

**State Water Infrastructure Authority**  
**Meeting Date: February 20, 2024**  
**Agenda Item E**

**Funding Scenario and Funding Decisions for Lead Service Line Replacement Program**

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**Division of Water Infrastructure Staff Report**

This report presents a *preliminary* funding scenario for the consideration of 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 on February 20<sup>th</sup>. This staff report represents submitted information as of January 31, 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 additional funds for five fiscal years (FY 2022-FY2026) specifically for the purpose of inventorying and replacing lead service lines (LSLs). These funds are referred to as the BIL DWSRF Lead Service Line Replacement Funds (DWSRF-LSLR Funds). North Carolina's FY 2022 allotment is \$87,062,000, a portion of which will be used for set-asides. As of this staff report, the U.S. Environmental Protection Agency (USEPA) has provided a conditional grant to the State of North Carolina for the FY 2022 DWSRF-LSLR funds.

At its April 2023 meeting, the Authority approved a Priority Rating System (PRS) for DWSRF-LSLR funds. At the July 2023 meeting, Division staff summarized the DWSRF-LSLR program Intended Use Plan (IUP) and provided updates on final funding caps, project milestones, and application requirements. The Division presented funding scenarios at the last two Authority meetings of 2023. At the September 2023 and December 2023 meetings, the Authority awarded funding to 40 and 18 applications, respectively.<sup>1</sup>

Table 1 summarizes the intended funding schedule for the FY 2022 allotment of DWSRF-LSLR funds. The funding scenario presented in this report is limited to those applicants that filed a complete and eligible DWSRF-LSLR funding application by January 5, 2024.<sup>1</sup>

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<sup>1</sup> Awards are contingent upon the Division's receipt of DWSRF-LSLR funding from the USEPA.

<b>Application due date</b>	<b>SWIA Meeting Award date</b>	<b>Estimated min. 2022 LSLR Funds Available (includes Principal Forgiveness)</b>	<b>Estimated min. 2022 Principal Forgiveness Available</b>
August 18, 2023	September 19, 2023	\$34,364,423 <sup>1</sup>	\$21,719,363 <sup>1</sup>
November 1, 2023	December 12, 2023	\$13,162,750 <sup>1</sup>	\$8,247,350 <sup>1</sup>
January 5, 2023	February 20, 2024	\$10,561,399	\$6,720,890
March 1, 2024	April 16-17, 2024	\$8,949,168 <sup>2</sup>	\$5,972,777 <sup>2</sup>
<b>Totals</b>		<b>\$67,037,740</b>	<b>\$42,660,380</b>

<sup>1</sup>Actual amounts awarded.

<sup>2</sup>Allotments for April 2024 SWIA meeting may be recommended for award if funds remain available from FY 2022 DWSRF-LSLR allotment funds. It is anticipated that FY 2023 BIL DWSRF LSLR funds can be made available for 2024 if project demand exceeds available funds. The Division will apply for FY 2023 BIL DWSRF-LSLR Funds in 2024.

### **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.

### **Summary of Applications Received**

Table 2 shows the number of new applications received, number of applications reconsidered because they were not funded or were partially funded in the previous round, and funding requested as of January 5, 2024, divided by project type.

	<b>Replace Known LSL</b>	<b>Find &amp; Replace</b>	<b>Inventory</b>	<b>Total</b>
Applications Received	0	4	18	<b>22</b>
Applications Reconsidered from Previous Round	0	0	2	<b>2</b>
Funding Requested (including Reconsiderations)	\$0	\$6.1M	\$10.6M	<b>\$16.7M</b>

### **Example Funding Scenario for DWSRF-LSLR Programs**

The Authority may consider multiple funding scenarios. In the example funding scenario presented, applications are shown as receiving the best available funding for project applications in priority order until available funds are exhausted as follows:

- Apply DWSRF-LSLR PF (up to initial cap of \$500,000) and DWSRF-LSLR loan funds to eligible projects.
  - According to the IUP, to apply DWSRF-LSLR funds to support LCRR requirements for water systems to inventory LSLs by October 2024, a minimum of 50 percent of funds must be reserved for inventory projects and made available for each funding round. Funds reserved for inventory projects will be made available to all projects in priority order if there are sufficient applications to meet the 50 percent minimum funding reserve.
- Apply DWSRF-LSLR repayable loan funds to fully fund the project or to applicable funding caps.
- Apply any additional available PF to eligible projects as described in the DWSRF-LSLR IUP, up to PF eligibility, starting with the highest scoring application receiving BIL DWSRF-LSLR funds.
- If there is sufficient demand to meet the 50-percent inventory reserve, adjust the funding scenario to assure that greater than 50 percent of the awarded funds are to support inventory projects.
- Adjust the funding scenario to remove funding recommendations to projects where the minimum PF requirements for the project could not be met.

