

**State Water Infrastructure Authority**  
**Meeting Date: December 10, 2024**  
**Agenda Item F**

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

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**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 application for Bipartisan Infrastructure Law (BIL) Drinking Water State Revolving Fund Lead Service Line Replacement (DWSRF-LSLR) funding by November 1, 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 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’s 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 DWSRF-LSLR was finalized. Funding awards approved by the Authority at the December 2024 meeting are contingent upon funds being released by the U.S. Environmental Protection Agency.

Table 1 on the next page shows the estimated minimum FY 2023 DWSRF-LSLR funds available for projects. These data are estimates and subject to change based on actual Authority meeting dates and availability of funds. Note that more funds may be awarded at any Authority meeting than what is presented in the table.

| <b>Table 1. Estimated min. FY2023 DWSRF-LSLR funds available by founding round</b> |   |  |  |
|--|---|--|--|
| <b>SWIA Meeting (Award Date)</b>   | <b>Total Available or Awarded (includes PF)</b> | <b>Principal Forgiveness (PF) Available or Awarded</b> | <b>No-interest Loan Available or Awarded</b> |
| April 16-17, 2024<br>(actual awards)   | \$7,221,621                                     | \$2,795,394  | \$4,426,227                                  |
| July 16, 2024<br>(actual awards)   | \$21,214,440                                    | \$14,994,151   | \$6,220,289                                  |
| September 24, 2024<br>(actual awards)  | \$12,171,259                                    | \$2,136,259  | \$10,035,000                                 |
| December 10, 2024<br>(available)   | \$28,942,820 <sup>1</sup>                       | \$24,428,380 <sup>2</sup>                              | \$4,514,440 <sup>3</sup>                     |
| February 19, 2025  | TBD <sup>4</sup>                                | TBD <sup>4</sup>                                       | TBD <sup>4</sup>                             |
| <b>Totals</b>  | <b>\$69,550,140<sup>1</sup></b>                 | <b>\$44,354,184<sup>2</sup></b>                        | <b>\$25,195,956<sup>3</sup></b>              |

<sup>1</sup> Includes \$4,955,540 of previous awards declined by applicants.

<sup>2</sup> Includes \$1,582,084 of previous awards declined by applicants.

<sup>3</sup> Includes \$3,373,456 of previous awards declined by applicants.

<sup>4</sup> To be determined based on remaining availability of FY 2023 DWSRF-LSLR funds after December 2024 awards. It will be supplemented with additional funding from the FY 2024 DWSRF-LSLR funds if demand exceeds FY 2023 availability.

**Funding Caps**

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

- \$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 of unknown material 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 requested by the applicant) in priority order until all funds available during the funding round are awarded.

**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 November 1, 2024, divided by project type. The total funding

requested (\$14.7 million) by the applicants was lower than the estimated funds available in this round (\$28.9 million).

| <b>Table 2. Summary of Project Applications Considered</b> |                              |                             |                  |                     |
|--|------------------------------|-----------------------------|------------------|---------------------|
|  | <b>Replace<br/>Known LSL</b> | <b>Find and<br/>Replace</b> | <b>Inventory</b> | <b>Total</b>        |
| Applications Received                                      | 0                            | 3                           | 9                | <b>12</b>           |
| Applications Reconsidered<br>from previous Round           | 0                            | 0                           | 0                | <b>0</b>            |
| Funding Requested  | -                            | \$7,000,000                 | \$7,686,474      | <b>\$14,686,474</b> |

### **Principal Forgiveness**

There are nine applications that qualify for PF. 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 fully fund the projects or up to the applicable funding cap.
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 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 12 LSLR applications would be funded. Of the 12 applications, nine qualify for PF. Additional PF may be awarded to these applicants following the procedures listed above, and all nine applications may receive up to 100 percent PF funding awards due to PF funding availability in this round. In the proposed funding scenario, \$4,500,000 of no-interest loans would be awarded, using up nearly all of the available \$4,515,440 in loan funding available in this round.

In the proposed preliminary funding scenario, 11 of the 12 projects considered would be fully funded. One project (which does not qualify for PF and would be awarded a zero-percent loan) would be partially funded due to the requested funding amount of \$3,000,000 exceeding the \$2,000,000 funding cap for a Find-and-Replace project. Following the IUP, the proposed funding scenario would award the application additional funds in \$500,000 increments above the Find-and-Replace cap because additional loan funds are available in this funding round. The proposed funding amount for the project is \$2,500,000, which awards nearly all of the available loan funding in this round. The project would be reconsidered for award of the remaining \$500,000 unfunded amount at the February 2025 meeting.

