

**QUARTERLY REPORT TO THE LEGISLATIVE OPERATIONS COMMITTEE
REGARDING
FUNDS FOR LOCAL GOVERNMENT WATER AND SEWER IMPROVEMENT GRANTS
(CLEAN WATER PARTNERS' INFRASTRUCTURE GRANTS)
N.C. RURAL ECONOMIC DEVELOPMENT CENTER, INC.
MARCH 1, 2008**

During the 2007-2008 session of the North Carolina General Assembly, a \$100 million appropriation was made to the Rural Center for water and wastewater infrastructure grant making. The legislation defined two programs for funding: a Planning Grants program, and a Supplemental grants program. In both programs, rural, economically distressed communities receive priority in funding, especially if they are under Special Order of Consent or moratorium. The focus for both programs is the resolution of current water and wastewater infrastructure problems resulting in public health or environmental concerns.

Planning Grants Overview. Eligible applicants for Planning Grants are economically distressed rural counties, or economically distressed units of local government in rural counties. Regional Councils of Government and Regional Planning Commissions are also eligible applicants for Planning Grants, if the project is a regional project. Planning Grant projects must address a current, critical need in the applicant's community, or provide planning for construction efforts targeted at relieving a water or wastewater infrastructure problem. A total of \$2.0 million was allocated for Planning Grants out of the \$100 million appropriation.

The maximum award in the Planning Grants program is \$40,000.00. A dollar-for-dollar match is required, unless the applicant meets certain criteria. These criteria are:

- The applicant is an economic tier one county, or is a community in an economic tier one county.
- The applicant's poverty rate is 150% of the state's poverty rate.
- Be in part of a county that experiences an actual or imminent job loss of jobs equal to or greater than 5% of the total number of jobs in that part of the county.

Supplemental Grants Overview. Eligible applicants for the Supplemental Grants program are rural counties or communities in rural counties. In addition, the applicant must pass a resolution to set the household user fee for water and sewer service in the area to be served by the project at 1.5% of the median household income. Supplemental Grants fund construction activities, and are meant to supplement other local, state, and federal funds in a project. Like the Planning Grants, a dollar-for-dollar match is required unless the applicant meets certain criteria. These criteria are:

- The applicant is an economic tier one county, or is a community in an economic tier one county.
- The applicant's poverty rate is 150% of the state's poverty rate.
- The applicant's ability to pay, as calculated by the N.C. Department of Commerce, is less than fifty percent of the ability to pay of the county in which it is located.

In addition, in the Supplemental Grants program, a greater than \$500,000 grant is allowed, if the applicant meets one of the above criteria.

Application and Review Procedure. In an effort to coordinate more closely with other state and federal funding agencies, a Notice of Intent form is required to be submitted prior to the submission of a full application. For the current grant round, the Notices of Intent were due November 30, 2007. The Notices

of Intent list the funding sources applicants plan on utilizing for their projects, and these forms will be shared with other funders to allow them to contact potential applicants, or to monitor project budgets. See *Exhibit A* for a listing of Notices of Intent to Apply received by the Rural Center.

Full applications for both the Planning Grants and the Supplemental Grants were due to the Rural Center on December 17, 2007. The center received applications for 61 Planning Grants, and 169 Supplemental Grants, requesting a total of \$83,300,073. See *Exhibits B and C* for a listing of all grant applications received by the center.

Three copies of each application were received. All applications are read and scored by two staff Members. The third copy of each application is distributed randomly to a third staff reviewer. Once individual reviews are completed, a consensus review is held. During the consensus review, each application is discussed, and a final score is assigned to each project. Projects are then ranked in order, and funding is assigned to each eligible project.

Early Awards. When the grant applications were received in December, Rural Center staff reviewed each Supplemental Grant application for four items:

1. All funds were committed and available.
2. The environmental documents were in order.
3. The project schedule indicated that design and specs were complete, and the project was either permitted or close to permitting.
4. Did the applicant request early consideration?

