



THE AMERICAN RESCUE PLAN AND LOCAL INFRASTRUCTURE

How federal ARP dollars can address local water, sewer and other infrastructure needs.

NOV
2021

INTRODUCTION

North Carolina cities and towns will receive \$1.3 billion in federal American Rescue Plan (ARP) funds in 2021 and 2022. That is a staggering number, and it encompasses just a small piece of the ARP. More funds will be sent to North Carolina counties. Still more is going to the state itself.

Never before has money flowed directly to our cities and towns like it will through the ARP, and as such, it is a generational opportunity—to both recover from the pandemic and to prosper well into the future.

These dollars come with limitations and will require strict accounting for their uses. Although continued U.S. Department of Treasury guidance is still expected related to eligible spending, the federal bill includes a broad mandate to allow investments in water, sewer and broadband infrastructure. (It should be noted that, despite the federal law and its guidelines, North Carolina law continues to place substantial restraints on local government broadband spending.)

There are numerous examples of federally-supported infrastructure projects yielding transformational changes to our municipalities. The highlighted projects within include those that are now underway, funded through sources other than the ARP and those planned with ARP funds. In each case, substantial outside funding—similar to amounts being awarded local governments across North Carolina under the federal American Rescue Plan—made these projects possible.

There is a well-documented and clear need for water infrastructure investment in North Carolina. This issue represents the most significant threat to the sustainability of many towns, and existing state and federal funding streams are insufficient given the scale of the problem. With the addition of ARP funding, however, those funding totals more adequately address the issue. Investments in projects that have long-term impacts on residents' quality of life, create economic opportunity, and help solve these infrastructure challenges are now possible.



A few years from now, people will look back on the American Rescue Plan and the ways that it did or did not transform communities. They will look at whether the purposes on which it was spent created a legacy of a better North Carolina, or whether opportunities were squandered.

- NCLM President and Salisbury Mayor Karen Alexander

CASE STUDY | 01

All across our state, cities and towns implement transformational changes when given the opportunity. The case studies presented here highlight that leadership, and showcase the transformational changes that can occur when our communities receive support.

BETHEL, NC

COMMUNITY SIZE: 1,640 | SYSTEM USERS: 850

Since 2017, the Town of Bethel, located in Pitt County, has been on a path to get out of the water and sewer business by working on a regionalization project with the City of Greenville. The project has not been without expense, and could not have happened without significant outside funding.

The town received a \$50,000 grant (awarded by the state Division of Water Infrastructure) to study the feasibility of regionalization in 2017. Then in 2020, it received various grants totaling \$4.5 million to begin the actual infrastructure work, allowing the town to catch up on deferred maintenance and other tasks that ensured its partner municipality and its ratepayers would not assume that cost. The work includes point repairs of sewer lines, replacement of some water lines, changes intended to reduce water infiltration and possible relocation of a pump station to a less flood-prone area.

For Bethel and its residents, the result may not only be a more sustainable system moving forward, but also eventual cheaper water and sewer rates. That change may not happen immediately, as the town is currently paying down some earlier, existing debt taken for system improvements. But lower rates remain a goal of everyone involved and could help attract more residents and businesses in the future.



SUPPORT RECEIVED:

\$50,000 grant in 2017;
\$4.5 million in grants
in 2020

PROJECTS:

Catch up on deferred
maintenance; Water and
sewer regionalization

GOALS:

Sustainable
infrastructure; Lower
rates for utility users

WORKING AS ONE. ADVANCING ALL.

A CLEAR NEED

In 2017, the N.C. Division of Water Infrastructure estimated that North Carolina’s water and sewer infrastructure needs over two decades would total between \$17 billion and \$26 billion. More recently, the University of North Carolina’s Environmental Finance Center has determined that the state’s stormwater infrastructure needs through 2034 will reach an estimated \$2.76 billion, with those investments key in mitigating flooding caused by climate change and additional upstream development and growth.

To grasp the scope of one part of that need, as of 2016, 80,000 miles of public drinking water distribution lines ran through North Carolina, enough to wrap those lines around the circumference of the Earth three times over. And of that total, over 40 percent are constructed of materials—galvanized metal, ductile iron or cast iron—requiring replacement in short order.

These needs arise as roughly 40 percent of North Carolina counties and the municipalities in them have experienced population loss in recent decades, with associated manufacturing plant closings and jobs losses through the 1980s, 90s and early 2000s. Fewer residents means fewer rate payers and a cash shortfall. The result has been deferred maintenance needs for these systems.

