

State Water Infrastructure Authority
Meeting Date: September 19, 2023
Agenda Item G – Funding Scenario and Funding Decisions for
Lead Service Line Replacement Program

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 September 19. This staff report represents submitted information as of September 7, 2023. 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 (FY2022-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 (LSLR Funds). North Carolina's FY 2022 allotment is \$87,062,000, of which a portion will be used for set-asides. As of the staff report, EPA has yet to approve the FY2022 BIL DWSRF LSLR award to the Division.

At its April meeting, the Authority approved a Priority Rating System (PRS) for BIL DWSRF LSLR Funds. At the July meeting, Division staff summarized the LSLR program Intended Use Plan and provided updates on final funding caps, project milestones, and application requirements. Table 1 summarizes the intended funding schedule for the FY 2022 allotment of BIL DWSRF LSLR funds. The funding scenario presented in this report is limited to those drinking water systems that previously provided a Lead Service Line Project Solicitation Form and provided documents necessary to complete their applications prior to August 18, 2023 and provide signed project resolutions.

All September awards from the BIL DWSRF LSLR Funds are contingent on the Division's receipt of the LSLR Funds from EPA.

Table 1. Expected Funding Rounds for the 2022 BIL LSLR funds			
Approximate Application Due date	Approximate SWIA Meeting (Award date)	Estimated min 2022 LSLR Funds Available (Includes PF)	Estimated min 2022 Principal Forgiveness Available
August 18, 2023 ¹	September 19, 2023	\$22,345,913	\$14,220,127
November 1, 2023	December 12, 2023	\$22,345,913	\$14,220,127
December, 2023	February, 2024	\$22,345,913	\$14,220,127
March, 2024	April, 2024	TBD ^{2*}	TBD ²
Totals		\$67,037,740	\$42,660,380

¹Initial funding round will only be available to systems that previously provided a Lead Service Line Project Solicitation Form. These systems had an opportunity to update project information prior to August 18 and provide project Resolutions.

²Allotments for 2024 SWIA meetings may be recommended for award if funds remain available from 2022 BIL DWSRF LSLR funds. It is anticipated that 2023 BIL DWSRF LSLR funds can be made available for 2024 if project demand exceeds funds available. The Division will apply for FY2023 BIL DWSRF LSLR Funds in 2024.

Funding Caps

The following maximum BIL DWSRF LSLR funding loan amounts (including principal forgiveness) 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 complete applications, number of applications missing a project resolution as of September 7, and funding requested as of August 18, 2023. Applicants may still submit their project resolutions at the time of this report.

Table 2. Summary of Project Applications received (as of Sept. 7, 2023)				
	Replace Known LSL	Find & Replace	Inventory	Total
Eligible Applications	2	6	36	44
Application missing Resolution	0	2	5	7
Funding Requested	\$8.2M	\$11.6M	\$18.4M	\$38.1M

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

In the example funding scenario presented, 40 LSLR projects would receive a total of approximately \$34.4 million of BIL DWSRF LSLR funds. Table 3 summarizes the example funding scenario.

Table 3. Example Funding Scenario for BIL DWSRF LSLR Funds¹					
Construction Projects	Eligible Applications Considered	Funded Applications in Scenario	Potential SRF Principal Forgiveness	Potential SRF loans	Potential total LSLR funding
Replacement Projects	2	2	\$5,711,405	\$2,447,745	\$8,159,150
Find and Replace Projects	6	6	\$6,083,130	\$3,481,303	\$9,564,433
Inventory only Projects	36	32	\$9,924,829	\$6,716,012	\$16,640,840
Total	44	40	\$21,719,363	\$12,645,060	\$34,364,423

¹ Example scenario includes projects that had yet to submit a project resolution as of Sept. 7, 2023.

Project-Specific Notes for Applications in the Example Funding Scenario

- Eight out of 44 project applications (18 percent) were from LGUs designated as distressed (\$3.7 million requested), and all are shown in the funding range in this scenario.
- Seven projects that had yet to submit a signed Project Resolution as of the drafting of this staff report are included in the Example Funding Scenario. Updated recommendations will be made to the Authority during the agenda item presentation.
- The City of Newton, Lead and Copper Service Replacement project application had insufficient documentation for a replacement project; however, it did have documentation to qualify for a find and replace project. The project is included in the funding scenario as a find and replace project funded to the funding cap of \$2M.
- The Aqua North Carolina Statewide Lead Service Line Inventory application is included as partially funded. The project application requested \$1.6M which is above the \$1M funding cap per funding round for Inventory projects. The remainder will be reconsidered in the next round for funding.
- Town of Jonesville and Town of Troy both submitted applications for both Find and Replace projects and Inventory Projects. Project scopes must not include duplicate inventory work in the same service areas.
- After identifying all applications that qualify for BIL DWSRF LSLR loan assistance and receiving the initial \$500,000 principal forgiveness cap, additional principal forgiveness funding was available. In accordance with the Intended Use Plan (IUP), additional principal forgiveness can be awarded in \$500,000 increments, up to the lesser of the percent principal forgiveness eligibility of projects or the total funds requested. Additional principal forgiveness was awarded to all eligible projects to the maximum allowed by this provision in the IUP.
- After all projects were awarded principal forgiveness up to the percent principal forgiveness eligibility, additional principal forgiveness funding was available. In accordance with the Intended Use Plan, additional principal forgiveness can be awarded above the percent principal forgiveness eligibility in 10 percent increments, up to 100 percent of the funding requested. All eligible projects were provided an additional 10 percent principal forgiveness. Cape Fear Public Utility Authority's Replacement project was the last project in priority order to receive the second 10 percent increase in principal forgiveness.
- Four projects were not awarded funding because of insufficient principal forgiveness funds available to meet the minimum funding amount indicated in the application.