Twenty-four applications were pulled for closer review and scoring based on the answers to those four questions. Out of the twenty-four, eight were recommended for an early award. These eight projects are:

- **Warren County Water and Sewer District III:** This project will add approximately 30 miles of water line to a currently funded project to serve residents in the four poorest townships in Warren County. The original project provides public water service to Warren County Water and Sewer District III, including a 300,000 gallon elevated tank and one booster pump station. The original project was scoped to serve 1150 customers; however, due to budget overruns at bid, the project was cut back to serving 890 customers. Rural Center funds will allow 260 more customers to be served. Many of these customers are on failing wells of questionable-quality water. The Rural Center is requested to fund **\$1,000,000**, which will be matched by \$4,957,000 in USDA-RD loans, and \$3,955,000 in USDA-RD grants, and \$9,000 in local funds. Warren County is an economic Tier One county with a poverty rate of 21.8 percent, and an ability-to-pay score of 1.65.
- **Town of Mt. Gilead:** This project will replace the oldest, most dilapidated sections of gravity sewer in town. The project will dig and replace 32,327 linear feet of gravity sewer mains and 156 manholes. These lines and manholes contribute to severe inflow and infiltration at the wastewater treatment plant, causing flows to increase from 0.225 MGD to 2.75 MGD in rainy weather. The wastewater treatment plant is permitted at 0.85 MGD. The town is in negotiation with the Department of Environment and Natural Resources regarding a Special Order of Consent (SOC) decree, and has received a Notice of Violation. Repairing the lines and manholes will address the SOC conditions, and reduce fecal coliform levels found in Clarks Creek. The Rural Center is requested to fund **\$500,000**, with matching funds from the Clean Water Management Trust Fund contributing \$2,400,000. Local funds will complete the funding, at \$600,000, for a

total project cost of \$3,500,000. Mt. Gilead is in an economic Tier One county. The town has a poverty rate of 18.3 percent, and an ability-to-pay score of 5.92.

- **Town of Clarkton:** The Town of Clarkton has an existing 0.240 MGD wastewater treatment facility consisting of influent screening, influent pump station, aerated lagoon, chlorine disinfection, and dechlorination equipment. The town is experiencing numerous violations of their NPDES permit, due to insufficient detention time in the existing lagoon system, and insufficient baffling and aeration in the lagoon. During periods of high wind, excessive rain or seasonal turnover due to temperature fluctuations, the town violates the 30ppm biological oxygen demand (BOD) limits on their NPDES permit. This project will modify the influent pump station, relocate the influent piping, build a new treatment lagoon, curtain baffle walls in the existing lagoon, upgrade the aeration system, install a new recirculation pump station and piping, install filtration units in the chlorine contact chamber, and dredge the sludge from the existing lagoon. In addition, two gravity sewer extensions will be constructed. The first, along Roscoe Lennon Drive, will serve six residences with failing septic systems. The second will serve eight mobile homes on Tina Lane with failing septic systems. The Rural Center is requested to fund **\$500,000**, with \$432,000 in local funds as match, for a total project cost of \$932,000. The Town of Clarkton is in an economic Tier One county. The town has a poverty rate of 31.3 percent, and an ability-to-pay of 4.32.
- **Town of Beaufort:** The Town of Beaufort is under Special Order of Consent due to numerous overflows at the wastewater treatment plant. This project will construct a new wastewater treatment plant on property adjacent to the current plant. The existing plant will be abandoned and replaced with a 1.5 MGD wastewater treatment facility with the capability of producing tertiary quality effluent. The Rural Center is requested to fund **\$500,000**, with a Clean Water Management Trust Fund grant of \$1,500,000, and a state revolving loan from Construction Grants and Loans Section, Department of Environment and Natural Resources, of \$10,600,000. The Town of Beaufort is in an economic Tier Three county. The town has a poverty rate of 16.6 percent, and an ability-to-pay score of 12.45.
- **Columbus County:** This project will provide public sewer service to two schools in the southern part of Columbus County, to eliminate a failed septic system at the Nakina Alternative School, and a failing septic system at the Guideway School. Nakina Alternative School had 25 students, although it was originally slated to have 75 students. The septic system could not support the cafeteria use for 75 students, and the septic tank was pumped weekly. In May 2007, the Nakina Alternative School was closed due to septic system failure. The Guideway School has experienced a huge spike in population from the growth in Myrtle Beach, with 325+ students in a school built to serve only 125 students. The septic systems are failing, and there is no available land around the school for a new septic system. The Grand Strand Water and Sewer Authority is currently installing public sewer to serve a new subdivision just across the state line in South Carolina. The Authority has agreed to provide public sewer to the two Columbus County schools, providing the county obtains additional funding for the sewer installation. An early award was requested from the Rural Center, because the Nakina Alternative School is proposed to re-open in August 2008. All lines in Columbus County will be owned and maintained by Columbus County. The Rural Center was requested to fund **\$500,000**, and the Grand Strand Water and Sewer Authority will match those funds with \$1,054,354. Columbus County is an economic Tier One county, with a poverty rate of 22.7 percent, and an ability-to-pay score of 10.81.

