



North Carolina Department of Environment and Natural Resources

Pat McCrory
Governor

John E. Skvarla, III
Secretary

July 2, 2014

MEMORANDUM

TO: Environmental Review Commission
The Honorable Brent Jackson, Chair
The Honorable Ruth Samuelson, Co-Chair
The Honorable Mike Hager, Co-Chair
House of Representatives Appropriations Subcommittees on Natural and Economic Resources
The Honorable Tom Murry, Co-Chair
The Honorable Roger West, Co-Chair
Senate Appropriations Subcommittees on Natural and Economic Resources
The Honorable Stan Bingham, Co-Chair
The Honorable Andrew C. Brock, Co-Chair
Fiscal Research Division of the General Assembly
Jennifer Hoffman
Timothy Dale

FROM: Neal Robbins, Director of Legislative Affairs

SUBJECT: Report on the State Water Infrastructure Authority

DATE: July 2, 2014

Pursuant to S.L. 2013-360, Section 14.21(m), the State Water Infrastructure Authority shall report no later than May 1, 2014, to the Environmental Review Commission, the Senate Appropriations Committee on Natural and Economic Resources, the House of Representatives Appropriations Subcommittee on Natural and Economic Resources, and the Fiscal Research Division on the distribution of grant funds awarded under Chapter 159G of the General Statutes, as amended by the section, and whether changes are needed to the existing grant program under Chapter 159G of the General Statutes or other available grant programs to better facilitate the dissemination of funds and meet the project needs of rural, economically distressed local governments. This is the updated version of that report. Please consider the attached as the formal submission of the updated report. If you have any questions or need additional information, please contact me by phone at (919) 707-8618 or via e-mail at neal.robbs@ncdenr.gov.

cc: Mitch Gillespie, Assistant Secretary for Environment, NCDENR
Kim Colson, Director, Division of Water Infrastructure, NCDENR

**NORTH CAROLINA
STATE WATER INFRASTRUCTURE AUTHORITY**

May 1, 2014 Report (Updated June 4, 2014) to:

- **Environmental Review Commission**
 - **Senate Appropriations Committee on Natural and Economic Resources**
 - **House of Representatives Appropriations Subcommittee on Natural and Economic Resources**
 - **Fiscal Research Division**
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Prepared by
The North Carolina State Water Infrastructure Authority
Department of Environment and Natural Resources
Updated June 4, 2014

EXECUTIVE SUMMARY

North Carolina State Water Infrastructure Authority Report

Updated June 4, 2014

The State Water Infrastructure Authority (SWIA) and the Division of Water Infrastructure (the Division) were created within the North Carolina Department of Environment and Natural Resources by Session Law (SL) 2013-360 (Budget). The SL appropriated \$3.5 million for the 2013-2014 fiscal year and at least \$5 million for the 2014-2015 fiscal year to be used for grants to local government units for public water system-related projects and waste-water related projects. SWIA was charged with determining the distribution of funds between public water system-related projects and wastewater-related projects, depending upon the number of applications for grants received and the priorities established by SWIA.

The Session Law requires SWIA to report no later than May 1, 2014, "...on the distribution of grant funds awarded under Chapter 159G of the General Statutes, as amended by the section, and whether changes are needed to the existing grant program under Chapter 159G of the General Statutes or other available grant programs to better facilitate the dissemination of funds and meet the project needs of rural, economically distressed local governments." This report has been prepared pursuant to SL 2013-360.

The Division accepted applications until April 1, 2014, for grant funds to be awarded from the Drinking Water Reserve and the Wastewater Reserve; both Reserves were established in NCGS 159G-22. The 56 grant requests received totaled \$24,420,665; the breakdown of requests is shown below.

