such partnerships are reasonable. Staff have been considering that all LGUs within a single county which includes one or more designated distressed LGUs could be eligible for funding. It is also possible that non-distressed LGUs proximate to distressed LGUs, but in another county could be eligible, although further justification on the potential viability of such a partnership must be provided as part of the application.
- All participating LGUs requesting funding must submit a binding resolution by their LGU clearly indicating their commitment to work with the specific LGUs in their partnership (the non-distressed LGUs most importantly) and indicating their commitment to fulfilling all of the VUR statute requirements for education / training and planning if study grant funding is awarded.
- All partners requesting funding must submit a separate application, including a description of what utility planning and management steps have been completed and what steps are planned, including a schedule (this could be the Short-Term Action Plan).
- Although all VUR funding must be connected to a distressed LGU, any partner with sufficient management capacity can be proposed for management of the study contract(s).
- All study funding applications provided by non-distressed LGUs must include an MRF study (this could include a relevant MRF that has already been conducted). The MRF study must be conducted first or simultaneous with AIA and /or rate studies specific to the impacts of the distressed LGU(s) on the non-distressed LGU applying for funding. Asset inventory and assessment and / or rate studies shall be for the specific purpose of generating data needed for the MRF.