

State Water Infrastructure Annual Report

Fiscal Year 2020-2021

The nine-member State Water Infrastructure Authority (Authority) was created by the North Carolina General Assembly in 2013 to assess and make recommendations about the state's water and wastewater infrastructure needs and the funding programs available to the state's local governments. The General Assembly also established the Division of Water Infrastructure (Division) and consolidated the major water and wastewater infrastructure funding programs in the Division within the Department of Environmental Quality (DEQ). The enabling legislation is North Carolina General Statute 159G.

Each year, the Authority is required to provide an overview of its activities, summarize concerns and issues that discussed, and make recommendations to address those issues. This report fulfills the legislative requirement for Fiscal Year 2020-2021 (G.S. 159G-72).

1.0 State Water Infrastructure Authority Activities in FY 2020-2021

During this fiscal year, the Authority continued focusing on the issue of small water and wastewater utility viability and continued to offer a transparent and streamlined funding process for applicants. Though the Coronavirus pandemic curtailed many of the Authority's activities such as in-person meetings, the Authority quickly adjusted to online venues to accomplish its many tasks.

Specifically, the Authority awarded approximately \$502 million of funding via its streamlined and transparent funding process. This included over \$105 million via the "Additional Supplemental Appropriations for Disaster Relief Act, 2019" (ASADRA) and first awards from the Viable Utility Reserve (VUR).

- In conjunction with the Local Government Commission (LGC), the Authority developed the framework for portions of the VU program (VUP), including the development of the distressed criteria for the LGC and Authority to designate local government units (LGUs) as distressed and the draft prioritization system to determine which LGUs should receive funding for study grants.
- In conjunction with the LGC, the Authority designated the initial round of LGUs as distressed.
- In conjunction with the LGC, the Authority awarded the VUR emergency operating grants and study grants.
- The Authority continued focusing on how to incorporate lessons learned from viable utilities regarding utility partnerships.

The Authority's most significant accomplishments in FY 2020-2021

- Developed distressed criteria and designated first round of local government units as distressed.
- Awarded first emergency operating grants and study grants from the VUP program.
- Developed draft priority rating criteria for VUR study grants.
- Continued to strengthen utility partnerships.

The Authority’s twelve powers and duties defined in North Carolina General Statute 159G-71 (Appendix B) are grouped into the following four focus areas:

- Distribute loan and grant funds
- Water infrastructure needs and funding
- Assess emerging practices in utility planning and funding
- Assess the need for a “troubled system” protocol

1.1 Focus Area 1 – Distribute Loan and Grant Funds

The Authority saw continued strong demand for all funding programs administered by the Division and awarded a total of approximately \$507 million in grants and loans for 175 projects, from the following programs.

- Federal-state Clean Water State Revolving Fund (CWSRF loan program)
- Federal-state Drinking Water State Revolving Fund (DWSRF loan program)
- Federal Community Development Block Grant-Infrastructure (CDBG-I) grant program
- State Reserve Program (grants and loans) for both water and wastewater, including Asset Inventory and Assessment (AIA) grants and Merger / Regionalization Feasibility (MRF) grants
- Viable Utility Reserve Emergency Operating Grants (VUR-EOG) and Study Grants (VUR-SG)

Focus Area 1 Accomplishments

- Awarded ~\$507.7 million in grants & loans for 175 projects
- Construction projects: ~\$497 million for 128 projects
- AIA grants: \$4.4 million for 31 projects
- MRF grants: \$500,000 for 10 projects
- First VUR grants awarded.
- **\$210,000** in VUR emergency operating grants
- \$750,000 in VUR study grants

