Before The Funds: A guide to evaluating the implications of accessing water or wastewater infrastructure funding

UNC
SCHOOL OF GOVERNMENT
Environmental Finance Center

The North Carolina Division of Water Infrastructure provides funding to North Carolina local government units for water, wastewater, and stormwater projects. In 2021, the US Congress appropriated additional funds to states via the Infrastructure Investment and Jobs Act (IIJA), also known as the **Bipartisan Infrastructure Law (BIL)**, for five fiscal years (FY 2022 – FY 2026). In addition to providing a short-term influx of additional funding for infrastructure projects, BIL also extended limits on principal forgiveness for eligible applicants. In short, there is currently considerable funding available for water, wastewater, and stormwater projects, but the funds are time-limited. Many utilities may be considering improving or expanding their infrastructure to capitalize on the current availability of funds; however, there are long-term implications of investing in new infrastructure that should be considered. This resource aims to point utilities to resources for self-assessment of their own sustainability and help utilities understand the long-term implications of accessing grant funds for infrastructure by walking through a (fictitious) example from Waterville, USA.

Consider The Situation In Waterville

Waterville wants to invest in a new water storage tank. The tank is expected to cost $1,000,000, and Waterville utility staff intend to apply for a low-interest loan with principal forgiveness through the State Revolving Loan Fund. Waterville qualifies for principal forgiveness, but even with 49% of the $1,000,000 principal forgiven, the project's life cycle costs may render it unaffordable in the long term. Before taking on the project, Waterville should consider the following questions:

- **Will Waterville be able to maintain the infrastructure?**

After construction is completed, Waterville will need to maintain the water storage tank to ensure it operates effectively and meets the expected useful life. Maintaining assets requires money and a trained workforce.

Workforce Planning & Development Resources

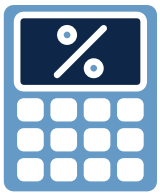
Asset Management/Life Cycle Costs Resources

- **Will Waterville need to raise rates to cover the depreciation expenses and debt service associated with the infrastructure?**

Waterville's 49% principal forgiveness greatly reduced the upfront cost of the water storage tank. However, the remaining 51% will need to be financed, resulting in annual debt-service payments. Additionally, the utility will need to consider the depreciation expense associated with the new storage

tank to prepare for replacement. These two factors may result in Waterville needing to raise rates.

Rates Analysis Tool



Financial Health Check-up Tool

• If rates do need to increase, will Waterville "be able" to raise rates?

Should Waterville need to raise rates, it may not be politically feasible. Raising rates is often a contested topic. Waterville should consider the rate impact of the new project and the likelihood of being able to raise rates appropriately.

• If rates do need to increase, can the Waterville customer base afford it?

Customer affordability has been an issue for many years, and many utilities still grapple with the challenges of pricing water according to its costs and ensuring access to affordable water and wastewater services. In Waterville, customer affordability is a concern and worth looking into more. Thankfully, many resources exist to help Waterville evaluate local affordability and consider how to address affordability challenges, like through partnerships with neighboring communities.

Affordability Tools

- UNC EFC Affordability Tool
- Natural Resources Defense Council Affordability Tool

Partnership Resources

- Regionalization & partnerships
- Interlocal agreement guide

• What if Waterville is still stuck?

There are technical assistance providers ready to help! The situation in Waterville may be fictitious, but these infrastructure investment considerations are real. The University of North Carolina-Chapel Hill Environmental Finance Center (UNC EFC) always recommends considering the long-term impact of major infrastructure decisions. To learn more about getting "unstuck," reach out to the UNC EFC for technical assistance, resources, and more!

UNC EFC Website

Technical Assistance Request Form

For more information, contact the UNC Environmental Finance Center at efc@sog.unc.edu

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