

State Water Infrastructure Authority
Meeting Date: September 24, 2024
Agenda Item E

Funding Awards for Drinking Water State Revolving Fund Lead Service Line Replacement

Division of Water Infrastructure Staff Report

This report presents a *preliminary* funding scenario proposed for consideration by the State Water Infrastructure Authority (Authority). Subsequent updates and corrections to the application information and funding scenario (including application scores, ranking, potential funding amount, etc.) may occur and will be presented to the Authority during the meeting. The preliminary funding scenario presented in this staff report is limited to those applicants that filed a complete and eligible Bipartisan Infrastructure Law (BIL) Drinking Water State Revolving Fund Lead Service Line Replacement (DWSRF-LSLR) funding application by August 2, 2024. Applications are selected for funding by the Authority during the meeting, and the Authority’s selections are final.

Background

Congress appropriated funds to the Drinking Water State Revolving Fund (DWSRF) in the Infrastructure Investment and Jobs Act of 2021, commonly referred to as the Bipartisan Infrastructure Law (BIL). The BIL appropriated funds for five fiscal years (FY 2022 – FY 2026) specifically for the purpose of inventorying and replacing lead service lines (LSLs). These funds are referred to as the DWSRF-LSLR funds. No state match is required for this funding. North Carolina’s FY 2023 DWSRF-LSLR allotment is \$87,290,000. A portion of the allotment will be used for set-asides.

At its April 2024 meeting, the Authority approved a Priority Rating System (PRS) for DWSRF-LSLR funds. The draft DWSRF-LSLR program Intended Use Plan (IUP) for FY 2023 funds was published for public comment on May 31, 2024, and public comments were due by July 1, 2024. After review of public comments, the IUP for FY 2023 BIL DWSRF-LSLR was finalized. Funding awards approved by the Authority in September 2024 are contingent upon funds being released by the U.S. Environmental Protection Agency.

The following table shows the minimum funds available for projects expected for the FY 2023 DWSRF-LSLR funds. These data are estimates and subject to change based on Authority meeting dates and on availability of funds. Note that more funds can be awarded in any funding round than what is presented in this table.

Funding Caps

The following maximum DWSRF-LSLR funding loan amounts, including principal forgiveness (PF), apply per applicant for each funding round:

- \$5 million for projects replacing known LSLs.
- \$2 million for projects finding and replacing LSLs in areas suspected of having LSLs. These projects must result in service lines within the project area being categorized as

“known lead” or “known not lead” using methods approved for completion of the LSL inventory as required in the Lead and Copper Rule Revisions (LCRR). The budget must limit service line material verification to \$1 million.

- \$1 million for projects to conduct an LSL inventory.

The maximum loan amount per applicant per round can exceed the funding cap if additional funding is available in the funding round as defined in Table 1. Maximum loan amounts will be increased by \$500,000 increments (up to the funding amount request by the applicant) in priority order until all funds available during the funding round are awarded.

Approximate Application Due Date	Approximate SWIA Meeting (Award Date)	Estimated Min. FY2023 LSLR Funds Available (Includes PF)	Estimated Min. 2023 Principal Forgiveness (PF) Available
March 1, 2024	April 16-17, 2024 ¹	\$ 7,221,621 (awarded)	\$2,795,394 (awarded)
June 7, 2024	July 16, 2024	\$21,214,440 (awarded)	\$14,994,151 (awarded)
August 2, 2024	September 24, 2024	\$19,124,326	\$13,325,569
November 1, 2024	December 10, 2024	\$17,034,213 ²	\$11,656,986 ²
January 3, 2025	February 2025 (TBD)	\$0 ²	\$0 ²
Totals		\$64,594,600	\$ 42,772,100

¹ April 2024 funding awards by the Authority in excess of previous (FY2022) capitalization grant funding available; pending receipt of FY 2023 capitalization grant funds from EPA.

² Funding available based on remaining availability of FY 2023 DWSRF-LSLR funds. Will be supplemented with additional funding from the FY 2024 DWSRF-LSLR funds if demand exceeds FY 2023 availability.