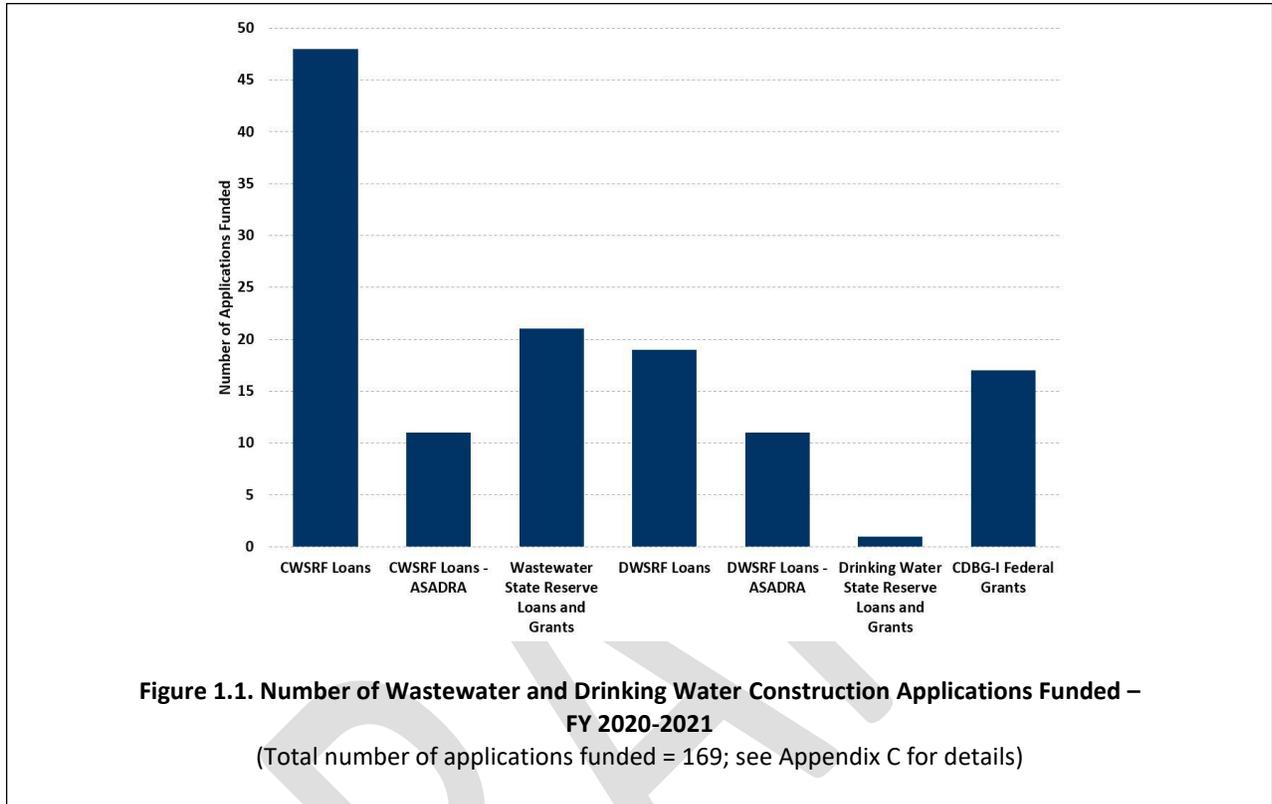
Funding available in FY 2020-2021. This FY, the General Assembly appropriated \$10 million recurring to be disbursed through the State Reserve program.

The Division can move excess matching funds not needed for the two SRF programs and unused funds from the reconciliation of other grant programs into the State Reserve program for grants.

The State Reserve funds appropriated by the General Assembly are one source of funding for the Asset Inventory & Assessment (AIA) grants and the Merger / Regionalization Feasibility (MRF) grants. The State Reserve funds are available to assist utilities with less than 10,000 residential accounts in taking the first steps toward developing permanent infrastructure, organizational, and financial solutions to become viable.

Continued use of the affordability criteria allowed the Authority to stretch the state’s limited grant funds for construction by pairing grants with loans when financially feasible for a

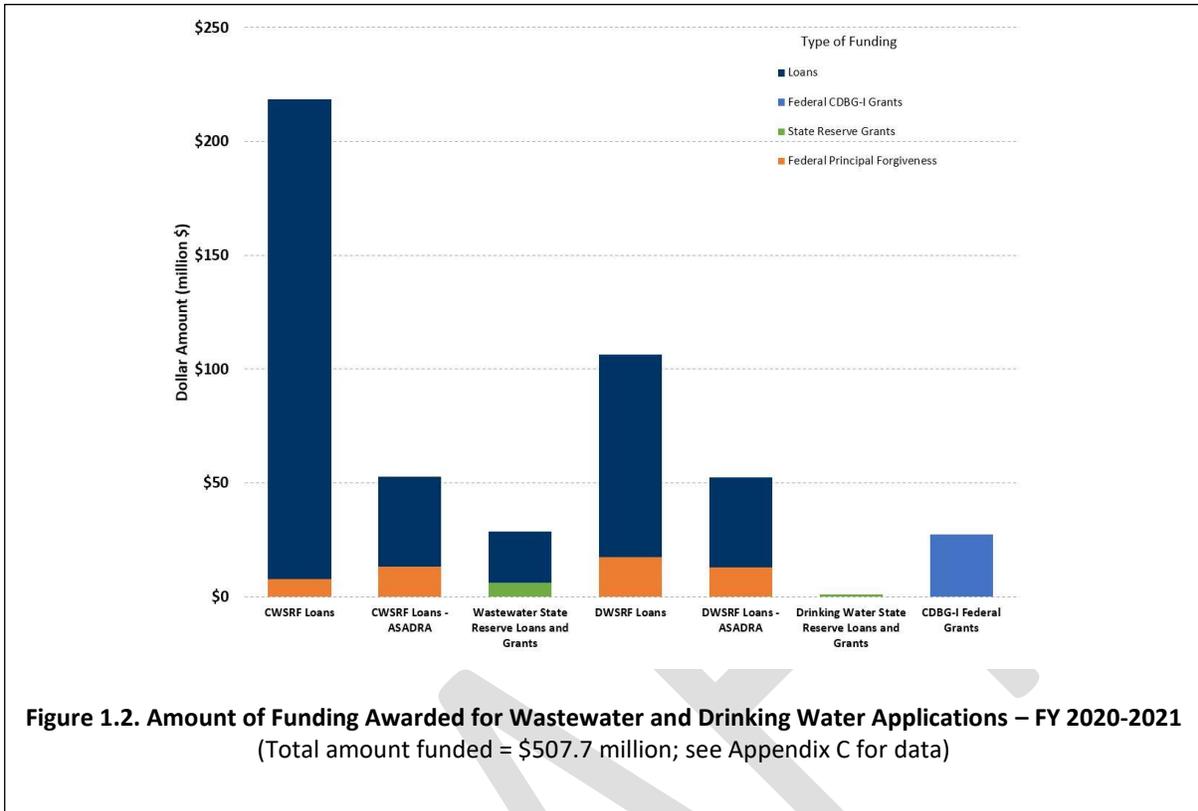
community. Grant funds are targeted to small communities with the highest water and sewer rates in the state, compared to other utilities.



