

**State Water Infrastructure Authority**

**Meeting Date: December 10, 2024**

**Agenda Item G – Funding Awards for Clean Water State Revolving Fund and Drinking Water State Revolving Fund Emerging Contaminants Study Projects**

---

**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 December 10. This staff report represents submitted information as of 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) and Clean Water State Revolving Fund (CWSRF) 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-FY 2026) specifically for the purpose of addressing emerging contaminants in drinking water and wastewater with a focus on perfluoroalkyl and polyfluoroalkyl substances (PFAS). For drinking water, these funds are referred to as the BIL DWSRF - Emerging Contaminants (DWSRF-EC funds), and for wastewater, these funds are referred to as the CWSRF-EC funds.

Table 1 summarizes the DWSRF-EC and CWSRF-EC funds that North Carolina is receiving from the FY 2022 (including an additional DWSRF-EC re-allotment that North Carolina applied for and received), FY2023 and FY2024 capitalization grants. Note that up to four percent of the DWSRF-EC allotments are used for set-asides to cover administrative costs.

<b>Table 1. Summary of NC’s BIL DWSRF-EC and BIL CWSRF-EC Capitalization Grant Allotments for FY22 – FY24</b>		
	<b>DWSRF-EC</b>	<b>CWSRF-EC</b>
FY 2022 Capitalization Grant	\$23,360,000	\$1,688,000
FY 2023 Capitalization Grant	\$21,054,000	\$3,838,000
FY 2024 Capitalization Grant	\$21,054,000	\$3,838,000

At the February 2024 meeting, the Authority approved a draft Priority Rating System (PRS) for DWSRF-EC and CWSRF-EC Funds. As part of the PRS approval process, the Division provided a public comment period from March 1, 2024, through April 1, 2024, for the DWSRF-EC PRS and CWSRF-EC PRS. At the April 2024 meeting, staff provided a revised PRS addressing public comments for the Authority’s review and approval. The Authority approved the Final PRS at the April 2024 meeting, which was incorporated into the FY 2024 Intended Use Plans (IUPs).

The IUP for FY 2022 and FY 2023 DWSRF-EC and CWSRF-EC funds incorporated applications for emerging contaminants evaluation/assessment projects (referred to as EC study projects for short) into the semi-annual (Spring and Fall) funding award cycles along with applications for emerging contaminants construction projects. Earlier this year, a change was proposed to allow applicants to submit applications for EC Study projects on a rolling basis to be considered by the Authority for awards more frequently. This was proposed to expedite funding for utilities to more quickly evaluate their options and develop a plan to address PFAS contamination once it has been detected. The draft IUPs for the FY 2024 capitalization grants were posted for public comment between May 31, 2024 and July 1, 2024, offering this alternative funding schedule for EC Study projects. Public comments that were received on the draft IUPs were supportive of this change. A summary of the public comments on the IUPs was presented to the Authority at the July 2024 meeting. The Division incorporated this change into the FY 2024 IUPs and revised the rolling application form that is used for DWSRF-LSLR funding to incorporate EC Study project applications. This change will provide more frequent access to funds for EC study projects. The rolling applications for EC Study projects became effective in August 2024.

Applications for construction projects to address emerging contaminants are still accepted through the regular semi-annual (i.e., Spring and Fall) construction funding application process.

The IUPs include an Evaluation/Assessment Project Reserve. At least 50 percent of DWSRF-EC funds and at least 50 percent of CWSRF-EC funds from the capitalization grants will be reserved for projects to evaluate alternatives to address PFAS.

The first round of rolling applications for DWSRF-EC and CWSRF-EC study projects were received by November 1, 2024. This staff report provides a summary of those BIL DWSRF-EC and BIL CWSRF-EC applications and presents a draft funding scenario for the Authority's approval.

## **Overview**

Per the March 2022 EPA BIL implementation memo, BIL DWSRF-EC funded projects or activities must be DWSRF eligible, and the primary purpose must be to address emerging contaminants in drinking water with a particular focus on PFAS. BIL CWSRF-EC funded projects must be CWSRF eligible, and the primary purpose must be to address a broad definition of emerging contaminants (as defined in Attachment 1 - Appendix B of the BIL implementation memo). While EPA allows use of emerging contaminants funds to address any contaminant listed on EPA's Contaminant Candidate List (DWSRF) and other emerging contaminants under the EPA's broad definition (CWSRF), North Carolina is focusing the use of the DWSRF-EC and CWSRF-EC funds on addressing PFAS contamination, which is prevalent across the state. In addition to construction activities, the BIL implementation memo also states that costs for planning, design, and other pre-project costs activities are eligible for EC funding. A list of eligible EC projects and activities from the BIL implementation memo is provided below:

- Emerging contaminants costs associated with the construction of a new treatment facility or upgrade to an existing treatment facility that addresses emerging contaminants.