- **Alexander County:** Northeastern Alexander County has experienced a number of dry wells and springs running dry during the current drought. Wells have never been particularly productive in this part of the county, and the situation has only gotten worse in the past year. Not only have household wells and springs gone dry, forcing families to purchase and haul water for domestic use, but three chicken farms in the area have had to haul water for their poultry operations. One farmer hauled over 42,000 gallons of water during the month of July alone. This project will install water lines in the most drought-affected areas, serving 445 property owners, and loop several existing lines in the area, to improve pressure in the lines to state standards. The Rural Center is requested to fund **\$500,000**, with matching funds coming from a \$3,600,650 loan from the Public Water Supply Section in the Department of Environment and Natural Resources. Alexander County is an economic Tier Two county, with a poverty rate of 8.5 percent, and an ability-to-pay score of 11.96.
- **Town of Cajah's Mountain:** This project will extend wastewater collection lines to serve 52 customers in the Fairways Acres area with public sewer service. The town is partially sewer, with treatment at the City of Lenoir's Gunpowder Creek Wastewater Treatment Plant. A total of 30 percent of the homes in the Fairways Acres area have septic systems that are pumped anywhere from every three months to once a year, surfacing effluent/cesspools in the yards, and straight piping of gray water into ditches. The Rural Center was requested to fund **\$500,000**, with a \$500,000 match coming from local funds. Cajah's Mountain is located in an economic Tier One county. The town's poverty rate is 11.2 percent, and its ability-to-pay score is 6.98.
- **City of Whiteville:** This project augments an ongoing Unsewered Communities project in the Town of Bolton, to allow for the development of a regional wastewater system in eastern Columbus County. The Town of Bolton is installing a collection system and piping the wastewater to the Town of Whiteville for treatment, bypassing the Town of Lake Waccamaw along the way. The Town of Lake Waccamaw's wastewater treatment plant is at 85 percent committed capacity, and will need to either enlarge its plant in the future, or interconnect with the Town of Whiteville for future, additional, wastewater treatment. This project proposes to upsize the currently-planned, eight-inch sanitary sewer line to a 12-inch line, to accommodate additional flow coming from Lake Waccamaw. In addition, by upsizing the line, the Lake Waccamaw Boys and Girls Home and a number of low-density, residential areas (about 200 homes) in the eight miles between Lake Waccamaw and Whiteville could tap on to the sewer line and receive public sewer service. A lift station would also need to be enlarged to handle the change in flow. The Rural Center was requested to fund **\$500,000**, with the matching funds coming from the Golden LEAF, for \$550,000. The City of Whiteville is in an economic Tier One county. The city's poverty rate is 22.7 percent, and its ability-to-pay score is 12.09.

The early awards total to **\$4,500,000**. A total of **\$81,500,000** remains for Supplemental grant making in June and December 2008.

In addition, an early Planning Grant award was made to the Town of Valdese that will allow Valdese to begin planning efforts related to long-term drought solutions. See the description of the project below:

- **Town of Valdese.** The Town of Valdese requested an early planning grant to perform mapping of infrastructure, a water audit of the system, to conduct a valve exercising program, and develop a unidirectional flushing protocol for the Valdese system. The idea is for Valdese to perform their planning activities, and have answers on the leaks in the Valdese system, to able to target those areas for near-term repair, funded by monies that may be in short supply in the near future.

The town has constructed a temporary extension of their water intake into Lake James, and is concerned with preserving every drop of water available. The activities being proposed would allow the town to most cost-effectively target the areas for water system repair. The project cost is \$157,930. The planning grants program maximum award is \$40,000. We recommend a grant of **\$37,930**. Rural Center funds would be matched by \$40,000 from the town, and \$80,000 from the Appalachian Regional Commission. Valdese is in an economic Tier One county, with a poverty rate of 11.9 percent.