Figures 1.1 and 1.2 (on the next page) show the number of applications for construction projects funded and the amount of funding awarded by program.

Green Projects. The CWSRF program includes provisions to fund green projects, requiring at least ten percent of the funds available from the capitalization grant to be used for this purpose, subject to receiving sufficient qualifying applications. Green projects address green infrastructure such as certain stormwater best management practices, energy efficiency improvements, reuse, rainwater harvesting, and stream restoration. In FY 2020-2021, the Authority awarded funds for one green project totaling \$855,000. This project provided stormwater treatment.

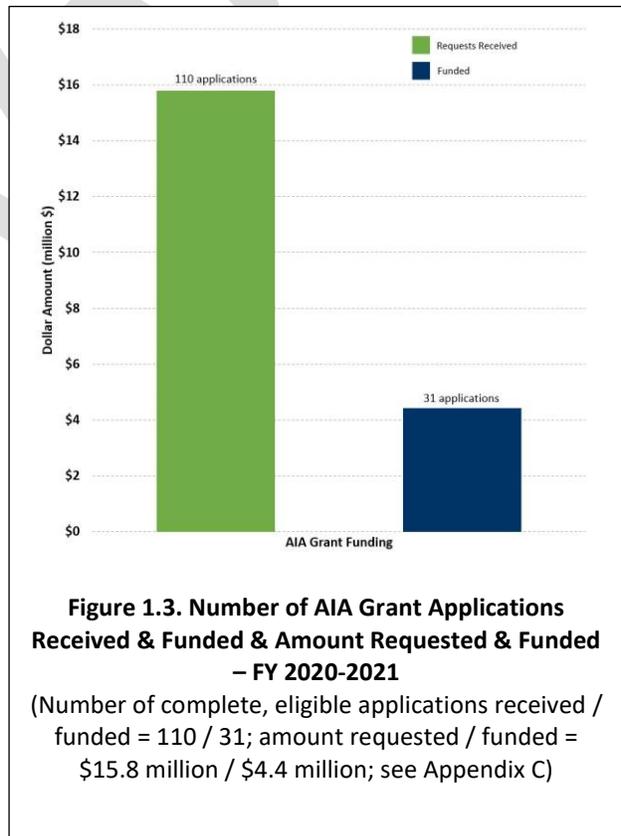
Asset Inventory and Assessment Grants. Figure 1.3 on the next page demonstrates the continuing significant demand for the AIA grants. The requests for these grants indicate the real need for programs such as these to help foster the long-term viability of utilities. These grants are discussed in Section 1.3 of this report.



Merger / Regionalization Feasibility Grants.

Ten complete, eligible applications for the MRF grants were received and funded by the Authority, totaling \$500,000. These grants are discussed further in Section 1.3 of this report.

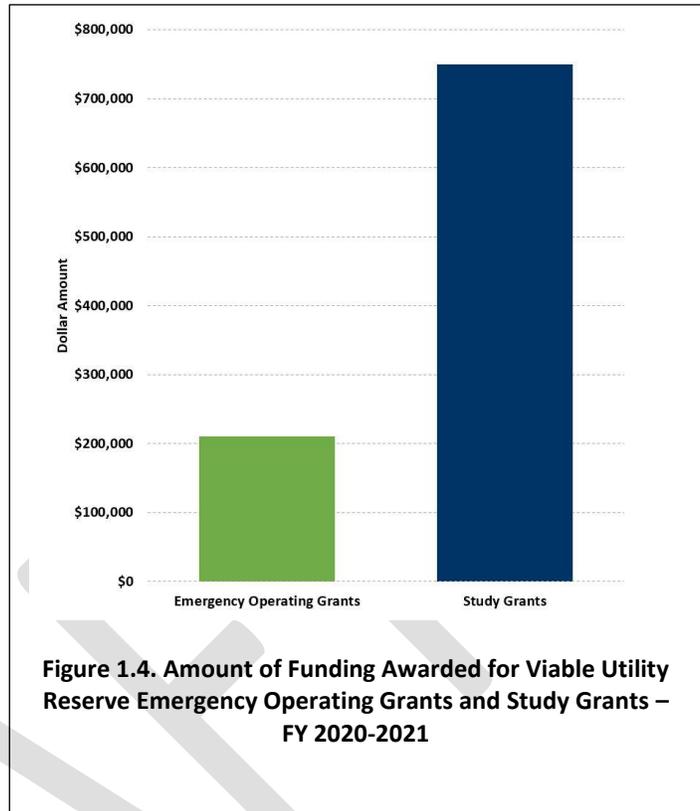
Viable Utility Reserve Grants. Fiscal Year 2020-2021 marked the first year that the Authority awarded VUR grants under the new VUP. These grants took on the form of two grants, emergency operating grants (EOG) and study grants (SG) (see Figure 1.4 on the next page). The study grants consisted of asset inventory and assessment grants, rate studies, merger reviews, and alternatives analysis. The following LGUs received three grants: Cliffside Sanitary District (sewer only): sewer asset assessment, alternatives analysis, and rate study; Town of Bethel (water and sewer): preliminary rates analysis and merger agreement review; and the Town of



Kingstown (sewer only): sewer asset assessment and rate study) for a total of \$750,000. Work on these grants began in late FY 2020-2021.