Summary of Applications Considered

Table 2 shows the number of new applications received, number of applications reconsidered because they were either not funded or only partially funded in the previous round, and the funding requested as of August 2, 2024, divided by project type. Total funding requested (\$12.2 million) by the applicants was lower than the estimated funds available in this round (\$19.1 million).

	Replace Known LSL	Find & Replace	Inventory	Total
Applications Received	1	2	5	8
Applications Reconsidered from Previous Round	1	0	0	1
Funding Requested (including Reconsiderations)	\$6M	\$4M	\$2.2M	\$12.2M

Principal Forgiveness (PF)

There are four applications that qualify for Principal Forgiveness. The following steps were used to determine PF awards in the proposed preliminary funding scenario:

1. As described in the DWSRF-LSLR IUP, starting with the highest scoring application, PF funds (up to an initial cap of \$1,000,000) and repayable loan funds were applied to all projects eligible for PF to either fund the projects fully or up to the applicable funding caps.
2. After receiving the initial \$1,000,000 PF cap, additional PF funding remained available in this funding round. In accordance with the IUP, additional PF can be awarded in \$500,000 increments, in priority order, up to the lesser of the percent PF eligibility of projects or the total funds requested. Additional PF was awarded to all eligible projects to the maximum allowed by this provision in the IUP.
3. After all projects were awarded PF up to the respective percent PF eligibility, additional PF funding remained available. In accordance with the IUP, additional PF can be awarded above the PF eligibility in ten-percent increments, up to 100 percent of the funding requested for applicants that qualified for PF. For this round, all projects eligible for PF would be provided with up to five additional ten-percent PF increments, up to 100 percent.
4. Adjust the proposed funding scenario recommendations to bypass projects where the minimum PF requested for the project could not be met. This did not apply in this funding round.

Proposed Funding Scenario for DWSRF-LSLR Programs

The Authority may consider different funding scenarios. In the proposed funding scenario presented, all nine LSLR applications would be funded. Of the nine applications, four qualify for principal forgiveness. Additional PF may be awarded to these applicants following the procedures listed above, and all four applications may receive up to 100 percent PF funding awards due to PF funding availability in this round.

In the proposed funding scenario, the nine projects would all be fully funded. The projects would receive a total of \$12,171,259 in DWSRF-LSLR funds, including \$2,136,259 in principal forgiveness and \$10,035,000 in zero percent interest loans. Table 3 summarizes the proposed preliminary funding scenario.

Table 3. Proposed Funding Scenario for BIL DWSRF-LSLR Funds					
Application Projects	Eligible Applications Considered	Funded Applications in Scenario	Potential Principal Forgiveness	Potential 0%-interest Loan	Potential Total LSLR Funding
Replacement Projects	2	2	\$988,844	\$5,005,000	\$5,993,844
Find and Replace Projects	2	2	\$0	\$4,000,000	\$4,000,000
Inventory-only Projects	5	5	\$1,147,415	\$1,030,000	\$2,177,415
Total	9	9	\$2,136,259	\$10,035,000	\$12,171,259

Project-Specific Notes for Applications in the Proposed Funding Scenario

- The Inventory reserve amount of \$9,562,163 (i.e., 50 percent of the total available funds for this round) was not met. However, since all the inventory projects would receive the requested funding, the balance of unused funds from the Inventory reserve was made available to other project types.
- All applications received were considered and are included in the proposed funding scenario.
- One application from the previous round (i.e., Cape Fear Public Utility Authority’s Lead Gooseneck and Galvanized Water Service Replacement - Phase 2), which had been awarded partial funding at the July 2024 SWIA meeting due to a requested funding amount exceeding the funding cap for the type of project, is included in the proposed funding scenario to receive the balance of the original funding request.
- A revised application was received for a project (i.e., Harrells Water Corporation’s Project Lead) that was bypassed for funding in the previous round due to a minimum PF amount accepted exceeding the project’s PF eligibility. Due to the revisions the applicant made to their original application, the project is now included in the proposed funding scenario.
- Due to funding availability exceeding total funding requested in this round, funding limits imposed on project types are raised in accordance with the Intended Use Plan. One application (i.e., Fayetteville PWC’s Lead Service Line Replacement Work) requested \$5,005,000 in funding for a Replacement project. Following the Intended Use Plan and due to funding availability, the funding scenario proposes fully funding this application by providing the additional \$5,000 over the \$5 million cap on Replacement projects.