The example funding scenario includes a recommendation to fund projects in excess of the estimated available funds shown in Table 1. Staff recommends funding all eligible project applications for the September funding round, keeping the December 2023 funding estimates the same as previously advertised, and reducing the February 2024 estimates to include all remaining 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 BIL DWSRF LSLR funds, the example September Funding Scenario, and how the recommendation will likely impact future funding rounds for LSLR projects.

Table 4. Potential BIL DWSRF LSLR funds available for future funding rounds.			
	Principal Forgiveness	Repayable Loan	Total
Estimated FY 2022 LSLR Funds to be made available for projects	\$42,660,380	\$24,377,360	\$67,037,740
Example September 2023 Funding Scenario Awards	\$21,719,363	\$12,645,060	\$34,364,423
FY 2022 BIL DWSRF LSLR funds remaining	\$20,941,017	\$11,732,300	\$32,673,317
Est Dec 2023 Awards	\$14,220,127	\$8,125,787	\$22,345,913
Est Feb 2024 Awards	\$6,720,890	\$3,606,514	\$10,327,404

This example funding scenario is detailed in Table 5 below. The table identifies the projects that would potentially be funded under the example funding scenario. The table identifies those projects that had not submitted a project resolution at the time this staff report was drafted on September 7, 2023. A full list of applications, including those that would not be funded under this scenario, are shown in the Attachment G-1 (LSLR spreadsheets). SWIA Sheet Application Number in the first column in the table 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 September awards from the BIL DWSRF LSLR Funds are contingent on the Division’s receipt of the LSLR Funds from EPA.

Table 5. Sept. 2023 BII DWSRF LSLR Example Funding Scenario

SWIA Sheet Appl. No.	Applicant Name	County	Project Name	Project Type	Amount of Funding Requested	Potential Principal Forgiveness	Potential Repayable Loan	Missing Resolution as of 9/7/23
1	Maysville, Town of	Jones	Maysville Lead Service Line Inventory	Inventory Only	\$73,300	\$73,300	\$0	
2	Walstonburg, Town of	Greene	Walstonburg Lead Service Line Inventory	Inventory Only	\$40,700	\$40,700	\$0	
3	Jonesville, Town of	Yadkin	Lead and Copper Service Replacement	Find & Replace	\$1,854,000	\$1,761,300	\$92,700	
4	Princeton, Town of	Johnston	Princeton Lead Service Line Inventory	Inventory Only	\$76,050	\$72,248	\$3,803	
5	Granite Falls, Town of	Caldwell	Lead and Copper Service Replacement	Replace	\$3,998,000	\$2,798,600	\$1,199,400	
6	Ansonville, Town of	Anson	Ansonville Lead Service Line Inventory	Inventory Only	\$68,650	\$48,055	\$20,595	
7	Newton, City of	Sampson	Lead and Copper Service Replacement	Find & Replace	\$3,998,000	\$1,400,000	\$600,000	
8	Burke County	Burke	Lead Service Line Inventory Project	Inventory Only	\$200,000	\$190,000	\$10,000	
9	Jonesville, Town of	Yadkin	Lead & Copper Assessment	Inventory Only	\$400,000	\$380,000	\$20,000	
10	Aqua North Carolina, Inc	Fayetteville Region	AQUA Statewide Lead Service Line Inventory	Inventory Only	\$1,603,300	\$700,000	\$300,000	
11	Asheville, City of	Buncombe	Lead Service Line Find & Replace Project	Find & Replace	\$1,995,500	\$1,396,850	\$598,650	
12	Cape Fear Public Utility Authority	New Hanover	Lead Gooseneck and Galvanized Water Service Lateral Replacement	Replace	\$4,161,150	\$2,912,805	\$1,248,345	
13	Dunn, City of	Harnett	City of Dunn's Lead and Copper Service Assessment	Inventory Only	\$500,000	\$300,000	\$200,000	
14	Pine Level, Town of	Johnston	Pine Level Lead Service Line Inventory	Inventory Only	\$113,150	\$67,890	\$45,260	