The Authority awarded three emergency operating grants from the VUR for a total of \$210,000. These grants were awarded to the LGC on behalf of the Towns of Eureka and Robersonville as well as the Cliffside Sanitary District.

Projects Funded by the State Water Infrastructure Authority 2014-2021. Since the Authority was formed in 2013 and began distributing funds in January 2014, it has awarded over \$2.6 billion in loans and grants. The map in Appendix D shows the location of the funded projects.



1.2 Focus Area 2 – Water Infrastructure Needs and Funding

“North Carolina’s Statewide Water and Wastewater Infrastructure Master Plan: The Road to Viability” (Master Plan) was completed in 2017 and addresses all of the Authority’s tasks in Focus Area 2.

Focus Area 2 Accomplishments

- Began process of updating needs.
- Applied Master Plan best practices in the Viable Utility program.

- Define statewide water and wastewater infrastructure needs;
- Examine funding sources and their adequacy to meet the identified needs; and
- Assess the role of the State to develop and fund water infrastructure.

In FY 2020-2021, the Authority continued its implementation of the plan.

The Master Plan. The Master Plan is the state’s roadmap for viable water and wastewater utilities that safeguard public health, protect the environment, support vibrant communities, and encourage economic development. The Authority’s vision is that the state will best be able to meet its water infrastructure needs by ensuring individual utilities are, or are on a path to be, viable systems. The state’s role is to foster long-term viability through three integrated best practices:



Infrastructure Management – Proactive approaches to enable the right investments to be made in the right projects at the right time, including life-cycle costs and risk management.



Organizational Management – Governing boards understand the long-term nature of water / wastewater infrastructure and prioritize completion of the most critical projects.



Financial Management – Generate sufficient revenue to fund construction, maintenance, operations, and renewal / replacement without long-term reliance on grants.

Update of needs data. The Division contracted with the UNC Environmental Finance Center (UNC-EFC) to provide an update related to water and wastewater infrastructure funding needs. The data utilized for the Master Plan was collected in 2016 and is now five years old. In 2016, infrastructure needs were estimated to be between \$17 billion and \$26 billion over a period of 20 years. Currently, within the next five years, the needs will range from \$3.9 billion to \$6.3 billion for water infrastructure and \$5.6 billion to \$7.9 billion for wastewater infrastructure. Over a 20-year horizon, the overall water and wastewater needs are estimated to be \$30 billion to \$40 billion.

Master Plan best practice areas. As part of the VUP, systems designated as distressed will have to participate in initial education in accordance with §159G-45(b)(2). These best practice areas have been utilized in the development of the VUP, including the education component, much of which is based on these best practice areas. More information related to the initial education component of the VUP is found in section 1.4.2.

A viable system is one that functions as a **long-term, self-sufficient business enterprise, establishes organizational excellence, and provides appropriate levels of infrastructure** maintenance, operation, and reinvestment that allow the utility to provide reliable water services now and in the future.

The definition of utility viability contains elements of the Master Plan best practice areas.

1.3 Focus Area 3 – Assess Emerging Practices in Utility Planning and Funding

The Authority continued its discussions of best and emerging practices in utility planning and funding and received presentations on key topics. The presentations provided insights into issues that utilities encounter.

The Authority made its sixth round of funding available for two grant programs that encourage proactive best management practices: The AIA grants and MRF grants. Both grants assist utilities in taking the first steps toward developing permanent solutions for viable

infrastructure, organizational, and financial management. Also, the Authority awarded the first VUR emergency operating grants and planning grants.

1.3.1 *Asset Inventory & Assessment Grants*

The AIA grants provide funds for a utility to inventory existing water and / or sewer system assets, document the condition of the inventoried infrastructure, determine asset criticality, define and prioritize critical projects, and other components of a comprehensive asset management program. The AIA grants can help a utility better explain and defend the need for infrastructure investment and associated rates to governing bodies, stakeholders, and customers.

1.3.2 *Merger / Regionalization Feasibility Grants*

The MRF grants are designed to help utilities evaluate alternatives for improved organizational, financial, and infrastructure management. Utilities can investigate the feasibility of voluntary merger / regionalization or other partnership options that may include interlocal agreements or public-private partnerships.

1.3.3 *Viable Utility Reserve Emergency Operating Grants*

The VUR-EOG grants are provided to LGUs that have operating deficits. Only LGUs under the financial control of the LGC may receive these grants. These grants may not exceed \$750,000 per year and may not be awarded for more than three consecutive fiscal years.