In the example funding scenario presented, 21 LSLR projects would receive a total of approximately \$13.4 million of DWSRF-LSLR funds. Table 3 summarizes the example funding scenario.

<b>Table 3. Example Funding Scenario for BIL DWSRF-LSLR Funds<sup>1</sup></b>					
<b>Application Projects</b>	<b>Eligible Applications Considered</b>	<b>Funded Applications in Scenario</b>	<b>Potential Principal Forgiveness</b>	<b>Potential Loans</b>	<b>Potential Total LSLR Funding</b>
Replacement Projects <sup>1</sup>	0	0	\$0	\$0	\$0
Find and Replace Projects	4	3 <sup>2</sup>	\$2,549,159	\$1,919,272	<b>\$4,468,431</b>
Inventory only Projects	20	18 <sup>2</sup>	\$5,388,753	\$2,919,547	<b>\$8,308,300</b>
<b>Total</b>	<b>24</b>	<b>21<sup>2</sup></b>	<b>\$7,937,912</b>	<b>\$4,838,819</b>	<b>\$12,776,731</b>

<sup>1</sup> Example scenario includes no data for Replacement projects, as no applications were received for this type of project.

<sup>2</sup> One Find-and-Replace and two Inventory applications requested a minimum amount of PF that exceeded their PF eligibility.

**Project-Specific Notes for Applications in the Example Funding Scenario**

- Two applications, the Aqua North Carolina Iredell and Catawba County Systems LSL Inventory and the Aqua North Carolina Brookwood Area LSL Inventory Phase 2, are included in this scenario as partially funded. The applications requested \$1.587 million and \$1.394 million, respectively, which exceed the \$1 million funding cap per funding round for Inventory projects. These applications will be reconsidered in the next funding round for the remaining unfunded amounts.
- One application, the Aqua North Carolina Disadvantaged Communities (DAC) LSL Inventory, that was awarded only partial funding in the previous round due to the amount requested exceeding the funding cap per project type, was reconsidered and is included in this funding scenario to receive the remaining unfunded amount.
- After identifying all applications that qualify for DWSRF-LSLR loan assistance and receiving the initial \$500,000 PF cap, additional PF funding was available. In accordance with the IUP, additional PF can be awarded in \$500,000 increments, 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.
- After all projects were awarded PF up to the percent PF eligibility, additional PF funding was 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. All eligible projects were provided an additional 10 percent PF.
- Two new applications (Town of Edenton and Town of Coats) and one that was reconsidered from the previous funding round (Town of Elizabethtown) are not awarded funding in this example scenario because of the amount of PF requested was greater than the amount of PF for which they were eligible.

The example funding scenario includes a recommendation to award funding in excess of the estimated available funds shown in Table 1 for the February 2024 awards. Staff recommends funding all eligible project applications by increasing the February 2024 funding estimates and decreasing the April 2024 funding estimates correspondingly to make use of all remaining FY 2022 funds. It remains the Division’s intent to request FY 2023 funds from EPA as soon as the Division can document demand for the allocated funds. Table 4 shows the funds available from the FY 2022 DWSRF-LSLR funds, the example February funding scenario, and how the recommendation will impact the next funding round for LSLR projects.

<b>Table 4. Potential BIL DWSRF-LSLR funds available for future funding rounds.</b>			
	<b>Principal Forgiveness</b>	<b>Repayable Loan</b>	<b>Total</b>
Estimated FY 2022 LSLR Funds available for projects	\$42,660,380	\$24,377,360	\$67,037,740
September 2023 Awards	\$21,719,363	\$12,645,060	\$34,364,423
December 2023 Awards	\$8,247,350	\$4,915,400	\$13,162,750
Example February 2024 Funding Scenario	\$7,937,912	\$4,838,819	\$12,776,731
FY 2022 BIL DWSRF LSLR funds remaining for April 2024 Awards	\$4,955,755	\$1,778,081	\$6,733,836

This example funding scenario is detailed in Table 5. The table identifies the projects that would potentially be funded under the example funding scenario. A full list of applications, including those that would not be funded under this scenario, are shown in the Attachment E-1 (LSLR spreadsheets). The SWIA Sheet Application Number in the first column in the table below references Application Number in Attachment E-1.