- Development of a new source (i.e., new/replacement well or intake for a public water system) that addresses an emerging contaminant issue.
- Consolidation with another water system that does not have emerging contaminants present or has removal capability.
- Costs for planning and design and associated pre-project costs.
- Infrastructure related to pilot testing for treatment alternatives.
- Creation of a new community water system to address unsafe drinking water provided by individual (i.e., privately-owned) wells or surface water sources.
- Projects addressing PFAS in publicly owned treatment works and publicly owned landfills.

*Per the IUPs, applications eligible for DWSRF-EC and CWSRF-EC funding must successfully claim 1.J and 2.H.3 or 2.H.4 points under the Priority Rating System. Only project costs associated with the project activities that address PFAS will be eligible for EC funding disbursements.*

#### Funds Specifically for EC Study Projects

The FY 2024 IUP retains the Evaluation/Assessment Project Reserve (section 5.4.1.3 of FY 2024 IUP). At least 50 percent of the BIL DWSRF-EC and BIL CWSRF-EC funds will be reserved for projects to evaluate alternatives to address PFAS. The reserve allows the Division to bypass a higher-priority project (i.e., construction project) to satisfy the Evaluation/Assessment Project Reserve. Reserving a portion of the EC funds for EC study projects will support utilities' efforts to plan for and evaluate alternatives to address PFAS in preparation for the compliance dates in the Final PFAS Rule.

Projects must qualify for Line Item 1.J.3 and for Line Item 2.H.3 or 2.H.4 to qualify for funds for an EC study project. If there are not enough eligible applications for EC Study projects to award at least 50 percent of the capitalization grant funding by the second semi-annual application round in which construction project applications are considered, the remainder of the Evaluation/Assessment Project Reserve will be made available to construction projects.

#### Program Schedule (EC Funding for Study Projects Now Available on a Rolling Basis)

The Division has established application due dates for each funding cycle for EC study projects in the new rolling application process. Complete and eligible applications received prior to the application due date will be considered for funding, and staff will make funding recommendations to the Authority at the next scheduled Authority meeting. EC study projects not selected for funding will be automatically reconsidered for the next funding cycle.

The Evaluation/Assessment Project Reserve in the FY2024 capitalization grant provides \$1,919,000 for CWSRF-EC Study projects. Applications for the CWSRF-EC Study projects will be considered on a rolling basis to award the full amount of the Evaluation/Assessment Project Reserve as quickly as possible without a set schedule.

The Evaluation/Assessment Project Reserve in the FY2024 capitalization grant provides \$10,105,920 for DWSRF-EC Study projects. Applications for the DWSRF-EC Study projects will be considered on a rolling basis to award the full amount of the Evaluation/Assessment Project Reserve as quickly as possible without a set schedule.

Funding Caps for EC Study Projects

FY 2024 DWSRF-EC and CWSRF-EC funding caps for EC Study projects are \$500,000 per applicant per year.

Principal Forgiveness

All funding awarded from the DWSRF-EC and CWSRF-EC will be made available as 100 percent principal forgiveness.

**Summary of Applications Received**

Table 2 shows the number of complete and eligible applications and ineligible applications for EC study projects received by the Division as of November 1, 2024, through the new rolling application process. Total funding requested is also listed in the table.

<b>Table 2. Summary of EC Study Project Applications Received by November 1, 2024</b>			
	<b>BIL DWSRF-EC Study Projects</b>	<b>BIL CWSRF-EC Study Projects</b>	<b>Total Requested Funds</b>
Eligible Applications	3	0	<b>\$1,500,000</b>
Ineligible Applications	2	0	<b>\$1,000,000</b>
Funding Requested	\$2,500,000	\$0	<b>\$2,500,000</b>

*Two of the five applications submitted to the Division do not qualify for EC Study funds and are considered ineligible. Three eligible applications requested \$1,500,000 in EC Study funding.*

**Example Funding Scenario for BIL DWSRF-EC Program**

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

For this funding round, no applications were submitted for CWSRF-EC funds.

In the example funding scenario presented, all three EC Study applications that are complete and eligible for DWSRF-EC funding would receive a total of \$1,500,000 of DWSRF-EC funds. Table 3 summarizes the example funding scenario.