If approved, the proposed preliminary funding scenario would award total funding short of the minimum estimated funds available for the September 2024 awards. Table 4 shows the estimated funds available for this round, the proposed September 2024 funding scenario, and how the recommendation will impact future funding rounds. Staff recommends funding all projects in the scenario using FY 2023 DWSRF-LSLR funds.

Table 4. Potential FY2023 DWSRF-LSLR funds available for future funding rounds			
	PF	0%-interest Loan	Total
Estimated min. funds available for September 2024 awards	\$13,325,569	\$5,798,757	\$19,124,326
Recommended September 2024 awards	\$2,136,259	\$10,035,000	\$12,171,259
Estimated min. funds available for December 2024 awards	\$22,846,296	\$1,140,984 + TBD*	\$23,987,280
Estimated min. funds available for February 2025 awards	TBD*	TBD*	TBD*

*Additional funds may be awarded in the December 2024 and/or Feb 2025 SWIA meetings from the FY 2024 BIL DWSRF-LSLR capitalization grant once all of the FY 2023 BIL DWSRF-LSLR funds have been awarded.

Table 5 on the following pages identifies the projects that would be awarded funding under this proposed preliminary funding scenario. A full list of applications is shown in the Attachment E-1 (DWSRF-LSLR spreadsheet). The SWIA Sheet Application Number in the first column in the table below references Application No. in Attachment E-1.

Other Funding Scenarios

Staff can assist the Authority with other scenarios during the meeting. Note that all awards from the BIL DWSRF-LSLR Funds are contingent on the Division’s receipt of the LSLR funds from the USEPA.

Table 5. September 2024 BIL DWSRF-LSLR Proposed Funding Scenario

	Applicant Name	County	Project Name	Project Type	Amount of Funding Requested	Potential Principal Forgiveness	Potential 0% Interest Loan	Potential Unfunded (will be reconsidered in the next round)
1	Fayetteville PWC	Cumberland	Lead Service Line Replacement Work	Replace	\$5,005,000	\$0	\$5,005,000	\$0
2	Cape Fear Public Utility Authority	New Hanover	Lead Gooseneck and Galvanized Water Service Replacement - Ph. 2	Replace	\$988,844	\$988,844	\$0	\$0
3	Town of Weaverville	Buncombe	Weaverville Lead Service Line Find and Replace Project	Find and Replace	\$2,000,000	\$0	\$2,000,000	\$0
4	Harrells Water Corporation	Sampson	Project Lead	Inventory	\$53,815	\$53,815	\$0	\$0
5	Town of Wrightsville Beach	New Hanover	Lead Service Line Replacement	Find and Replace	\$2,000,000	\$0	\$2,000,000	\$0
6	Eastern Pines Water Corporation	Pitt	Lead Service Line Inventory	Inventory	\$535,000	\$535,000	\$0	\$0
7	Fayetteville PWC	Cumberland	Lead & Copper Service Line Inventory and Verification	Inventory	\$558,600	\$558,600	\$0	\$0
8	City of Kannapolis	Cabarrus	Lead Service Line Predictive Modeling and Investigation	Inventory	\$1,000,000	\$0	\$1,000,000	\$0
9	Town of Topsail Beach	Pender	Lead and Copper Survey	Inventory	\$30,000	\$0	\$30,000	\$0
Totals for Lead Service Line Replacement Applications in Funding Scenario					\$12,171,259	\$2,136,259	\$10,035,000	\$0

NOTE: All awards from the BIL DWSRF-LSLR Fund are contingent on the Division’s receipt of the funds from the USEPA.