State Reserve Program	High Unit Cost (HUC) Grants		Technical Assistance Grants		Total Grant Amount Requested
	Number Applications Received	Dollar Amount Requested	Number Applications Received	Dollar Amount Requested	
Drinking Water Reserve	9	\$8,434,214	8	\$360,500	\$8,794,714
Wastewater Reserve	18	\$14,626,551	21	\$999,400	\$15,625,951
Totals	27	\$23,060,765	29	\$1,359,900	\$24,420,665 (*)

(*) SL appropriated \$3.5 million in funds

Division staff reviewed the applications to determine the eligibility of the applicant and project, and the score assigned to the project using the priorities established by SWIA. Division staff presented the application summaries and corresponding scores to SWIA on May 12, 2014. SWIA made decisions on the distribution of grant funds at its meeting on May 12, 2014; the funding approvals are shown below:

State Reserve Program	High Unit Cost (HUC) Grants		Technical Assistance Grants		Total Grant Amount Approved
	Number Applications Funded	Dollar Amount Approved	Number Applications Funded	Dollar Amount Approved	
Drinking Water Reserve	1	\$1,589,550	4	\$165,500	\$1,755,050
Wastewater Reserve	2	\$1,377,600	8	\$365,400	\$1,743,000
Totals	3	\$2,967,150	12	\$530,900	\$3,498,050

While this report is directed to address the distribution of state grant funds, SWIA felt it important to also describe other accomplishments including:

- Loans awarded in January and February 2014 from the federally-funded Clean Water State Revolving Fund (CWSRF) and the Drinking Water State Revolving Fund (DWSRF)
 - CWSRF loans awarded in May 2014
 - Grants awarded in May 2014 from the federal Housing and Urban Development (HUD) Community Development Block Grant – Infrastructure (CDBG-I) Program
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Section I. State Water Infrastructure Authority Information

The State Water Infrastructure Authority (SWIA) was created within the North Carolina Department of Environment and Natural Resources by Session Law (SL) 2013-360 (Budget). The nine members of SWIA are listed below:

State Water Infrastructure Authority Members		
Name	Title	Appointing Authority
Kim Colson – Chair	Acting Director, Division of Water Infrastructure	Ex-Officio
Dr. Patricia Mitchell	Assistant Secretary, Rural Development Division; Department of Commerce	Ex-Officio
Vance Hollomon	Deputy Treasurer, Local Government Commission	Ex-Officio
JD Solomon	Vice President, CH2MHILL	Governor
Gwen Baker	President, CDM Federal Programs, CDM Smith	Governor
Leila Goodwin	Water Resources Manager, Town of Cary	Senate Pro Tempore
Charles Vines	Mitchell County Manager	Senate Pro Tempore
Cal Stiles	Cherokee County Commissioner	Speaker of the House
Maria Hunnicutt	Manager, Broad River Water Authority	Speaker of the House

The powers and duties of SWIA are contained in NCGS 159G-71 as follows:

1. Review recommendations for grants and loans submitted to it by the Division of Water Infrastructure
 - Determine the rank of applications
 - Select the applications that are eligible to receive grants and loans
2. Establish priorities for making loans and grants, consistent with federal law
3. Review the criteria for making loans and grants and make recommendations, if any, for additional criteria or changes to the criteria
4. Develop guidelines for making loans and grants
5. Develop a master plan to meet the State's water infrastructure needs
6. Assess and make recommendations on the role of the State in the development and funding of wastewater, drinking water, and stormwater infrastructure
7. Analyze the adequacy of projected funding to meet projected needs over the next five years
8. Make recommendations on ways to maximize the use of current funding resources (federal, State, local) and ensure that funds are used in a coordinated manner

9. Review the application of management practices in wastewater, drinking water, and stormwater utilities and to determine the best practices
10. Assess the role of public-private partnerships in the future provision of utility service
11. Assess the application of the river basin approach to utility planning and management
12. Assess the need for a "troubled system" protocol

SWIA was fully realized in early January 2014 and first met on January 13-14, 2014. SWIA also met on February 20, March 20, and May 12, 2014. Meetings are planned for July 17, September 18, and November 6, 2014.