The situation was highlighted in 2019 when one Wayne County town, Eureka, saw state legislators suspend its town charter, and the state took over operations as its sewer system operations teetered on financial failure. Nearby municipalities Fremont and Goldsboro—transporters and treaters of Eureka’s wastewater—were affected by the town’s financial and operational struggles.

BY THE NUMBERS

\$26 BILLION

Total needed to adequately upgrade water and sewer systems in North Carolina over 20 years, according to a 2017 state study.

8 PERCENT

Local water and sewer needs met through outside funding (state grants, other programs, etc.)

92 PERCENT

Local water and sewer needs met (or deferred) by utility provider.

541

Number of local government-run water systems in N.C.

89 PERCENT

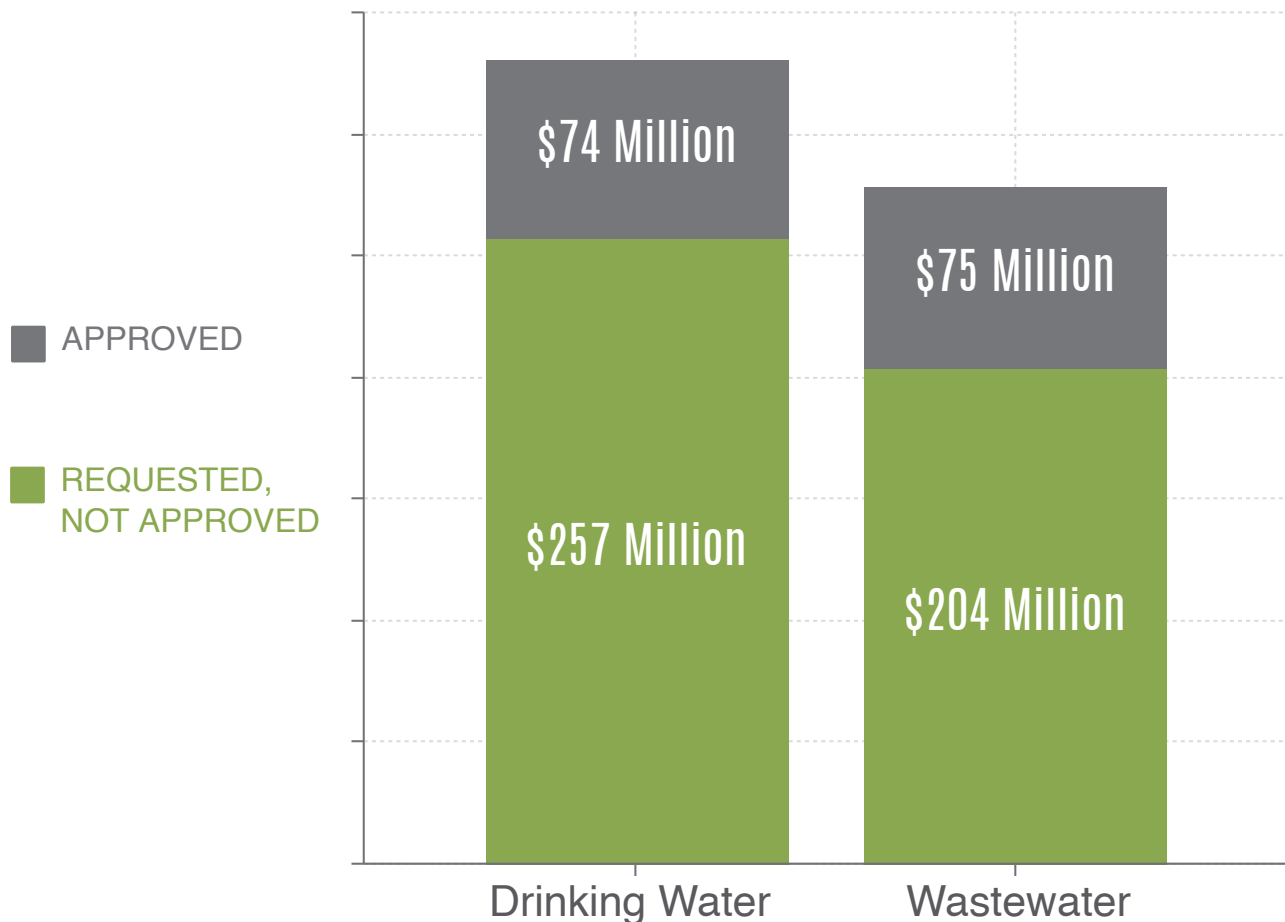
Percentage of state population served by those 541 local government systems.