Crisis Needs Grants: Drought. In the August 28, 2007, Board meeting, the Rural Center Executive Committee approved a special category for grant making entitled “Crisis Needs”, and allocated \$10 million of the \$100 million to the category. A crisis need is one where drinking water supplies are dangerously depleted, or one where drinking water is contaminated with pollutants to the point where health advisory notices are issued, and bottled water is required. Crisis needs requests are accepted on a rolling basis, upon proof of need, and proof that all other funding is in place for the project. Requests for drought relief must be verified by the Department of Environment and Natural Resources, through a listing on the Division of Water Resources’ Tier One Drought-Affected Water Systems.

Previous crisis grant awards were made to Tuckaseegee Water and Sewer Authority to extend public water lines to an area with benzene contaminated wells, and to Central Nash Water and Sewer District, to interconnect the Tier One category drought- affected city of Rocky Mount to the City of Wilson’s water system. A third award was made to the Tier One drought-affected Town of Siler City, to interconnect their water system through the Chatham County system, to the City of Sanford’s water supply. Finally, an award was made to McDowell County, to extend public water to an area in the Nebo community plagued with petroleum-contaminated wells.

Since the last report, drought has dominated the need for crisis funding. Rural Center staff has participated in meetings held by the League of Municipalities and the Governor’s Office, to help target the most drought-affected communities with grant funding for needed water projects. The Department of Environment and Natural Resources’ regional engineers have identified the most effective solutions for the Tier One drought-afflicted communities’ real or potential water deficits. On January 10, 2008, the Rural Center volunteered as a convener of a funding meeting, after the Department of Environment and Natural Resources realized that most of the communities were small, rural communities.

The Rural Center organized a funding solutions meeting in Valdese on January 29, 2008, to directly address funding needs in the drought-afflicted rural communities. To be invited, communities had to be identified by the Department of Environment and Natural Resources as a Tier One drought community, or as a high Tier Two community with no interconnections for a secondary supply. The communities that were invited were: Blowing Rock, Boone, Eden, King, Lenoir, Mars Hill, Marshall, Monroe, Morganton, Shelby, Tryon, Valdese, Yadkinville, Robbinsville, Hendersonville, and Alexander County. Several funding agencies, including the Department of Environment and Natural Resources’ Public Water Supply Section’s State Revolving Loan Programs, the Department of Commerce’s Appalachian Regional Commission and Community Development Block Grant programs, and USDA – Rural Development’s grant and loan programs, attended and gave presentations on their respective funding opportunities. The group then broke up into small sessions, to allow each community to meet with different funding agencies, and develop a funding strategy for each project.

The Rural Center subsequently made the following *conditional* grants to drought-afflicted communities. All projects given conditional awards from the Clean Water Partners’ Infrastructure Fund must meet the all of the conditions of the program. It should be emphasized that the original \$100 million appropriation

was made to the Rural Center with no consideration of drought related needs at the time. When these funds were allocated to the center, no one knew that North Carolina was headed for the worst drought in state history. The following drought-related crisis awards were recommended to and approved by the Rural Center's Executive Committee:

- **City of Eden:** The City of Eden is a high Tier Two drought-afflicted community. Eden withdraws 11 to 12 million gallons per day from the Dan River to serve domestic needs for 20,000 homes, and three major industries: Miller Brewing, Hanesbrands, and Karastan Rug Mill. In the 2002 drought, the river level fell below the water intake, requiring a temporary pumping system to be used. As warm weather approaches, the city would like to plan for the anticipated water deficits by constructing a supplemental pumping system for the raw water intake. This project will install pumps that will pump water from the supplemental system to an existing raw water wet well. New pumps will be built on a shelf adjacent to the Dan River; with jib cranes to move the pumps whenever a flood is imminent (the shelf is within the 100 year floodplain). The City of Eden is requesting **\$350,000** from the Rural Center, and matching the grant with a \$350,000 loan from the open market. The City of Eden is in an economic Tier One county. The city has a poverty rate of 17.2 percent, and an ability-to-pay score of 22.42.
- **City of Lenoir:** The City of Lenoir is a Tier One drought-afflicted community. The City of Lenoir owns and operates its own public water treatment and distribution system that serves Caldwell County, Hudson, Sawmills, Baton Water Corporation, and Joyceton Waterworks. The surface water source for the city is Lake Rhodhiss, which is part of the Catawba River Basin. The water treatment plant and intake were constructed in 1956, and has a permitted capacity of 12 million gallons per day. As with many of the communities dependent upon surface water sources in the western part of the state, there is danger that the water line may drop below the intake. Lenoir has purchased a temporary solution to assist with pumping water to their current intake, however, for a permanent solution; the current intake will need to be extended into a deeper portion of Lake Rhodhiss. This project proposes to extend the water intake for the Lenoir water treatment plant further into Lake Rhodhiss, to improve water quality and reliability. This project will construct two passive intake screens, two 36-inch diameter intake pipes, two isolation sluice gates, and a 45-foot deep wet well located 75 feet from the shoreline. The proposed pumping station will include two 12 million gallon per day vertical turbine pumps with variable speed pumping capabilities, pump control valves, and discharge piping, and associated appurtenances that transfer water from Lake Rhodhiss via a 30-inch raw water main to the flash mix basin. The City of Lenoir is requesting a **\$500,000** grant from the Rural Center, to be matched by a \$300,000 grant from the Appalachian Regional Commission, and a \$4,650,000 loan from the State Revolving Loan Program, Public Water Supply Section, Department of Environment and Natural Resources. Lenoir is in an economic Tier One county. The city has a poverty rate of 14.39 percent.
- **Town of Mars Hill:** The Town of Mars Hill is a Tier One drought-afflicted community. The town owns and operates its own water treatment plant in the Laurel Fork watershed in northern Madison County. The Laurel Fork water shed has supplied sufficient water for the town, however, should the drought continue, the Town of Mars Hill may not have sufficient water supply, especially when Mars Hill College is in session. This project will extend a water line from Mars Hill to the Town of Weaverville's water system. The Town of Weaverville has a 1.5 MGD water plant on the Ivy River, but only uses 550,000 MGD. The line would allow the Town of Mars Hill to purchase water on an emergency basis from the Town of Weaverville. The project consists of 20,300 linear feet of 8-inch water line, a water booster pump station, a master

meter facility, and other appurtenances. The town is requesting **\$500,000** from the Rural Center. An additional \$300,000 will be requested from the Appalachian Regional Commission, and approximately \$1.0 million will be requested in loans from USDA – Rural Development. Mars Hill is in an economic Tier One county, and has a poverty rate of 16.9 percent, and an ability-to-pay score of 5.28.

- **City of Hendersonville:** The City of Hendersonville is a Tier One drought-afflicted community. Hendersonville has an intake on the Mills River that supplies up to 12 million gallons per day, and has access to two mountain reservoirs that can supply 4.5 million gallons per day. The city has reduced its withdrawals from the reservoirs to 10 percent of its normal withdrawal due to a drop in the reservoir level, and is concerned that the Mills River could drop, as well. The city has worked with the Department of Environment and Natural Resources toward a long-term solution to its water supply problem. The long-term solution appears to be a second intake and pump station in the French Broad River, with a 30-inch raw water transmission main from the new intake to the water treatment plant. Hendersonville is requesting grant assistance from the Rural Center in the amount of **\$500,000** to help construct the raw water main, and a temporary pump station, to provide a faster source of water. A second phase of the project will construct a permanent pump station, and an off-stream storage pond. The Rural Center's \$500,000 will be matched by a \$2,016,250 loan from the State Revolving Loan program, Public Water Supply Section, Department of Environment and natural resources. Hendersonville is in an economic Tier Three county. The city has a poverty rate of 16.8 percent, and an ability-to-pay score of 24.83.
- **Polk County Regional System:** The Towns of Tryon and Columbus, the City of Saluda, and Polk County have begun discussions regarding regional interconnections and water system upgrades to ensure that the Tier One drought-afflicted community of Tryon has sufficient water supply, and that the City of Saluda, a Tier Two drought-afflicted community, does not develop water supply problems. This project will install a booster pump station on the Town of Columbus/Town of Tryon water line to allow water to pass from Columbus to Tryon; construct a water line from Saluda to Tryon to enable water to come to Columbus and/or Tryon from the Hendersonville/Asheville area, and rehabilitate the old Tryon Mountain water intake system. Each participating entity is requesting a \$432,000 grant from the Rural Center, for a total grant of **\$1,730,000**, to be matched with a \$300,000 grant from the Appalachian Regional Commission, and \$1,430,000 from Polk County. The Public Water Supply Section supports this solution to an on-going water supply problem in this area, particularly for the Town of Tryon. The Towns of Tryon and Columbus are in an economic Tier Two county, the City of Saluda is in an economic Tier Three county. Polk County is a Tier Two county, with an ability-to-pay score of 22.06.
- **Town of Boone.** The Town of Boone is a Tier One drought-afflicted community. The town has two projects that it intends to pursue to assure adequate water supply: an interconnection with the Appalachian State University water supply system, and a new water intake in the New River. The first project the town will pursue is the interconnection with Appalachian State University's system. This project will interconnect the two systems by boring under a road to lay an interconnecting pipe, install a meter, valving, a meter vault, and a back-flow device. The total project cost is \$336,000. The town is requesting **\$168,000**. Appalachian State University will match the town's \$168,000 with \$160,000, with the Town of Boone making up the \$8000 difference. The Town of Boone is in an economic Tier Two county, and has a poverty rate of 37 percent.