1.3.4 *Viable Utility Reserve Study Grants*

The VUR-SG grants are grants that enable LGUs designated as distressed to best prepare for capital projects. Any LGU designated as distressed must complete an asset assessment and rate study. Also, a LGU may complete a merger / regionalization feasibility study grant.

1.3.5 *Best Practices in Utility Planning from Presentations*

Due to the pandemic, many presentations previously planned were put on hold. However, the Authority had the opportunity to hear from industry experts on a number of relevant topics.

Isothermal Planning & Development Commission (IPDC) Executive Director Scott Dadson spoke on its role as a Council of Government (COG) for Cleveland, McDowell, Polk, and Rutherford Counties. These counties contain 33 towns, of which 24 operate water and / or wastewater systems with a total of 66,800 customers. Manufacturing makes up almost half of the economic base. While opportunities for regionalization exist, many barriers such as lack of trust among

Focus Area 3 Accomplishments

- Continued to provide planning grants from the AIA and MRF programs.
- Began providing Emergency Operating Grants and study grants (AIA, rates, MRF) from the VUR.
- Heard about best practices related to utility planning.



community leaders and worries of loss of control may hinder these opportunities.

Cliffside Sanitary District was a subject discussed by Envirolink's Executive Director, Mike Myers. Envirolink has been operating the Cliffside Sanitary District since the LGC assumed financial control in 2019. While designed to treat 7.7 million gallons per day, the wastewater treatment plant for the district is at 23,000 gallons per day, though peak flows of 1 MGD have been observed due to excessive inflow / infiltration. Many operational, maintenance, and safety issues exist within the system. With a small customer base, there is no ability to generate the revenue needed to pay for capital needs or to properly maintain the collection system. If the existing collection system and treatment plant are to remain in service, significant capital investment is needed.



The NC Department of Environmental Quality's (NCDEQ) Asheville Regional Office Division of Water Resources staff presented

information related to the activities of the office, including water and wastewater issues in the region. This office covers the western part of the state. Topics included the Town of Lake Lure's wastewater issues, including the old, leaking line beneath the lake and Chimney Rock's connection with the Town. Additionally, staff discussed wastewater treatment plant issues for the Towns of Burnsville and Andrews.



Environmental Stewardship Initiative staff from NCDEQ's Division of Environmental Assistance and Customer Service as well as the City of Gastonia presented on the Environmental Stewardship Initiative (ESI). The ESI program is an initiative that is a peer-to-peer promotion of environmental excellence. Started in 2002, it now has 94 members at 194 sites across the state at various levels, from the lowest level of Partner to the highest level of Steward. Environmental Management Systems are an essential part of the ESI program. The City of Gastonia / Two Rivers Utilities provided information related to their experience with the ESI program, which covers all aspects of their business activities.



1.4 Focus Area 4 – Process Framework for Viable Utilities

The Authority's primary focus during Fiscal Year 2020-2021 was to develop and begin implementation of the VUP in support of the legislation, which was signed into law by Governor Cooper on July 1, 2020 (S.L. 2020-79). Implementation occurred in two main phases: development of distressed criteria and VUP requirements. This entailed developing the initial education program and priority rating system for study grants. Continuing education planning is underway, as well as concepts for supporting LGUs with developing their short-term action plans. These efforts will continue along with support for creating long-term action plans and long-term financial plans.

Focus Area 4 Accomplishments

- Developed distressed criteria to designate LGUs as distressed.
- Developed draft initial education scope and method of delivery.
- Developed and approved priority rating system for Category 1 LGUs and developed draft priority rating system for Category 2 LGUs.
- Began developing other aspects of VU program.

1.4.1 *Distressed Criteria*

In conjunction with the LGC, the Authority approved four distressed identification criteria that are listed as follows:

1. An LGU whose fiscal affairs are under the control of the LGC pursuant to its authority granted by G.S. 159-181; or
2. An LGU that has not submitted its annual audits for the last two fiscal years to the LGC as required by G.S. 159-34; or
3. An LGU with a total assessment criteria score that equals or exceeds 9 for LGUs providing both drinking water and wastewater services or equals or exceeds 8 for LGUs providing only one service, either drinking water or wastewater; or
4. An LGU for which other information is available to or known by the Authority or LGC that reflects and is consistent with, but does not expressly appear in, the Assessment Criteria to account for situations in which the Assessment Criteria score does not wholly or accurately reflect a system's level of risk due to the limitations of available data.

The Assessment Criteria, which utilized in Identification Criteria #3, is composed benchmarks required by statute as well as other infrastructure / organizational and financial parameters. Criteria required by Statute, Infrastructure / Organizational Criteria, and Financial Criteria. G.S. 159G-45(a) requires that service population, transfers in / out, and debt service coverage ratio (DSCR) be considered as part of the Assessment Criteria. Additionally, the Authority and LGC developed other parameters based on the best practice areas of the Master Plan, including compliance, revenue outlook, flow moratorium, affordability, rates, population per mile of water / sewer line, internal control issues based on the Unit Assistance List (UAL) kept by the LGC, missing audits, surplus (deficit) with debt, percent depreciation, operating margin, quick ratio, and receivables ratio.

