

**State Water Infrastructure Authority
Viable Utility Committee
August 13, 2021 Meeting
Agenda Item E – Discussion on Prioritization for Viable Utility Reserve Project Funding and
Relationship with ARPA**

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-35, the Local Government Commission (LGC) and the State Water Infrastructure Authority (Authority) shall jointly develop evaluation criteria for grants from the VUR to be used to review applications and award grants as provided in §159G-39. In addition, for the VUR, the Department shall not award a grant from the VUR fund unless the LGC approves the award of the grant.

NC G.S. 159G-32 establishes projects eligible for loan or grant, and states that Federal law determines whether a project is eligible for a loan or grant from the Clean Water State Revolving Fund (CWSRF) and the Drinking Water State Revolving Fund (DWSRF). A project must meet the eligibility requirements set under federal law. The Priority Rating Systems, as approved by the Authority, provide addition prioritization for water and wastewater infrastructure capital projects with further emphasis on projects that repair or replace old and failing infrastructure.

At its July 14, 2021 meeting, the Authority approved expanding the eligibility for VUR study grants to include local government units (LGUs) that have been identified as distressed as well as non-distressed LGUs that are working with them on regional solutions, limited to work needed for the regional efforts.

Signed into law by President Biden on March 11, 2021, the American Rescue Plan (ARP) allocates \$1.9 trillion to COVID-19 relief and economic recovery. North Carolina will directly receive more than \$5.7 billion. Both NC Senate and House budgets include funding of \$500,000,000 to the VUR to support infrastructure in communities designated as distressed.

Per the Secretary of the Treasury’s interim final rule to implement the American Rescue Plan Act (ARPA), the ARP funds for infrastructure may be used for projects eligible for funding through the CWSRF or DWSRF administered by the US Environmental Protection Agency (EPA), with the exception of use of the ARP fund for debt relief. EPA guidance on CWSRF project eligibility can be found at: [Overview of CWSRF Eligibilities \(epa.gov\)](https://www.epa.gov/cwsrf/cwsrf-eligibility). EPA guidance on DWSRF eligibilities can be found at: [Drinking Water State Revolving Fund Eligibility Handbook \(epa.gov\)](https://www.epa.gov/dwsrf/dwsrf-eligibility).

Existing Capital Project Prioritization

Division staff would like to discuss the idea with the Viable Utilities Committee that VUR construction project grant prioritization follow similar Priority Rating Systems that are used in the Division's State Revolving Fund and State Reserve Programs. A similar system is used in the Community Development Block Grant-Infrastructure 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

The current Priority Rating Systems are provided in Appendix A of this staff report. The current system provides a consistent and transparent methodology for prioritization that aligns with the Authority's Master Plan and with statutory requirements. The prioritization system support supports applicants in their continued efforts to achieve long-term utility viability.

Considerations for Project Eligibility and Prioritization

- Potential eligibility requirements for VUR construction project grants
 - Commitment to complete construction by no later than 12/31/2026
 - Distressed designation (only for ARP funds)
 - AIA and Rate Study
 - MRF and Rate Study
 - Long Term Plan for Viability
- Potential additional prioritization for projects funded through VUR
 - Commitment to complete construction no later than specified date (i.e. prioritize projects that are more ready to proceed)
 - Distressed Score
 - Completed AIA and Rate Study
 - Completed MRF and Rate Study
 - Project support completed and implemented plan for long-term viability
 - Merger or Regionalization
 - New Utility Provider is not distressed or "at Risk"
 - New Utility Provider is new entity with a minimum number or service connections (or population) to better assure economies of scale

Appendix A – Priority Rating Systems for CWSRF and DWSRF

PRIORITY RATING SYSTEM for Wastewater Projects			
<p>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.</p>			
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 will 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, OR water/sewer 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, OR 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
Line Item #	Category 1 – Project Purpose (Continued)	Claimed Yes/No	Points

PRIORITY RATING SYSTEM for Wastewater Projects			
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
1.G	Project will provide stormwater BMPs to treat existing sources of pollution		20
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
	Maximum Points for Category 1 – Project Purpose		25
	Subtotal claimed for Category 1 – Project Purpose		
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, OR		5
Line Item #	Category 2 – Project Benefits (Continued)	Claimed Yes/No	Points
2.E.2	Project directly resolves a Notice of Violation or Notice of Deficiency		3
2.F	Project includes system merger		10

PRIORITY RATING SYSTEM for Wastewater Projects			
2.G – 2.H	Reserved for Other Programs		
2.I	Project improves treated water quality by adding or upgrading a unit process		3
2.J – 2.M	Reserved for Other Programs		
2.N	Project provides resiliency for critical system functions		
2.N.1	Project relocates infrastructure from inside the 100-year floodplain to outside the 500-year floodplain OR		8
2.N.2	Project relocates infrastructure from inside the 100-year floodplain to outside the 100-year floodplain OR		5
2.N.3	Project relocates infrastructure from between the 100-year and 500-year floodplains to outside a 500-year floodplain OR		3
2.N.4	Project fortifies or elevates infrastructure within floodplain, OR		4
2.N.5	Project improves ability to assure continued operation during flood events OR		4
2.N.6	Project downsizes infrastructure related to buyouts OR		4
2.N.7	Project provides redundancy/resiliency for critical treatment and/or transmission/distribution system functions including backup electrical power source		3
2.O	Project <u>directly benefits</u> subwatersheds that are impaired as noted on the most recent version of the Integrated Report		20
2.P	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
2.Q	Project will result in elimination of an NPDES discharge		3
2.R	Primary purpose of the project is to achieve at least 20% reduction in energy use		5
	Maximum Points for Category 2 – Project Benefits		35
	Subtotal claimed for Category 2 – Project Benefits		

