**Merger/Regionalization Feasibility Grant Priority Rating System Guidance**

This guidance aids the applicant in understanding and implementing the Merger/Regionalization Feasibility Grant Priority Rating System (rating system). **Use this guidance only for projects seeking funding through the Merger/Regionalization Feasibility Grant.** For any other funding program, please use the guidance appropriate for that particular program.

The goal of a merger/regionalization feasibility grant is to allow a utility to identify and then work with potential partner utilities to investigate the challenges, benefits, and implications for both utilities to potentially merge, in part or in whole, or regionalize. Applicants may already have existing cooperation agreements. Also, multiple utilities may intend to jointly cooperate with the applicant. The Division structured the rating system to give higher priority to applications that demonstrate the potential for a successful project in the future, beyond this study.

Each application earns priority points for the Technical, Organizational, and Affordability status of the applicant. The Division has structured the rating system to prioritize the applications that in general have fewer connections, more compliance issues, smaller staffs, greater financial barriers, or any combination of the above that may hinder system viability and the ability to self-fund or conduct a feasibility study. Thus, some points will be awarded by comparing applications received that round, and some points will be awarded based on the inherent LGU indicators of the applicant. For applications that serve multiple areas, a weighted average of indicators will be used to determine the service area values.

**Submittal Requirements**

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| **If an applicant desires to do a merger/regionalization feasibility study on both the water system and the sewer system, two separate applications must be submitted.** |

* The completed application must include the application forms, Financial Information Form, Fund Transfer Certification Form, applicable water/sewer rate sheets, the narrative, resolution, applicable partner letter(s) and supporting documentation. **Do not submit a completed rating system point sheet.**
* A Rating System Narrative along with supporting documentation as required by this guidance must be submitted with the funding application. The General discussion questions will be used as background information in order to determine the existing condition of the applicant. Questions in Categories 1, 2, and 3 will be used for scoring purposes.

***Priority Rating System Narrative***

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|  | General Discussion |
| Category 1 | Technical Status |
| Category 2 | Organizational Status |
| Category 3 | Affordability  |

The narrative must be consistent with information in the Division Application, LGC forms, and other supporting information.

* All supporting documentation to determine priority points must be submitted with the funding application. Please ensure that submittals provide clear information needed to determine points. Additional information will not be requested. Points will be determined based solely on the information submitted.
* An Acknowledgement Letter from each of the partnering utilities must also be submitted with the funding application. A partnering utility is defined as a utility that will be included in the options considered in the study. The letters will define the level of cooperation required to complete a successful Merger/Regionalization Feasibility Study. The letters must be signed by the elected official or authorized representative if authorized by resolution. The letters must acknowledge the applicant has applied for funding for a feasibility study and the partnering utility commits to cooperating in the study. The letters do not commit the partnering utilities to act on the findings of the study.

Example language:

The [Partnering system] acknowledges the [applying system’s] request to participate in a merger/regionalization feasibility study. By submittal of this letter, we commit our willingness to cooperate to the extent necessary to perform a merger/regionalization feasibility study for the purposes of ensuring the viability of all systems involved. Our collaboration in this study does not bind us to act on the recommendations of the study.

**Merger/Regionalization Feasibility Narrative Guidance**

**General Discussion**

This section is for discussing the top three (3) challenges the applicant faces in the next five (5) years and how the proposed merger/regionalization feasibility study will help address these challenges. Narrative responses must be consistent with the applicant’s Local Water Supply Plan, Water System Management Plan, I/I and other study results, various withdrawal/discharge permits, and internal control policies, as applicable. Additionally, list the potential partnering system(s).

***Previous Studies***

1. *Has the feasibility of a merger or regionalization been studied before? What have been the barriers to either conducting a feasibility study or to implementing the recommendations from any previous studies? If a study was previously done, how will this study differ?*

If the applicant has participated in a previous study, describe the study’s goals and intent, levels of commitment, areas of cooperation, and reason(s) for its success or failure. The narrative must also include a discussion of the trade-offs and alternatives considered by the previous study, specifically those relating to costs, operational changes, and organizational structure. Additionally, describe how this study will differ from past studies.

If the applicant has not participated in a previous study, discuss whether such a study has been previously considered, and the barriers which inhibited the study from proceeding. Reasons for the previous lack of consideration for a study may include, and are not limited to, unwillingness to potentially eliminate existing positions, inability to agree internally on the study’s goals, and financial barriers inhibiting the hiring of an experienced professional.