**Other Funding Scenarios**

Note that there are other funding scenarios which could be constructed, and staff can assist the Authority with other scenarios during the meeting. Note that all February awards from the BIL DWSRF-LSLR Funds are contingent on the Division’s receipt of the LSLR funds from the USEPA.

**Table 5. February 2024 BII DWSRF-LSLR Example Funding Scenario<sup>a</sup>**

<b>SWIA Sheet Appl. No.</b>	<b>Applicant Name</b>	<b>County</b>	<b>Project Name</b>	<b>Project Type</b>	<b>Amount of Funding Requested</b>	<b>Potential Principal Forgiveness</b>	<b>Potential Repayable Loan</b>	<b>Potential Unfunded</b>
2	Angier, Town of	Harnett	Angier LSL Find and Replace Project	Find and Replace	\$1,998,784	\$1,199,270	\$799,514	\$0
3	Jefferson, Town of	Ashe	Town of Jefferson LSL Find and Replace	Find and Replace	\$1,942,047	\$1,165,228	\$776,819	\$0
4	Aqua North Carolina, Inc.	Multiple	DAC LSL Inventory - Phase 1	Inventory	\$1,602,180 <sup>b</sup>	\$361,308	\$240,872	\$0 <sup>b</sup>
5	Ayden, Town of	Pitt	Lead Service Line Inventory	Inventory	\$504,040	\$504,040	\$0	\$0
6	Magnolia, Town of	Duplin	2024 Lead Service Line Inventory	Inventory	\$92,500	\$78,625	\$13,875	\$0
7	Aqua North Carolina, Inc.	Catawba, Iredell	Iredell and Catawba County Systems LSLI	Inventory	\$1,587,750	\$600,000	\$400,000	\$587,750
8	Lake Lure, Town of	Rutherford	Lake Lure Lead Service Line Inventory	Inventory	\$1,000,000	\$1,000,000	\$0	\$0
9	Aqua North Carolina, Inc.	Cumberland	Brookwood Area LSLI - Phase 2	Inventory	\$1,394,390	\$600,000	\$400,000	\$394,390
10	Farmville, Town of	Pitt	Lead Service Line Inventory	Inventory	\$633,850	\$380,310	\$253,540	\$0
11	Greene County	Greene	Lead Service Line Inventory	Inventory	\$740,890	\$629,757	\$111,134	\$0
12	Richmond County	Richmond	Richmond Co. Lead Service Line Inventory	Inventory	\$500,000	\$425,000	\$75,000	\$0
14	Sampson County	Sampson	Sampson County Lead Service Line Inv.	Inventory	\$80,000	\$68,000	\$12,000	\$0
15	Weldon, Town of	Halifax	Lead Line Investigation Study	Inventory	\$258,600	\$155,160	\$103,440	\$0

**Table 5. February 2024 BII DWSRF-LSLR Example Funding Scenario<sup>a</sup>**

SWIA Sheet Appl. No.	Applicant Name	County	Project Name	Project Type	Amount of Funding Requested	Potential Principal Forgiveness	Potential Repayable Loan	Potential Unfunded
16	Gates County	Gates	Lead Line Investigation Study	Inventory	\$328,000	\$114,800	\$213,200	\$0
17	Jason Water Corporation	Greene	Lead Line Investigation Study	Inventory	\$43,240	\$36,754	\$6,486	\$0
18	Saint Pauls, Town of	Robeson	Lead Service Line Inventory	Inventory	\$75,000	\$45,000	\$30,000	\$0
20	Mocksville, Town of	Davie	Mocksville Lead Service Line Inventory	Inventory	\$300,000	\$0	\$300,000	\$0
21	Laurinburg, City of	Scotland	Laurinburg Lead Service Line Inventory	Inventory	\$500,000	\$300,000	\$200,000	\$0
22	Reidsville, City of	Rockingham	Lead Service Line Inventory	Inventory	\$150,000	\$90,000	\$60,000	\$0
23	Conover, City of	Catawba	Lead Service Line Inventory	Inventory	\$500,000	\$0	\$500,000	\$0
24	Eden, City of	Rockingham	Eden Inventory	Find and Replace	\$527,600	\$184,660	\$342,940	\$0
<b>Totals for Lead Service Line Replacement Applications in Funding Scenario</b>					<b>\$14,758,871</b>	<b>\$7,937,912</b>	<b>\$4,838,819</b>	<b>\$982,140</b>

<sup>a</sup> All February awards from the BIL DWSRF-LSLR Funds are contingent on the Division's receipt of the LSLR Funds from the USEPA.

<sup>b</sup> Reconsideration previously awarded \$1,000,000.