1.4.2 Initial Education Program

The initial education program is required by G.S. 159G-45(b) and is divided into four modules and provides “first steps” that systems designated as distressed can take within a few weeks of finishing the training. The first module concerns the definition of viability. The remaining modules are divided into the Master Plan’s three best practice areas. Each module will contain opportunities for discussion and / or case studies. A modified version of this education will be offered through the NC League of Municipalities (NCLM) Advanced Municipal Leaders (AML) course. The AML program is an online, on-demand set of courses that elected officials can complete as self-study. The VUP initial education portion will contain these four modules and may include a required seminar session for elected officials to attend.

1.4.3 Prioritization Criteria for Study Grants

The Authority reviewed prioritization criteria for study grants to go to public review. These prioritization criteria fall into two categories.

In Category 1, any LGU designated as distressed for which the LGC has assumed fiscal control is eligible for study grant funding. Additionally, any LGU willing to consider regionalization with these LGUs is also eligible. The Authority reviewed and approved the Category 1 study grant criteria during FY 2020-2021. Division staff are working with eligible LGUs on their grant applications with VUR-SG to be awarded at the beginning of FY 2021-2022.

Category 2 consists of all other LGUs designated as distressed. The prioritization criteria contain “groups” according to Assessment Criteria score. Where LGUs are in the same bin with the same Assessment Criteria score, the parameters of Revenue Outlook, Moratorium, and Service Population may be considered. The Authority approved the draft Category 2 prioritization criteria to go out to public comment, and comments have been received. Consideration for approving the VUR-SG criteria is expected early in FY 2021-2022.

1.4.4 Other VUP Efforts Underway

Other efforts related to the VU program are currently underway by the Authority.

Working in conjunction with Division staff, the Authority is in the process of developing a short-term action plan (STAP). The STAP would have a horizon between two and five years and would most likely consist of determining what work a distressed LGU may have completed, what studies using VUR-SG funds need to be completed, and what other steps the LGU may take to begin taking steps toward viability.

Guidance for the Long-Term Action Plan (LTAP) may be developed and would have a planning horizon from five years to beyond. This plan would help ensure that a system would have in place the ability for capital replacement, rehabilitation, and reinvestment as needed to maintain its water and / or wastewater system.

The Authority began working with the LGC to develop continuing education requirements related to the VUP. The continuing education portion will follow the Master Plan best practice

areas and will provide opportunities for elected officials and utility staff of LGUs designated as distressed to continue to gain knowledge related to utility management. This portion of the VUP program will be developed and implemented during FY 2021-2022.

Last, the Authority and LGC may develop the framework for a long-term financial plan. This financial plan will help LGUs designated as distressed develop a mechanism for financial viability of its water and / or wastewater utilities for the long term by ensuring that enough revenue is generated to cover operating expenses, capital replacement, and depreciation.

2.0 Issues Identified by the Authority

In FY 2020-2021, the Authority focused on issues described below and relate to the Viable Utility program.

2.1. *Communication Related to the Distressed Designations of Local Government Systems in the Viable Utility Program*

In conjunction with Division staff, the Authority developed Identification Criteria and Assessment Criteria that were used to fulfill the requirements of G.S. 159g-45(a), which required the Authority and LGC to develop criteria to determine how LGUs should be assessed and reviewed and given the designation of distressed. In November 2020, both the LGC and Authority approved the Identification Criteria and Assessment Criteria and designated LGUs that were under the LGC's fiscal control.

Issues Identified by Authority

- Communication related to distressed designations of LGUs
- Potential communication gaps
- Proposed solutions
 - Notification of pending designation followed by designation, if needed, a year later
 - Viable utility program orientation sessions

In December 2020, the LGC and Authority were presented a draft list of distressed systems. On February 2, 2021, LGC staff presented a list of distressed LGUs for final designation by the LGC. The LGC approved the designations, and Division staff presented to the Authority the list at its February 10, 2021 meeting. In the interim days between February 2 and February 10, several LGUs objected to the designation based upon the rationale that they had received no prior notification of potential designation.

The Authority only designated those LGUs that fell under Identification Criteria #1 and #2 as distressed and recommended that the Division contact those potentially designation under Criterion #3 to provide them with the opportunity to respond with additional information. On February 23, 2021, Division staff sent letters to these LGUs and asked for responses by March 26, 2021. Eighteen LGUs responded with additional information. Division staff presented this information at the Authority's April 14, 2021 meeting.

Upon receiving this information, the Authority agreed to designate as distressed those LGUs that did not respond to the letters. The remaining 18 were put on hold and will most likely be reviewed for designation in early 2022.

2.2 Potential Communication Gaps Related to the Viable Utility Program

Division staff and the Authority also identified a communication gap related to those LGUs who received the designation of distressed. The designation occurred during the first portion of 2021; however, initial education would not begin until later in the summer following required approval of the education components by the LGC and Authority, which will occur in July 2021.

2.3 Proposed Plan for Communication with Local Government Units Regarding Distressed Designation and the Viable Utilities Program

Division staff and the Viable Utility Committee worked on a plan (approved at the Authority's July 2021 meeting) for regularly reevaluating the LGUs based on the Identification Criteria. Under the proposed plan, LGUs who are either missing their annual audit for one year, or meet the Assessment Criteria score to be designated would have one year to take actions they deem as appropriate and would be re-assessed the following year. Local government units exceeding the criteria threshold for a second year in a row would then be proposed to the LGC and Authority for designation as distressed. However, any LGU that has been notified of pending designation would be able to contact the Division in writing to request designation to improve their prioritization for funding without waiting until the next assessment.