***Benefit to the Applicant***

1. *Describe the benefit to the local government of receiving a Merger/Regionalization Feasibility grant, including the current challenges facing the applicant and potential partners, and why merging or regionalizing might help resolve the challenges. Specifically address the systems’ technical, organizational, and financial situations, including:*
	* *Physical assets such as treatment/supply components, distribution/collection systems, storage facilities, etc.*
	* *Sources of drinking water or wastewater disposal/utilization.*
	* *Treatment, discharge, supply, and demand capacities.*
	* *The current level of asset management and capital improvement planning.*

Discuss the challenges facing the applicant on a daily, monthly, and annual basis, and how those challenges affect the utility’s physical assets, drinking water/wastewater sources, capacities, and long-term goals. Additionally, discuss how and merger or regionalization may resolve these challenges, specifically consider the perceived strength and weaknesses of the applicant and partnering systems.

Lastly, describe any additional information related to the benefits of a merger/regionalization feasibility study that have not been previously mentioned, such as issues in LGC Unit Letters from more than three (3) years ago, year-to-year trends in the operating ratio, etc.

**Category 1 – Technical Status**

Applications earn Technical Status points by documenting the existing operational situation of the applicant. The narrative must discuss and document existing technical challenges which affect system viability.

***Compliance History***

1. *Describe any ongoing environmental protection and public health issues, such as impaired watersheds, contaminated sources, failing infrastructure, etc.* ***(Line Item 1.A)***

Discuss whether existing violations are acute or ongoing, the extent to which the violations impact the utility’s normal operations, the actions taken to address existing violations, and the potential for future violations. Provide documentation of the enforcement action (NOV, AO, etc.), a brief summary of the applicable regulation and its citation, and whether the underlying violation was addressed and if so, how and when.

Points earned for this line item will be based on a comparison of the other applications submitted during that funding round. Applications that document the most severe violations will receive three points for this line item, applications that document fewer and less sever violations will receive either one or two points, and applications with no violations will receive zero points.

***Proximity and Past Collaboration***

1. *Discuss whether systems adjacent to the applicant appear to have adequate unallocated capacity to accommodate the applying system’s needs.* ***(Line Item 1.B)***

Discuss the applicant’s proximity to potential partners who appear to have adequate unallocated capacity to expand and interconnect. Using existing Local Water Supply Plans, Water System Management Plans, and discharge/withdrawal permits, discuss the supply and treatment capacity needs of the applicant. Provide a map which includes sufficient labels of geographical references and is at a readable scale.

1. *Have the applicant and partner system(s) previously collaborated on utility or other issues, either on a project basis or for ongoing management? If so, describe the reasons, achievements, and benefits of the collaboration for both the applicant and partner system(s).* ***(Line Item 1.B)***

Past collaboration may be an indicator of future collaboration, so the Division structure the rating system to prioritize applications that document past collaboration above those that do not. Past collaboration is not limited to utility-utility collaboration, for example past land development, joint permitting and planning, and service-sharing activities should all be documented here. Additionally, discuss the goals and outcomes of the collaborative efforts.

Points earned for this line item will be based on a comparison of the other applications submitted during that funding round. The application narrative must document proximity to systems with adequate unallocated capacity to expand (per NCGS 130A-317(g)) as well as any previous collaborations with a partnering system. Three points will be award to applications that document the closest proximity to a partner utility with adequate capacity to expand and where the applicant and partner utilities have previously collaborated in any activity, zero points will be awarded for applications that show neither of these, and applications with a combination of no proximity but previous collaboration, and vice versa, will be awarded either one or two points.

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| **Example Narrative for *Line Item 1.B. – Proximity***Anywhere Water and Sewer Authority regularly exceeds 90% of their permitted WWTP capacity during peak flow. The attached map shows the proximity of Anywhere’s service area to Here County’s WWTP. The attached map also shows the extent of the City of Somewhere’s collection system and its close proximity to Anywhere’s. Copies of the following are included:* Map showing Anywhere, Somewhere, and Here County’s WWTP; collection lines for Anywhere and Somewhere are shown in green.
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| **Example Narrative for *Line Item 1.B –Past Collaboration***In 2009, The Town of Anywhere Water System (PWSID No. NC9902999) partnered with Here County Water and Sewer District (PWSID No. NC9902888) to study the feasibility of merging both utilities’ maintenance operations. The Town of Anywhere has experienced population decline due to the closing of the local meat packing plant in 2007, the largest employer in the Town. The study looked at several methods to reduce the Town’s expenses which were steadily increasing due to aging infrastructure while the number of connections had decreased over a short period of time. An agreement for Here County to provide all maintenance of the Town’s distribution lines was drafted and passed by both the Town and County’s boards. The agreement included… |

**Category 2 – Organizational Status**

Applications earn Organizational Status points by documenting the applicant’s existing organizational structure and challenges facing the organizational operation of the utility.