<b>Table 3. Example Funding Scenario for BIL DWSRF-EC &amp; BIL CWSRF-EC Funds</b>				
<b>Applications</b>	<b>Applications Received</b>	<b>Funded Applications in Scenario</b>	<b>Total Requested Funds</b>	<b>Potential Principal Forgiveness Award</b>
DWSRF-EC Studies eligible applications	3	3	\$1,500,000	\$1,500,000
DWSRF-EC Studies ineligible applications	2	0	\$1,000,000	\$0
CWSRF EC Studies	0	0	\$0	\$0
<b>Total</b>	<b>5</b>	<b>3</b>	<b>\$2,500,000</b>	<b>\$1,500,000</b>

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

- City of Reidsville’s application was ineligible because the applicant did not qualify for 1.J.3 project purpose points and 2.H.3/2.H.4 project benefits points. The applicant did not qualify for these points because the applicant’s finished water PFAS levels are currently below the final PFAS Maximum Contaminant Levels (MCLs) and Hazard Index (HI). The applicant may apply again in the future if new PFAS data reveal levels that are above the MCLs and/or HI.
- Cumberland County’s Cedar Creek area PFAS study application was ineligible because the applicant did not qualify for 1.J.3 project purpose points and 2.H.3/2.H.4 project benefits points. The applicant did not qualify for these points because the applicant failed to provide dates associated with the PFAS sampling. The PRS Guidance document requires that the qualifying PFAS data must not be older than 3 years from the date of the application. The applicant might revise and resubmit their application, providing the dates that water samples were taken, to be reconsidered for funding in the next funding round.
- One application was from a local government designated as distressed (Cumberland County). However, this application was determined to be ineligible for receiving EC funds. (See above.)
- One application (City of Bessemer City) revealed a downward trend in PFAS levels at the entry point into the distribution system. DEQ PFAS data from 2022 and UCMR5 data in 2023 revealed the downward trend. Division staff expect the trend may be due to lower source water PFAS levels following the ban on PFOS/PFOA contaminants.
- Two applications (Piedmont Triad Regional Water Authority and Orange Water and Sewer Authority [OWASA]) are for projects that have been partially funded in previous funding rounds. The Piedmont Triad Regional Water Authority’s project was previously funded in the Fall 2023 funding round with \$500,000 in DWSRF-EC funds. The OWASA’s project was previously funded in the Spring 2024 funding round with \$500,000 in

DWSRF-EC funds. The applicants applied for additional funding for their EC Study projects. Total BIL DWSRF-EC principal forgiveness funding for each applicant would now be \$1,000,000 for each project. For FY 2023 DWSRF-EC and CWSRF-EC capitalization grants, applicants were limited to \$500,000 in funding per funding round for EC Study projects. The FY2024 capitalization grant limits applicants to \$500,000 per applicant per year for EC Study projects, starting in December 2024.

Staff recommend funding all eligible project applications for the December 2024 funding round. It remains the Division’s intent to request FY 2025 funds from EPA as soon as the Division can document demand for the allocated funds. Table 4 shows the funds available from the FY 2024 DWSRF-EC and CWSRF-EC funds, the example December 2024 Funding Scenario, and how the recommendation will likely impact future funding rounds.

<b>Table 4. Potential BIL DWSRF-EC and BIL CWSRF-EC Study Funds Available for Future Funding Rounds</b>		
	<b>BIL DWSRF-EC Principal Forgiveness</b>	<b>BIL CWSRF-EC Principal Forgiveness</b>
Estimated FY2024 EC Funds to be made available for EC Study projects	\$10,105,920	\$1,919,000
Example December 2024 Funding Scenario Awards	\$1,500,000	\$0
FY2024 EC Study Funds Remaining	\$8,605,920	\$1,919,000

The December 2024 example funding scenario is detailed in Table 5 below. 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 Attachment G-1. SWIA Sheet Application Number in the first column in Table 5 below references Application Number in Attachment G-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.

All December 2024 awards from the DWSRF-EC funds are contingent on the Division’s receipt of the FY 2024 DWSRF-EC Funds from EPA.

**Table 5 - December 2024 BIL DWSRF-EC Example Funding Scenario**

<b>SWIA Sheet Appl. No.</b>	<b>Applicant Name</b>	<b>County</b>	<b>Project Name</b>	<b>Program</b>	<b>Project Type</b>	<b>Amount of Funding Requested</b>	<b>Potential Award (100% Principal Forgiveness)*</b>
1	Bessemer City, City of	Gaston	Emerging Contaminants Study	BIL DWSRF-EC	EC Study	\$500,000	\$500,000
2	Piedmont Triad Regional Water Authority	Randolph	Emerging Contaminants Studies	BIL DWSRF-EC	EC Study	\$500,000	\$500,000
3	Orange Water and Sewer Authority	Orange	PFAS Treatment at Jones Ferry WTP	BIL DWSRF-EC	EC Study	\$500,000	\$500,000
<b>Total Award for Emerging Contaminants Study Applications in Funding Scenario</b>							<b>\$1,500,000</b>

\* All December 2024 awards from the BIL DWSRF-EC and BIL CWSRF-EC funds are contingent on the Division's receipt of the EC Funds from EPA. Applications received in this round were for BIL DWSRF-EC funds only.