The issue has not gone unnoticed. That same year, state legislators began creating a framework to address struggling public water and sewer systems through a program designated as the Viable Utility Fund (VUF). The program is intended to identify distressed systems and work toward solutions that could be sustained over time. The legislation was passed into law in 2020.

Only a small amount of money, however, has thus far been provided by the VUF for actual infrastructure investments.

Instead, the state’s primary, ongoing programs to provide funding for local water and sewer systems investment—the Clean Water State Revolving Fund and the Drinking Water State Revolving Fund—primarily rely on zero-interest loans to our municipalities, rather than grants. Even with those constraints, the programs are meeting less than half of the demand. In the latest round of semi-annual funding, 25 of 64 project requests, or 39 percent, were approved. On a monetary basis, \$149 million of loans and grants were approved, while \$600 million was requested, or 24.9 percent of the total funding requests.

STATE REVOLVING FUND REQUESTS VS. APPROVALS

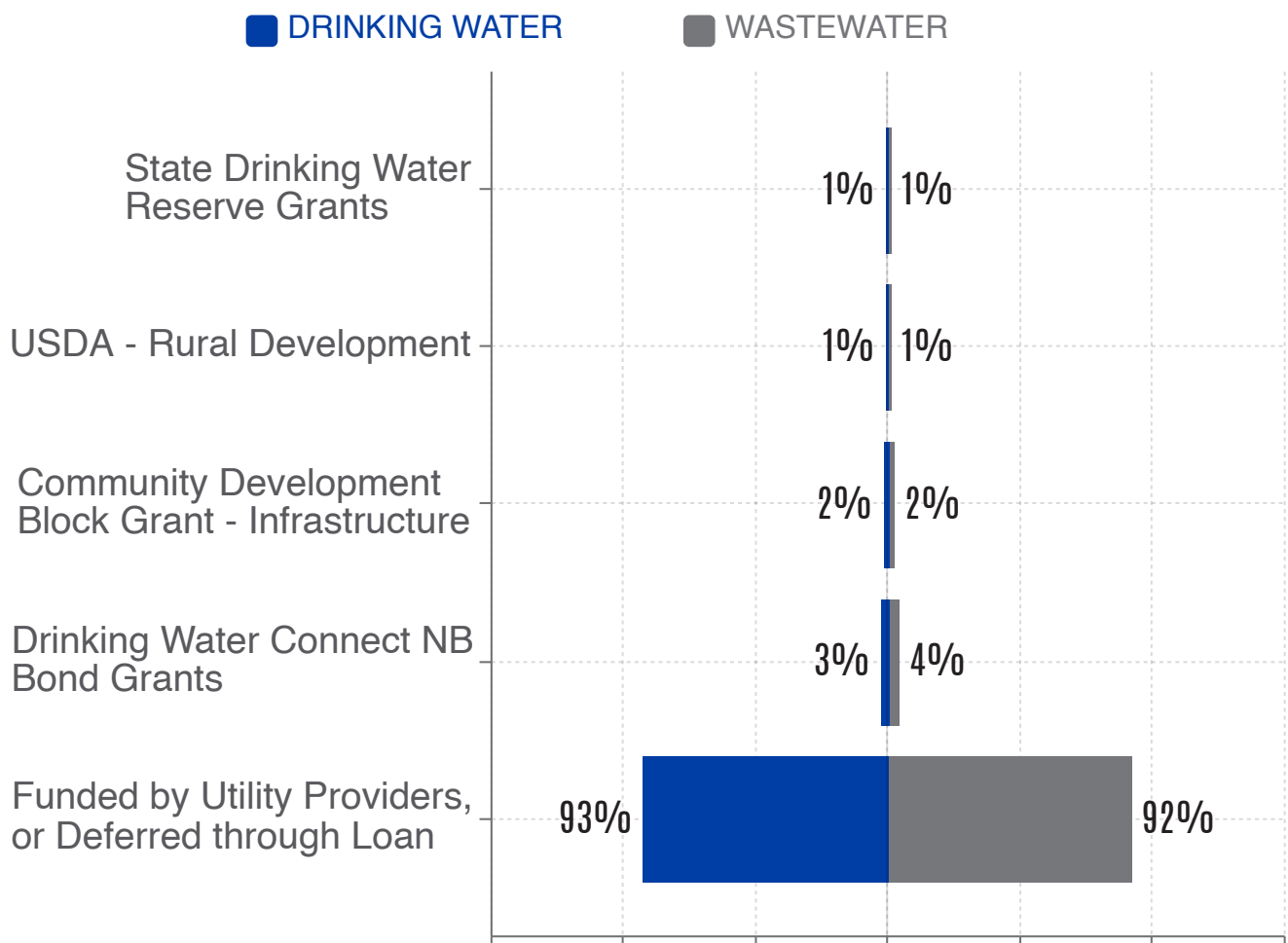


For fiscal years 2017 and 2018, utility users funded 93 percent of drinking water in North Carolina, with only 7 percent picked up by grants. For wastewater, those numbers are 92 percent and 8 percent.

The N.C. General Assembly has proposed putting \$1 billion in federal American Rescue Plan dollars of the roughly \$5 billion that came to the state in water, sewer and stormwater projects. But as of this writing, the state budget containing those funding proposals has not been approved.

Like the direct allocations to cities and towns, the amounts moving through state coffers are significant and promise to bring about noticeable results. And yet, it does not come close to matching the need of our communities.

DRINKING WATER & WASTEWATER FUNDING SOURCES IN N.C.



Source: N.C. Division of Water Infrastructure. Data from FY 2017 and FY 2018

CASE STUDY | 02

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ELKIN + JONESVILLE + RONDA, NC

COMMUNITY SIZE: 7,200* | SYSTEM USERS: 3,700*