***Size and Capabilities***

1. *Describe the organizational structure of the applicant, including the number, roles, and responsibilities of the utility and finance staff as well as elected officials, and existing management contracts if applicable.* ***(Line Item 2.A)***

Discuss the applicant’s organization size, structure, and responsibilities of each group within the utility and how those responsibilities are carried out. Describe the organizational characteristics with respect to hiring and personnel policies, management contracts, formal job descriptions, and other plans and policies that delineate the responsibilities within the utility.

1. *Describe any known challenges the utility is experiencing related to operations of the utility such as treatment complexities, water loss, inflow/infiltration, billing, excessive debt, excessive expenses compared to revenue, loss of large water or sewer accounts, etc.* ***(Line Item 2.A)***

Considering the human and financial resources available to the utility, discuss the regular and acute operational challenges with respect to enforcing existing policies from a financial and legal (not technical) perspective. Describe the decision-making process when faced with multiple priorities, such as rate setting practices and capital improvement planning, asset management and maintenance policies, etc.

***LGC Unit Letter***

1. *Has the applicant received a Local Government Commission unit letter within the last three (3) years? If so, discuss the issues presented in the letter, and how the applicant addressed the issues.* ***(Line Item 2.B)***

Unit Letters may be issued for various reasons including internal control issues, failing to submit financial audits, and a variety of other factors that affect the utility’s enterprise funds. Provide a copy of the Unit Letter, and discuss whether or not action has been taken to address the issues in the letter.

Points for this line item will be awarded to applications that document having received an LGC Unit Letter within the last three years. Three points will be awarded for proper documentation and discussion of the issues contained in the letter.

***Operating Ratio – Line Item 2.C***

Calculate the Operating Ratio using the formula below and include the calculation in the narrative.

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| *Operating Ratio =* | *Operating Revenue* |
| *(Total Expenditures + Debt Principal + Interest + Capital Outlay)* |

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| **Calculation Notes*** In the narrative and calculations, use the same values entered in Financial Information Form.
* Do not include “Non-operating Revenues” in the numerator.
* Do not include any future revenues.
* Present “Total Expenditures” from Financial Information Form.
* Present “Debt Principal”, “Interest”, and “Capital Outlay” from Financial Information Form; “Capital Outlay is defined as funded from the enterprise fund.
* Report the Operating Ratio to two decimal points.
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**Category 3 – Affordability**

***Current Rate******– Line Item 3.A* –** points will be awarded based on the current monthly utility bill for 5,000 gallons calculated using in-town rates from the rate sheet provided with the application. The Division has determined that the median rate in NC for 5,000 gallons of water or sewer is $33/month for in-town rates.

* Less than or equal to $33/month = 0 points
* More than $33/month and less than or equal to $47/month = 2 points
* Greater than $47/month = 4 points

***Local Government Unit Indicators – Line Item 3.B*** – points will be awarded based on the Local Government Unit (LGU) indicators provided on the application form and how these indicators compare with the state benchmarks. For systems that serve multiple local government units, a weighted average of indicators will be used.

* Percent population change
* Poverty rate
* Median household income
* Unemployment
* Property valuation per capita

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| **Merger/Regionalization Feasibility Grant Priority Rating System** |
| **Line Item #** | **Category** | **Points** |
| **1.** | Technical Status |  |
| 1.A | Compliance History | 0, 1, 2, or 3 |
| 1.B | Past Collaboration and/or Proximity | 0, 1, 2, or 3 |
| **2.** | Organizational Status |  |
| 2.A | Size and Capabilities | 0, 1, or 2 |
| 2.B | LGC Unit Letter | 3 |
| 2.C | Operating Ratio < 1.00 | 1 |
| **3.** | Affordability |  |
| 3.A | Current Monthly Utility Rate at 5,000 gallons usage | 0, 2, or 4 |
| 3.B | Local Government Unit (LGU) Indicators |  |
| 3.B.1 | 3 out of 5 LGU indicators are worse than the state benchmark **OR** | 0 |
| 3.B.2 | 4 out of 5 LGU indicators are worse than the state benchmark **OR** | 2 |
| 3.B.3 | 5 out of 5 LGU indicators are worse than the state benchmark | 4 |
|   | **Total Points** | **20 Max** |