Section II. Grants from State Drinking Water and Wastewater Reserves

Session Law 2013-360 (Budget) appropriated \$3.5 million for the 2013-2014 fiscal year to be used for grants to local government units for public water system-related projects and waste-water related projects. The grants are to be awarded from the Drinking Water Reserve and the Wastewater Reserve; both Reserves were established in NCGS 159G-22. These reserve accounts include two grant programs:

A. Technical Assistance Grants (TAGs)

- A Wastewater TAG is for the purpose of determining the best way to correct the deficiencies in a wastewater collection system or wastewater treatment works that either is not in compliance with its permit limits, or is experiencing operational problems and is at risk of violating permit limits. (NCGS 159G-33.(a)(3))
- A Drinking Water TAG is for the purpose of determining the best way to correct the deficiencies in a public water system that does not comply with State law or the rules adopted to implement that law. (NCGS 159G-34.(a)(3))
- Per NCGS 159G-36 the amount of a TAG awarded for three consecutive fiscal years may not exceed \$50,000.

B. High Unit Cost Grants (HUCs)

- A HUC grant is for the purpose of constructing critical water infrastructure. To be eligible for consideration for a HUC grant, the applicant's residential customer's annual average water and/or sewer bill must be over the HUC threshold of 1.5% of Median Household Income (MHI) for both services or 0.75% of MHI for either water or sewer service in accordance with NCGS 159G-20(10).
- Per NCGS 159G-36 the amount of a HUC grant awarded for a single application for three consecutive fiscal years may not exceed \$3 million.

Applicants that are eligible to receive grant funds from the State Wastewater and Drinking Water Reserves are:

- NCGS 159G-31 "Entities eligible to apply for loan or grant." provides eligibility to local government units or non-profit water corporations; however, SL 2013-360 Section 14.2.1.(m) further restricts these grant funds to only local government units
- Only eligible to the extent that other funding sources are not reasonably available to the applicant (NCGS 159G-36.b.)
- Applicant must be located in a Tier 1 or Tier 2 county (SL 2013-360 Section 14.2.1.(m))
- Other limits to specific grant types

The types of projects that are eligible to receive grant funds from the State Wastewater and Drinking Water Reserves are:

- Wastewater collection systems
- Wastewater treatment works
- Public water system projects

Section III. April 1, 2014 State Reserve Grant Applications and Approvals Made on May 12, 2014

SWIA is charged with determining the distribution of funds between public water system-related projects and wastewater-related projects, depending upon the number of applications for grants received and the priorities established by SWIA. The priorities were established by SWIA at the Feb. 20, 2014 meeting. For more information about these grant programs, please see <http://portal.ncdenr.org/web/wi/sgp>.

The Division held a training workshop for interested applicants on March 5, 2014. Twenty-six members of the public attended, representing 11 consulting firms and 8 units of local government. The Division accepted applications until April 1, 2014, for grant funds to be awarded from the Drinking Water Reserve and the Wastewater Reserve; both Reserves were established in NCGS 159G-22. The 56 grant requests received totaled \$24,420,665; the breakdown of requests is shown below.

State Reserve Program	High Unit Cost (HUC) Grants		Technical Assistance Grants		Total Grant Amount Requested
	Number Applications Received	Dollar Amount Requested	Number Applications Received	Dollar Amount Requested	
Drinking Water Reserve	9	\$8,434,214	8	\$360,500	\$8,794,714
Wastewater Reserve	18	\$14,626,551	21	\$999,400	\$15,625,951
Totals	27	\$23,060,765	29	\$1,359,900	\$24,420,665 (*)

(*) Session Law appropriated \$3.5 million in funds

Division staff reviewed the applications to determine the eligibility of the applicant and project, and the score assigned to the project using the priorities established by SWIA. Division staff presented the application summaries and corresponding scores to SWIA on May 12, 2014. SWIA made decisions on the distribution of grant funds at its meeting on May 12, 2014; the funding approvals are summarized in the following table:

State Reserve Program	High Unit Cost (HUC) Grants		Technical Assistance Grants		Total Grant Amount Approved
	Number Applications Funded	Dollar Amount Approved	Number Applications Funded	Dollar Amount Approved	
Drinking Water Reserve	1	\$1,589,550	4	\$165,500	\$1,755,050
Wastewater Reserve	2	\$1,377,600	8	\$365,400	\$1,743,000
Totals	3	\$2,967,150	12	\$530,900	\$3,498,050

More details about the funded projects are provided in the tables below.

Table III.A. State Water Infrastructure Fund – Drinking Water Reserve High Unit Cost (HUC) Grants Approved by SWIA on May 12, 2014

Project No.	Applicant Name	Project Name	Amount of Funding Approved
1	Fontana Dam, Town of	Replace Water Treatment Plant	\$1,589,550
		Total Drinking Water HUC Funding Approved	\$1,589,550

Table III.B. State Water Infrastructure Fund – Drinking Water Technical Assistance Grants (TAG) Approved by SWIA on May 12, 2014

Project No.	Applicant Name	Project Name	Amount of Funding Approved
1	Tuckaseegee W&S District	Water Supply Alternatives for Valhalla Apartments	\$25,000
2	Onslow Water & Sewer Authority	North Topsail Beach High Rise Bridge Water Line Replacement Evaluation	\$50,000
3	Martin County	Oak City Water System Repair Study	\$40,500
4	Elkin, Town of	Emergency Raw Water Line Replacement Analysis	\$50,000
		Total Drinking Water TAG Funding Approved	\$165,500

Table III.C. State Water Infrastructure Fund – Wastewater Reserve High Unit Cost (HUC) Grants Approved by SWIA on May 12, 2014

Project No.	Applicant Name	Project Name	Amount of Funding Approved
1	Robbinsville, Town of	Sludge Dewatering Equipment Rehabilitation and Facility	\$800,000
2	Franklinton, Town of	Wastewater System Rehabilitation	\$577,600
		Total Wastewater HUC Funding Approved	\$1,377,600

Table III.D. State Water Infrastructure Fund – Wastewater Technical Assistance Grants (TAG) Approved by SWIA on May 12, 2014

Project No.	Applicant Name	Project Name	Amount of Funding Approved
1	Williamston, Town of	Sewer System Evaluation Study Phase II	\$40,400

2	Garland, Town of	Wastewater Treatment Plant Evaluation	\$50,000
3	Morganton, City of	Bethel Basin Sewer Investigation	\$50,000
4	Bay River Metropolitan Sewer District	Wastewater Effluent Spray Site Soils Investigation	\$50,000
5	Washington, City of	Sanitary Sewer Evaluation Survey	\$35,000
6	Lumberton, City of	Northwest Sewer System Evaluation	\$50,000
7	Andrews, Town of	Wastewater Treatment Plant Evaluation	\$40,000
8	Eden, City of	Hydraulic Model of Kuder St & Dry Creek Sewer Basins	\$50,000
		Total Wastewater TAG Funding Approved	\$365,400

The Session Law requires SWIA to report "...whether changes are needed to the existing grant program under Chapter 159G of the General Statutes or other available grant programs to better facilitate the dissemination of funds and meet the project needs of rural, economically distressed local governments." The April 1, 2014 funding round was the first round of state grant program funding to occur since the creation of the SWIA. Based upon the results of this round, SWIA will begin discussion on potential suggested changes to Chapter 159G at its July 17, 2014 meeting

Section IV. SWIA's Other Accomplishments

A. January 2014

At its January 13-14, 2014 meeting, SWIA began its work of helping North Carolina meet its water infrastructure needs in part by awarding funding for federal programs for wastewater, drinking water and stormwater projects. SWIA learned about two federal funding sources managed by the Division: the Clean Water State Revolving Fund (CWSRF) and the Drinking Water State Revolving Fund (DWSRF). The SRF programs provide low-interest loans for water, wastewater and stormwater projects to local government units and other eligible applicants. Funding is made available by Federal capitalization grants, State matching funds, and repayment of loans.