**Total among all three municipalities*

Elkin, Jonesville and Ronda are in three separate counties in the northwestern part of the state.

Despite the county lines separating them, the three towns in 2006 agreed to consolidate their wastewater treatment operations through the formation of the Yadkin Valley Sewer Authority. The real work began in 2010, but after more than a decade, the new authority has spent roughly \$16 million to improve infrastructure and stem rising costs and rates for customers. Roughly \$15 million of that money has come from state or federal grant and loan programs, with spending spanning a long period of time due to the competitiveness of the awards and relative scarcity of funds.

The consolidation has allowed the three towns to operate a system under one joint discharge point with a single discharge site, instead of three. It has also meant addressing continued failures of the three separate systems, as well as providing for economies of scale that can lower operating costs and stabilizing user rates.



SUPPORT RECEIVED:

\$15 million total in grants and loans

PROJECTS:

Wastewater consolidation

GOALS:

Sustainable infrastructure; Lower rates for citizens

PLANNING FOR THE FUTURE

From a perspective of investment and sustainable long-term growth, the League is encouraging municipalities to spend American Rescue Plan funds on projects that meet a few criteria: it should be a one-time expense; it should impact an area of significant need; and it should pay dividends for your community for decades to come.

With those criteria in mind, the League encourages municipalities to consider investment into water and wastewater infrastructure. This recommendation is made understanding the constraints of the ARP and the realities of North Carolina's existing infrastructure challenges. Making investments in infrastructure represents one of the most likely paths to a lasting funding legacy.

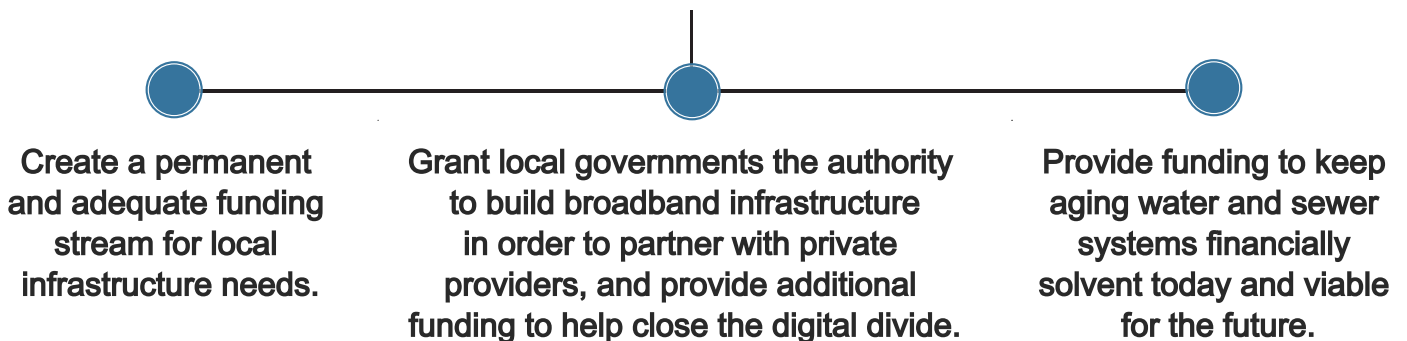
Additionally, the League encourages municipalities to seek partnerships and regional collaboration when planning ARP spending. Simply put: funding goes further when partnered.

