

State Water Infrastructure Authority
Meeting Date – April 16-17, 2025
Agenda Item O
Potential Modification of Eligible Uses for VUR Grants under 159G-32(d)(5)

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 NCGS 159G-32(d), which itemizes the allowable purposes of grants from the Viable Utility Reserve (VUR), which include:

- (1) Provide physical interconnection and extension of public water or wastewater infrastructure to provide regional service.
- (2) Rehabilitate existing public water or wastewater infrastructure.
- (3) Decentralize an existing public water system or wastewater system into smaller viable parts.
- (4) Fund a study of any one or more of the following:
 - a. Rates.
 - b. Asset inventory and assessment.
 - c. Merger and regionalization options.
- (5) Fund other options deemed feasible which result in local government units generating sufficient revenues to adequately fund management and operations, personnel, appropriate levels of maintenance, and reinvestment that facilitate the provision of reliable water or wastewater services.
- (6) Provide emergency grants for operating deficits in accordance with G.S. 159G-34.5(a)(4). (2005-454, s. 3; 2013-360, s. 14.21(h); 2019-241, s. 11(e); 2020-79, ss. 1(e), 6(a).)

Item 5 limits “other options” to activities that increase revenue, but does not address options that may decrease expenses.

Discussion

The Viable Utilities (VU) program continues to focus resources, including Merger/Regionalization Feasibility (MRF) grant funding, on regional partnerships. Currently, the VU program is actively managing MRFs for four regional partnerships in Martin County, Wayne County, Cleveland County, and in the Lumber River area (including local government units [LGUs] in both Robeson and Columbus Counties).

At least two of the partnerships include potential regional water or wastewater treatment systems that are carrying relatively large amounts of debt. The debt is limiting interest among LGU participants in moving forward with utility consolidations that would help address long-term viability for the LGUs, as the debt service payments increase projected user rates for

customers to be served by potential consolidated utilities. Where debt relief would be a deciding factor in enabling more comprehensive and ultimately cost-effective viability plans, it may be worthwhile for the VUR to be able to fund debt relief as a method to reduce expenses. At the same time, staff recognize that broadly allowing VUR funds to be used to relieve debt without adequate planning and adherence to long-term viability plans could disincentivize sound financial management and consideration of the trade-offs of debt financing, while potentially being a drain on limited VUR funds. It is critical that VUR grant funds are used to fund projects and activities that will enable LGUs to implement their long-term viability plans (LTVPs). Allowing debt relief, where debt relief is identified as a critical part of the LTVP, would enhance the ability of VUR grants to support viability.

SWIA's Viable Utilities Committee (VUC) considered and discussed this action item during their most recent meeting on March 19, 2025.

Staff Recommendation

As approved by the VUC on March 19, 2025, in consideration of the potential benefits and risks associated with allowing VUR funds to be used to relieve debt, Division staff recommend that SWIA approve the following potential modification, as shown below, to NCGS 159G-32(d)(5), to be referred to DEQ as a SWIA recommendation to the General Assembly.

Suggested Revision to NCGS 159G-32(d)(5):

"Fund other options ~~deemed feasible identified in the action plan created in accordance with G.S. 159G-45(b)(3)~~ which result in local government units generating sufficient revenues or decreasing utility costs as deemed feasible to adequately fund management and operations, personnel, appropriate levels of maintenance, and reinvestment that facilitate the provision of reliable water or wastewater services."