Table 5. Sept. 2023 BII DWSRF LSLR Example Funding Scenario

SWIA Sheet Appl. No.	Applicant Name	County	Project Name	Project Type	Amount of Funding Requested	Potential Principal Forgiveness	Potential Repayable Loan	Missing Resolution as of 9/7/23
15	Ranlo, Town of	Gaston	Lead and Copper Service Assessment	Inventory Only	\$400,000	\$240,000	\$160,000	
16	Smithfield, Town of	Johnston	Smithfield Lead Line Service Inventory	Inventory Only	\$498,880	\$299,328	\$199,552	
17	Troy, Town of	Montgomery	Troy Lead Service Line Find and Replace	Find & Replace	\$1,968,213	\$1,180,928	\$787,285	
18	Boonville, Town of	Yadkin	Boonville Lead Service Line Inventory	Inventory Only	\$80,850	\$0	\$80,850	
19	Pittsboro, Town of	Chatham	Lead Service Line Inventory	Inventory Only	\$499,380	\$499,380	\$0	
20	West Jefferson, Town of	Ashe	West Jefferson Lead Service Line Inventory and Replacement	Find & Replace	\$1,173,300	\$0	\$1,173,300	X
21	Baton Water Corporation	Caldwell	Baton Water Corporation Lead Service Line Inventory	Inventory Only	\$449,060	\$269,436	\$179,624	X
23	Fayetteville Public Works Commission	Cumberland	Lead & Copper Service Line Inventory and Verification	Inventory Only	\$1,000,000	\$600,000	\$400,000	X
24	Elizabeth City, City of	Pasquotank	Lead Detection and Replacement Plan, Phase II	Inventory Only	\$1,000,000	\$600,000	\$400,000	
25	Newton, City of	Sampson	Lead and Copper Service Assessment	Inventory Only	\$400,000	\$240,000	\$160,000	
27	Benson, Town of	Johnston	The Town of Benson's Lead and Copper Service Assessment	Inventory Only	\$250,000	\$150,000	\$100,000	
28	Walnut Cove, Town of	Stokes	Walnut Cove Lead Service Line Inventory	Inventory Only	\$359,540	\$215,724	\$143,816	
29	Marion, City of	McDowell	Marion Lead Service Line Inventory	Inventory Only	\$495,800	\$297,480	\$198,320	
30	Onslow Water and Sewer Authority	Onslow	ONWASA Lead Service Line Inventory Solicitation 1	Inventory Only	\$1,000,000	\$600,000	\$400,000	X

Table 5. Sept. 2023 BIL DWSRF LSLR Example Funding Scenario								
SWIA Sheet Appl. No.	Applicant Name	County	Project Name	Project Type	Amount of Funding Requested	Potential Principal Forgiveness	Potential Repayable Loan	Missing Resolution as of 9/7/23
31	Anson County	Anson	Lead Service Line Inventory and Replacement	Inventory Only	\$1,000,000	\$600,000	\$400,000	
32	Kinston, City of	Lenoir	Inventory of Lead Service Lines (LSL) Project	Inventory Only	\$1,000,000	\$600,000	\$400,000	
33	Hendersonville, City of	Henderson	Lead Service Line Investigation and Replacement	Find & Replace	\$573,420	\$344,052	\$229,368	X
34	Henderson, City of	Vance	Lead Service Line Inventory and Replacement	Inventory Only	\$1,000,000	\$600,000	\$400,000	
35	Sanford, City of	Lee	Sanford Lead Service Line Inventory Part 1	Inventory Only	\$1,000,000	\$600,000	\$400,000	
36	Clinton, City of	Sampson	Clinton Lead Service Line Inventory	Inventory Only	\$446,720	\$268,032	\$178,688	
37	Troy, Town of	Montgomery	Troy Lead Service Line Inventory	Inventory Only	\$389,020	\$233,412	\$155,608	
39	Granite Falls, Town of	Caldwell	Lead and Copper Service Assessment	Inventory Only	\$400,000	\$240,000	\$160,000	
40	Lenoir, City of	Caldwell	City of Lenoir LSLR Inventory Project	Inventory Only	\$500,000	\$0	\$500,000	
42	Belmont, City of	Gaston	Belmont Lead Service Line Inventory	Inventory Only	\$499,740	\$299,844	\$199,896	
43	Durham, City of	Durham	Lead Service Line Inventory Field Verification Project for Disadvantaged Areas	Inventory Only	\$1,000,000	\$600,000	\$400,000	X
44	Fuquay-Varina, Town of	Wake	Fuquay-Varina LSLR Inventory Project	Inventory Only	\$500,000	\$0	\$500,000	
Totals for Lead Service Line Replacement Applications in Funding Scenario						\$21,719,363	\$12,645,060	

All September awards from the BIL DWSRF LSLR Funds are contingent on the Division's receipt of the LSLR Funds from EPA.