The American Rescue Plan creates an opportunity for local governments to work collaboratively to make these much-needed transformational infrastructure investments. In fact, the federal legislation's language and guidance explicitly promote regional investments.

Many of these arrangements are already taking shape around North Carolina, as evidenced by the case studies shared within this report. Even for communities that do not operate a utility themselves, other allowable uses of ARP funds include transferring funds to the local utility operator for a project in their area and completing stormwater projects.

The American Rescue Plan and its direct funding to municipalities creates an opportunity for municipalities to work individually and collectively to make transformational infrastructure investments, with the federal legislation's language and guidance explicitly promoting these investments.

Legislative goals approved by NCLM members for 2020-21 calling for more investment in infrastructure.



CASE STUDY | 03

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HENDERSONVILLE

COMMUNITY SIZE: 65,000 | SYSTEM USERS: 31,000

Since 2019, Hendersonville has been working on what it calls its Multi-Area Streambank Restoration Project. Intended to address erosion, stormwater control and water quality along an impaired stream, Mud Creek, and its tributaries, the effort involves restoring roughly 2.5 miles of streambanks through grading and plant buffer projects at 13 separate sites across the city. Other stormwater investments and wetland restoration at a city park also are components of the plan.

The project was made possible through a \$3 million zero-interest loan from the Clean Water State Revolving Fund, which will be repaid over time through payments made from the city's utility fund. In some respects, the project will pay for itself. It is expected to help protect existing sewer pipes and other infrastructure along the creeks. It will also protect water quality downstream, while mitigating flooding.



SUPPORT RECEIVED:
\$3 million loan

PROJECTS:
Stormwater
infrastructure restoration

GOALS:
Water quality protection;
Flood mitigation;
Infrastructure resiliency

CASE STUDY | 04

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ST. JAMES

COMMUNITY SIZE: 6,300 | SYSTEM USERS: 43,000*

**Total of Brunswick County system users, which includes St. James*

The Town of St. James provides a forward-looking case study, as the municipality has already committed to using ARP funds for water infrastructure.

The town lies in southeastern Brunswick County along the Intercoastal Waterway, just north of Oak Island, and its residents rely on Brunswick County Utilities for water and sewer service. During peak usage months in the summer, residents experience water pressure issues that can create major problems, whether at home or work. The town is poised to receive \$1.99 million in American Rescue Plan funds, and is hopeful to use those dollars to address the water pressure issues.

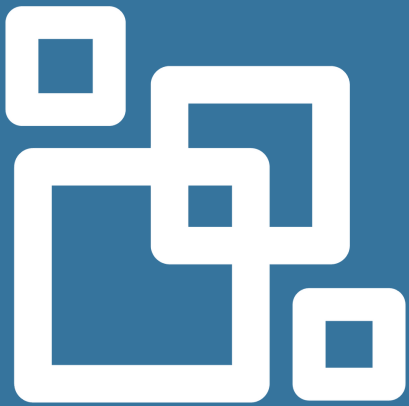
In August, the town council voted to begin negotiations for an interlocal agreement that would transfer the money over to the county utility in exchange for expediting a plan to improve the water pressure problem. Improvements may include the construction of a new elevated water storage tank in the area, a new transmission water main and pressure valves on some existing mains. Brunswick County, meanwhile, plans to spend the bulk of its \$27.6 million in American Rescue Plan funding on water and sewer projects, so both local governments appear to be moving toward the same goal of more viable utility.



SUPPORT RECEIVED:
American Rescue
Plan funds

PROJECTS:
Resolve water
pressure issues;
County partnerships

GOALS:
Improved operations
through inter-local
agreement



WORKING AS ONE. ADVANCING ALL.



The North Carolina League of Municipalities is a member-driven organization representing the interests of cities and towns in the state. Through their collective efforts, League member cities and towns better serve their residents and improve quality of life.

For more than 100 years, the League has been one voice for cities and towns working for a better North Carolina.