PRIORITY RATING SYSTEM for Wastewater Projects

Line Item #	Category 3 – System Management	Claimed Yes/No	Points
3.A	Capital Planning Activities		
3.A.1	Applicant has implemented an Asset Management Plan as of the date of application OR		10
3.A.2	Applicant has a current Capital Improvement Plan (CIP) that spans at least 10-years and proposed project is included in the plan		2
3.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
3.C – 3.E	Reserved for Other Programs		
	Maximum Points for Category 3 – System Management		15
	Subtotal claimed for Category 3 – System Management		
Line Item #	Category 4 – Affordability	Claimed Yes/No	Points
4.A	Residential Connections		
4.A.1	Less than 10,000 residential connections OR		2
4.A.2	Less than 5,000 residential connections OR		4
4.A.3	Less than 1,000 residential connections		8
4.B	Current Monthly Combined Utility Rates at 5,000 Usage		
4.B.1	Greater than \$79 OR		4
4.B.2	Greater than \$90 OR		6
4.B.3	Greater than \$107		8
4.B.4	Greater than \$129		10
Line Item #	Category 4 – Affordability (Continued)	Claimed Yes/No	Points

PRIORITY RATING SYSTEM for Wastewater Projects			
4.C	Local Government Unit (LGU) Indicators		
4.C.1	3 out of 5 LGU indicators worse than state benchmark OR		3
4.C.2	4 out of 5 LGU indicators worse than state benchmark OR		5
4.C.3	5 out of 5 LGU indicators worse than state benchmark		7
4.D – 4.E	Reserved for Other Programs		
	Maximum Points for Category 4 – Affordability		25
	Subtotal claimed for Category 4 – Affordability		
	Total of Points for All Categories		

PRIORITY RATING SYSTEM for 2021 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	Project will consolidate a nonviable drinking water or wastewater utility		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, OR 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, OR 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		
	Maximum Points for Category 1 – Project Purpose		25
	Subtotal claimed for Category 1 – Project Purpose		
Line Item #	Category 2 – Project Benefits	Claimed Yes/No	Points
2.A – 2.A1.	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		
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		5

PRIORITY RATING SYSTEM for 2021 Drinking Water Projects			
	addresses an existing or pending SOC, or a DENR Administrative Order, OR		
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 OR		15
2.H.2	Project addresses contamination of a water supply source other than acute OR		10
2.H.3	Project addresses an emerging compound without a MCL but above a health advisory level		7
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 OR		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 OR		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 from inside the 100-year floodplain to outside the 500-year floodplain OR		8
2.N.2	Project relocates infrastructure from inside the 100-year floodplain to outside the 100-year floodplain OR		5
2.N.3	Project relocates infrastructure from between the 100-year and 500-year floodplains to outside a 500-year floodplain OR		3
2.N.4	Project fortifies or elevates infrastructure within floodplain, OR		4
2.N.5	Project improves ability to assure continued operation during flood events OR		4
2.N.6	Project downsizes infrastructure related to buyouts OR		4

PRIORITY RATING SYSTEM for 2021 Drinking Water Projects			
2.N.7	Project provides redundancy/resiliency for critical treatment and/or transmission/distribution system functions including backup electrical power source		3
2.O – 2R	Reserved for Other Programs		
	Maximum Points for Category 2 – Project Benefits		35
	Subtotal claimed for Category 2 – Project Benefits		
Line Item #	Category 3 – System Management	Claimed Yes/No	Points
3.A	Capital Planning Activities		
3.A.1	Applicant has implemented an Asset Management Plan as of the date of application OR		10
3.A.2	Applicant has a current Capital Improvement Plan (CIP) that spans at least 10-years and proposed project is included in the plan		2
3.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
3.C	Applicant has an approved Source Water Protection Plan and/or a Wellhead Protection Plan		5
3.D	Applicant has implemented a water loss reduction program		5
3.E	Applicant has implemented a water conservation incentive rate structure		3
	Maximum Points for Category 3 – System Management		15
	Subtotal claimed for Category 3 – System Management		
Line Item #	Category 4 – Affordability	Claimed Yes/No	Points
4.A	Residential Connections		
4.A.1	Less than 10,000 residential connections OR		2
4.A.2	Less than 5,000 residential connections OR		4
4.A.3	Less than 1,000 residential connections		8
4.B	Current Monthly Combined Utility Rates at 5,000 Usage		
4.B.1	Greater than \$79 OR		4
4.B.2	Greater than \$90 OR		6
4.B.3	Greater than \$107		8
4.B.4	Greater than \$129		10
4.C	Local Government Unit (LGU) Indicators		
4.C.1	3 out of 5 LGU indicators worse than state benchmark OR		3

PRIORITY RATING SYSTEM for 2021 Drinking Water Projects			
4.C.2	4 out of 5 LGU indicators worse than state benchmark OR		5
4.C.3	5 out of 5 LGU indicators worse than state benchmark		7
4.D	Reserved for the CDBG Program		
4.E	Reserved for the CDBG Program		
	Maximum Points for Category 4 – Affordability		25
	Subtotal claimed for Category 4 – Affordability		
	Total of Points for All Categories		