The 18 LGUs put "on-hold" but not designated due to questions related to their Assessment Criteria scores will be provided notification of their pending designation and that their assessments scores will be calculated again in April 2022. If their scores exceed the Assessment Criteria thresholds for a second year, then those LGUs will be recommended for designation as distressed at that time.

To address the communication gap between notification to distressed LGUs and the initial education, Division staff developed a VU orientation session. Staff offered this session three times over a period of two weeks and made it available to any LGU designated as distressed and any resource agency, including Department of Treasury staff. E-mails were sent by Division staff to each LGU designated under Identification Criteria #2 or #3. For those LGUs designated as distressed under Identification Criterion #1, LGC staff attended training. Upon completion of this orientation training, a recording of one of the orientation sessions was made available for viewing. It is anticipated that these orientation sessions will occur after each designation cycle by the LGC and Authority.

Approximately 150 people from 56 LGUs attended the VU Orientation Sessions over a two-week period.

2.4 American Rescue Plan Act

The American Rescue Plan Act (ARPA), signed into law by President Biden, provides funding for recovery from the Coronavirus Pandemic. Funding levels for water and wastewater infrastructure will be determined in pending state budgets. The Division will keep the Authority apprised of funding made available to support water utility infrastructure and support ARPA actions needed to ensure federal and state requirements are met. This includes the required deadlines of December 31, 2024 for obligation and December 31, 2026 for expenditures.

3.0 Next Steps

The Authority will be focused on the areas discussed below in the coming year. Recommendations developed by the Authority will be provided to the General Assembly to help improve the state’s decision-making processes for funding infrastructure and fostering organizational and financial management. The Authority will continue to work with the Division in the following three areas:

<p style="text-align: center;"><u>Summary of Next Steps</u></p> <ul style="list-style-type: none">• Continue fostering close working relationships with resource agencies.• Implement the Viable Utility Program.• Fund study grants from the VUR.

- Fostering close working relationships with resource agencies;
- Implementing the VUP; and
- Funding Study Grants and Construction Projects

The following sections briefly discuss each effort.

3.1 *Continue Fostering Close Working Relationships with Resource Agencies*

The Division continued its efforts to work closely with resource agency partners across the state through the Resource Agency Partnership for Water Utilities (RAPWU). These agencies provide technical assistance to LGUs across all best practice areas. In FY 2020-2021, the Division began seeking input from the RAPWU on a variety of topics, including the education component of the VUP. Staff from these agencies are working together on the continuing education portion of this program. Section 3.2 contains a more detailed discussion related to this topic.

3.2 *Implementing the Viable Utility Program*

Division staff will continue to work in conjunction with the Authority as it begins to implement the VUP in FY 2021-2022. Several steps must occur and are discussed below related to this program, including

- Initial education
- Action plans

3.2.1 Initial Education

The initial education component is required by G.S. 159g-45(b) and must be approved by the LGC and Authority. In April 2021, staff presented the draft plan related to the initial education component (approved by the LGC and Authority at their July 2021 meetings). Division staff will be requesting final approval from the LGC and Authority at their July 2021 meetings.

The draft education plan breaks the education into four modules: general concepts related to utility management, including the definition of a viable utility; and three individual modules related to the best practices found in the Master Plan (infrastructure, organizational, and financial).

Two options will be offered for training to better meet the needs of the distressed units and to better utilize resource agency resources. First, the Division will offer training to distressed LGUs in-person. The training will be free, and it will follow the four-module setup as described above. Sessions will be held all-day (six hours of training with lunch / breaks built in) and will consist of discussions, interaction among attendees, and case studies. Education effectiveness will be ascertained by pre- and post-class quizzes. Training locations will be across the state and will be aimed at minimizing travel time for attendees.

The second option offered will be through the NC League of Municipalities (NCLM's) Advanced Municipal Leaders (AML) online, on-demand training program. This program is primarily aimed at elected officials of municipalities. The same material will be covered; however, the effectiveness will be assessed in a different manner. Attendees will be required to take a quiz at the end of each module and must attend a discussion webinar. Details related to the NCLM's AML training are still being developed, including if a cost is associated with it. Launch date is estimated to be in the early fall of 2021 and will depend on the NCLM's schedule.

3.2.2 Action Plans

Action plans as required by G.S. 159g-45(b)(3) consist of the following: a short-term action plan (STAP), long-term action plan (LTAP), long-term financial plan (LTFP), and continuing education.

Division staff worked with the VU Committee of the Authority to develop a STAP template that distressed LGUs can complete to fulfill this requirement. The template would enable LGUs to determine what work, including water and wastewater construction, has been completed, what types of studies they need (e.g., AIA, rate studies, MRF), and what actions will be taken based upon the results of these studies. The planning horizon for the STAP ranges between two and five years. During FY 2021-2022, Division staff will provide a template for LGUs to use and will continue to develop the STAP based upon feedback from the VU committee and LGUs applying to the VUR.

