

**State Water Infrastructure Authority
Viable Utility Committee
August 13, 2021 Meeting
Agenda Item C – Process and Guidance for Rate Studies and MRF Studies**

Division of Water Infrastructure Staff Report

Background

General Statute 159G-34.5 authorizes the Department to make Asset Assessment and Rate Study, and Merger/Regionalization Feasibility grants from the Viable Utility Reserve (VUR).

During their July meetings, the State Water Infrastructure Authority (Authority) and Local Government Commission (LGC) approved the award of Asset Inventory and Assessment from the Viable Utility Reserve (VUR-AIA) grants to 15 Local Government Units (LGUs). These 15 LGUs are participating in three separate regional (county-level) partnerships with other distressed and non-distressed LGUs.

Most of the fifteen LGUs had also submitted applications for Merger and Regionalization Feasibility (VUR-MRF) and Rate Study grants to be considered during the July SWIA meeting. During the July SWIA and LGC meetings, the Department was directed to work with the three regional partnerships to identify single VUR-MRF and Rate Study award recipients for each partnership. The award recipient would assume primary responsibility for the grant application, award, management, and coordination of the authorized studies.

Discussion

Since the July SWIA and LGC meetings, Department staff have continued working with the three regional partnerships (Cleveland, Martin, and Wayne Counties) toward preparation of unified regional applications for MRFs and Rate Studies.

Department staff have also continued internal discussions and considered various institutional arrangements for coordinating regional studies, and anticipated processes for executing and completing studies.

Based on these discussions within and outside of the Department, several observations were noted:

1. § 159G-34.5 groups “Asset assessment and rate study grant” as a single grant type, and clarifies that their purpose is “to prevent the local government unit from becoming a distressed unit.”

2. AIA and MRF grants made from the VUR are not subject to statutory limits as are those made from the State Reserve (although LGUs have individual grant limits of \$15M, or \$30M, in collaboration with more than one unit).
3. There are logistical benefits to limiting the number of grants awarded to LGUs or partnerships.

Staff Recommendation

Because there are significant benefits to aligning studies within regional partnerships, and in minimizing the number of individual grants awarded, staff recommends that the Viable Utilities Committee (VUC) authorize (or approve for SWIA consideration) the Department to prepare appropriate guidance for applicants and awardees based on the following:

1. VUR-funded AIA and MRF grants should each include associated rate studies, and the award of stand-alone Rate Study grants should be limited to situations where an LGU already has a relevant AIA and/or MRF for the following reasons.
 - a. VUR-funding grant amounts are not limited,
 - b. VUR grant applications are required to match funding requests with Scopes of Work, and
 - c. Rate studies are eligible elements of both VUR-AIA and VUR-MRF studies.
2. In most cases, distressed LGUs can and will conduct VUR-AIAs more or less independently of regional partnerships (an exception might be where the distressed LGU lacks the contracting or technical capacity to oversee such a study). Asset Inventory and Assessment grants awarded under the VUR should result in both a capital and long-term financial management plan which inform a rate study. This rate study could be considered a “baseline” case; that is, it will answer the following question: “if the LGU were to simply restore the intended function of their water or wastewater systems and sustainably manage their infrastructure into the future, what would their rates need to be?”
3. MRF grants awarded under the VUR should be sufficient to yield reliable capital and recurring cost estimates for various options to be considered by the participating LGUs. The cost implications associated with each option will then inform a revised rate study(ies). One critical metric for selection of a recommended alternative will be its rate implications.

Staff does not believe this proposal creates significant issues with new applications for VUR funding (e.g., during the Fall 2021 funding round). However, the 15 LGUs that were approved for AIA awards during the July SWIA and LGC meetings may require additional funding to complete rate studies. Staff believes that any such shortcomings can be identified during the award process, and will report back to the VUC and SWIA if approved funding amounts are insufficient.

Pending VUC approval, Department staff will work with the lead partners of each of the three existing regional partnerships to ensure that MRF funding applications include sufficient funding to developed revised rate studies as applicable.