Applications for the two SRF programs had been received in September 2013 and applicants would usually have been notified in October and November regarding their loan awards. Following SWIA's creation, it was necessary for SWIA to select the applications eligible to receive funding. Division staff presented the application summaries and corresponding scores to SWIA at its January meeting. SWIA reviewed the recommendations and selected the applications eligible to receive the loans as follows:

- The DWSRF program provided funding for 29 drinking water projects totaling \$102 million
- The CWSRF program provided funding for 13 stormwater and wastewater projects totaling \$41.5 million
- A total of 36 communities in 32 counties received SRF funding for the September 2013 funding round

SWIA approved the application of the existing criteria and methods for distributing funds included in the CWSRF Intended Use Plan (IUP) for fiscal years 2013 and 2014, for the next round of CWSRF applications which were received until April 1, 2014.

SWI also learned about the federal Housing and Urban Development (HUD) Community Development Block Grant – Infrastructure (CDBG-I) Program, and approved moving forward with the process of public review of draft priority criteria for these grants, with applications due on April 1, 2014. For more information about this grant program, please see <http://portal.ncdenr.org/web/wi/cdbg>.

B. February 2014

At its February 20, 2014 meeting, SWIA learned more about the federal State Revolving Fund (SRF) programs and in particular the Intended Use Plan that must be submitted to the US Environmental Protection Agency (EPA) annually. SWIA approved the presentation of the draft DWSRF and CWSRF Priority Rating Systems for Fiscal Year 2014 at a public meeting that was held on March 5, 2014.

SWIA also approved the CDBG-I Priority Criteria for grant applications due on April 1, 2014. SWIA anticipates that it will select the applications eligible to receive funding at its meeting on May 12, 2014.

SWIA began learning about some of its other duties through presentations on the following topics:

- No. 5 – Develop a master plan to meet the State's water infrastructure needs
- No. 9 – Review the application of management practices in wastewater, drinking water, and stormwater utilities and to determine the best practices
- No. 10 – Assess the role of public-private partnerships in the future provision of utility service

C. March 2014

At its March 20, 2014 meeting, SWIA approved the draft DWSRF and CWSRF Priority Rating Systems for use in the Fiscal Year 2014 Intended Use Plan (IUP) which will be submitted by the Division to the US EPA as part of the capitalization grant application. SWIA also heard presentations about local governments' financial management of drinking water and wastewater utilities, and the oversight role of the Local Government Commission (LGC) in municipal water and sewer enterprise operations; the presentations were related these duties of SWIA:

- No. 6 – Assess and make recommendations on the role of the State in the development and funding of wastewater, drinking water, and stormwater infrastructure
- No. 7 – Analyze the adequacy of projected funding to meet projected needs over the next five years
- No. 12 – Assess the need for a "troubled system" protocol

D. May 2014

On April 1, 2014, the Division received 39 applications for funding from the federally-funded CWSRF program. Division staff presented the application summaries and corresponding scores to SWIA at its May 12, 2014 meeting. SWIA reviewed the recommendations and selected 20 applications for wastewater projects as eligible to receive the loans, totaling \$50,080,535.

Also on April 1, 2014, the Division received 69 applications for funding from the federally-funded CDBG-I program. Division staff presented the application summaries and corresponding scores to SWIA at its May 12, 2014 meeting. SWIA reviewed the recommendations and selected 6 applications for water and wastewater projects as eligible to receive the grants, totaling \$9,863,980. The remaining allocation for the fiscal year (approximately \$15 million) will be considered at the July SWIA meeting.