The LTAP and LTFP portions of the program will be developed during FY 2021-2022. During the development stages of these portions, Division staff will consult with the VU Committee and full Authority on a regular basis.

The continuing education portion of the VUP is also under development. During FY 2020-2021, staff worked with members of the RAPWU to form a focus group in charge of determining the availability of education out there for elected officials and utility staff related to utility management. Staff on the RAPWU have begun developing a "course catalog" of these courses that will enable the Division and RAPWU members to determine training gaps. This continuing education program will be developed and finalized during FY 2021-2022.

3.3 Funding of Study Grants from the Viable Utility Reserve

During FY 2020-2021, the Authority made its first awards of study grants from the VUR as discussed in Section 1.1. In FY 2021-2022, the Division anticipates bringing applications related

first to those LGUs designated as distressed under Identification Criteria #1, as well as potential regionalization partners, to the Authority for approval early in the fiscal year.

Early in FY 2021-2022, Division staff will bring the Priority Rating System for Category 2 VUR Study Grants to the Authority for final approval. Once this approval is received, Division staff will train potential applications in applying for VUR study grants and will accept its first round of applications in the fall. The Division anticipates making awards for these study grants in early 2022.

3.4 Preparing for Administration of Funds from the American Rescue Plan Act

Due to the potential for ARPA funds to flow through the VUR and the Wastewater and Drinking Water State Reserves, which are under the purview of the Authority, the Authority will need to consider various factors in awarding grants to LGUs through those funding programs. Some of the considerations include:

- All funds originating from the American Rescue Plan Act must be spent by December 31, 2026;
- All construction projects funded by those grants must be for infrastructure projects eligible for State Revolving Funds and must meet additional statutory requirements that apply to the specific Reserves utilized;
- How best to balance funding timeframes with programmatic goals to ensure projects move distressed LGUs to long-term viability; and
- Prioritization of applications for funds if the needs exceed available funds (if applicable).

Administration of grant funding to LGUs for water, wastewater, and stormwater projects originating from the ARPA is subject to the pending the General Assembly allocation to the Division of a portion of the State Fiscal Recovery Fund for infrastructure funding.

4.0 Recommendations

NCGS 159G-72 provides that the Authority's annual report is to include recommendations or legislative proposal. The Authority presents three recommendations as stated below.

4.1 Provide a Secure Source of Adequate Funding for the Viable Utility Reserve

SL 2020-79 provided \$9M non-recurring funding for the VUR. This funding is not enough to fully fund all needed study grants as well as

construction grants to better ensure long term viability of the distress units. The Authority recommends that the General Assembly provide a higher amount of funding to the VUR on a recurring basis. As of the writing of this report, no final budget had been passed by the NC General Assembly.

Summary of Recommendations from Authority

- Provide a secure source of adequate funding for the VUR.
- Limit or eliminate the pre-allocation of project funding.
- Provide additional flexibility in establishing grant conditions.

4.2 Limit or Eliminate the Pre-Allocation of Project Funding

The Authority notes that this recommendation was included in its FY 2019-2020 Annual Report, and the issue continues to be of concern.

The Authority recommends that the General Assembly limit or eliminate the pre-allocation of project funding, and by doing so, enhance transparency in the state's water infrastructure funding, maximize the use of limited state funding resources, and further the goal of increasing utility viability.

The Authority is tasked with developing guidelines and establishing priorities for making loans and grants, and then applying the priorities to rank and select projects eligible for funding from the Water Infrastructure Fund. Since its inception in 2013, the Authority has continually worked to:

- Develop and refine the project prioritization and award process;
- Maximize the use of funding resources and ensure that funds are used in a coordinated manner; and
- Prioritize projects that increase the viability of recipient water and wastewater systems.

In past fiscal years, the General Assembly has pre-allocated a significant amount of state funds to specific projects that are not subject to the Authority's prioritization and award process. This practice raises several concerns for the Authority:

- The Authority uses a documented process based on prioritization criteria to build public trust and confidence in its funding decisions.
- Transparent decision-making is of high priority to the Authority, but the pre-allocation of funds by the General Assembly greatly weakens its efforts to keep the funding process equitable.
- It is uncertain if projects receiving pre-allocated funds represent best practices to meet the goal of achieving utility viability because they are not evaluated using the established process.
- The Authority uses affordability to maximize the use of scarce grant funds. Since the affordability criteria are not applied to LGUs receiving pre-allocated funds, it is possible that the recipients could afford some amount of debt or to obligate some funds and need less grant funds. This would increase the number of projects that could be funded through the state's grant process.
- Pre-allocated grant funds significantly reduce the fund available to the Authority to award through its competitive, transparent application and review process. These state funds are the only source of funding for the AIA and MRF grants.

4.3 Provide the Authority Flexibility in Establishing Grant Conditions

SL 2020-79 authorizes the Authority and the LGC to include performance measures and requirements for VUR grant recipients. As discussed in the Annual Report for FY 2020-2021, the ability to add conditions to any grant made by the Authority will better ensure that LGUs utilized grant funds to ensure long-term viability for the utility. The Authority again recommends flexibility in establishing grant conditions for any grant made by the Authority.

DRAFT