Altogether, the projects in the proposed funding scenario would receive a total of \$14,186,474 in DWSRF-LSLR funds, including \$9,686,474 in principal forgiveness and \$4,500,000 in no-interest loans. Table 3 summarizes the proposed preliminary funding scenario.

| <b>Application Projects</b> | <b>Eligible Applications Considered</b> | <b>Funded Applications in Scenario</b> | <b>Potential Principal Forgiveness</b> | <b>Potential No-interest Loan</b> | <b>Potential Total Funding</b> |
|-----------------------------|---|--|--|-----------------------------------|--------------------------------|
| Replacement Projects        | 0                                       | 0                                      | \$0                                    | \$0                               | \$0                            |
| Find-and-Replace Projects   | 3                                       | 3                                      | \$4,000,000                            | \$2,500,000                       | \$6,500,000                    |
| Inventory-only Projects     | 9                                       | 9                                      | \$5,686,474                            | \$2,000,000                       | \$7,686,474                    |
| <b>Total</b>                | <b>12</b>                               | <b>12</b>                              | <b>\$9,686,474</b>                     | <b>\$4,500,000</b>                | <b>\$14,186,474</b>            |

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

- The Inventory Reserve amount of \$14,471,410 (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.
- Since every application considered in the previous round (September 2024) was fully funded, no applications from the previous round were up for reconsideration in this funding round.
- The Town of Waynesville requested \$3,000,000 in funding for a Find-and-Replace project. Due to availability of additional zero-percent interest loan funds in this round, the funding cap for the project type (i.e., \$2,000,000) can be exceeded by \$500,000, per the IUP, but not fully fund the application because of insufficient availability of additional funds in this round. The preliminary funding scenario proposes to partially

fund this project up to \$2,500,000 (of which \$1 million is the limit for the service line material verification portion of the project). The application will be reconsidered for award of the remaining \$500,000 unfunded amount at the next Authority meeting.

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

|  | <b>PF</b>    | <b>No-interest Loan</b> | <b>Total</b> |
|--|--------------|-------------------------|--------------|
| Estimated minimum funds available for December 2024 awards | \$24,428,380 | \$4,514,440             | \$28,942,820 |
| Recommended December 2024 awards                           | \$9,686,474  | \$4,500,000             | \$14,186,474 |
| Estimated minimum funds available for February 2025 awards | \$14,741,906 | \$14,440 + TBD*         | \$14,756,346 |
| Estimated minimum funds available for April 2025 awards    | TBD*         | TBD*                    | TBD*         |

\*Additional funds may be awarded in the February 2025 and/or April 2025 SWIA meetings from the FY 2024 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 F-1 (DWSRF-LSLR spreadsheet). The Application Number in the first column in the table below references the Application Number in the attached DWSRF-LSLR spreadsheet.

**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. December 2024 DWSRF-LSLR Proposed Funding Scenario**

| App. No.   | Applicant Name        | County     | Project Name   | Project Type     | Amount of Funding Requested | Potential Principal Forgiveness | Potential No-Interest Loan | Potential Unfunded (will be reconsidered in the next round) |
|--|-----------------------|------------|--|------------------|-----------------------------|---------------------------------|----------------------------|---|
| 1  | Nash County           | Nash       | Area 2 Water District LSL Inventory                  | Inventory        | \$462,500                   | \$462,500                       | \$0                        | \$0   |
| 2  | Nash County           | Nash       | Northern Nash Water and Sewer District LSL Inventory | Inventory        | \$817,500                   | \$817,500                       | \$0                        | \$0   |
| 3  | Town of Selma         | Johnston   | LSL Find and Replace Project                         | Find and Replace | \$2,000,000                 | \$2,000,000                     | \$0                        | \$0   |
| 4  | Nash County           | Nash       | Central Nash Water and Sewer District LSL Inventory  | Inventory        | \$1,000,000                 | \$1,000,000                     | \$0                        | \$0   |
| 5  | AQUA North Carolina   | (multiple) | Aqua Statewide LSL Inventory – Phase 3               | Inventory        | \$1,068,674                 | \$1,068,674                     | \$0                        | \$0   |
| 6  | Town of Grifton       | Pitt       | Lead and Copper Service Inventory                    | Inventory        | \$837,800                   | \$837,800                       | \$0                        | \$0   |
| 7  | City of Winston-Salem | Forsyth    | LSL Find and Replace Project                         | Find and Replace | \$2,000,000                 | \$2,000,000                     | \$0                        | \$0   |
| 8  | City of Reidsville    | Rockingham | LSL Inventory  | Inventory        | \$500,000                   | \$500,000                       | \$0                        | \$0   |
| 9  | City of Lumberton     | Robeson    | Lead Service Inventory (Phase 2)                     | Inventory        | \$1,000,000                 | \$1,000,000                     | \$0                        | \$0   |
| 10   | Town of Dallas        | Gaston     | LSL Inventory Phase II                               | Inventory        | \$1,000,000                 | \$0                             | \$1,000,000                | \$0   |
| 11   | City of Lenoir        | Caldwell   | LSL Inventory – Phase 3                              | Inventory        | \$1,000,000                 | \$0                             | \$1,000,000                | \$0   |
| 12   | Town of Waynesville   | Haywood    | Town of Waynesville LSLI                             | Find and Replace | \$3,000,000                 | \$0                             | \$2,500,000                | \$500,000   |
| <b>Totals for Lead Service Line Replacement Applications in Funding Scenario</b> |                       |            |  |                  | <b>\$14,686,474</b>         | <b>\$9,686,474</b>              | <b>\$4,500,000</b>         | <b>\$500,000</b>  |

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