- **Town of Robbinsville.** The Town of Robbinsville is a Tier One drought-afflicted community. The town has two projects that it intends to pursue to assure adequate water supply: the drilling of three wells, the installation of associated chlorination equipment, and 500 feet of 6-inch piping to connect the wells to the existing distribution system, and the construction of an intake on Lake Santeetlah and an 8-inch raw water main from the intake to the water treatment plant.

The intake on Lake Santeetlah will require a watershed reclassification and an environmental assessment, which will take time for completion, review and permitting. The wells are the most expeditious source of water for the short term. The total project cost is \$204,000. The town is requesting **\$153,000** from the Rural Center, and matching the grant with \$51,000 in local funds. The Town of Robbinsville is in a Tier One county, and has a poverty rate of 34.5 percent.

It must be emphasized that these projects are funded out of a **\$10 million** fund designated by the Rural Center Executive Committee for crisis projects. To date, there is **\$4,480,933** remaining in the \$10 million crisis fund, after funding eleven crisis projects, most dealing with drought.

Administration. In the \$100 million appropriated to the Rural Center, 2 percent, or \$2.0 million was marked for administrative costs. Out of the \$2.0 million, \$250,000 was allocated for staffing the State Water Infrastructure Commission. Arrangements have been made for the State Budget Office and the Department of Environment and Natural Resources to administer the State Water Infrastructure Commission funds. The remaining \$1.75 million will be used to expand staffing and to cover overhead expenses such as supplies, travel, and marketing and outreach. The staff expansion includes a grants coordinator, two grants managers, and an engineer. The engineer has been hired; and an offer has been extended to an individual for a grants manager position. More interviews are scheduled for early March.

Next Quarter Activities. Rural Center staff will continue to work with the Department of Environment and Natural Resources to assist with funding critical drought-related water projects in rural communities, until the Crisis Needs fund of \$10 million is fully obligated. Contracts will be developed for those communities that have been awarded funding under the early awards or the crisis awards schedule.

Rural Center staff will also continue reviewing and scoring applications until April 21, when Consensus Reviews begin. Consensus reviews will take nearly two weeks. Once applications are scored and ranked, the recommendation package is compiled for the Rural Center's Clean Water Committee. The chair of the Clean Water Committee then forwards the recommendations to the Executive Committee, which meets on June 25, 2008.

Presentations on the Clean Water Partners' Infrastructure Program will be made at a Funders Fair held in Wilson, sponsored by the Upper Coastal Plain Council of Governments and the Environmental Finance Center at UNC-Chapel Hill on March 27, and a second Funders Fair, held in Hickory, sponsored by the Western Piedmont Council of Governments and the Environmental Finance Center at UNC-Chapel Hill on April 24. Finally, two "How to Apply" classes are planned on May 7, at the new Rural Center Training Center, for those communities who could not attend the fall 2007 sessions.