

State Water Infrastructure Authority
Meeting Date: July 16, 2024
Agenda Item G
Funding Awards for Drinking Water State Revolving Fund Lead Service Line Replacement
Corrections made on 7/2/2024

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 June 7, 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 Intended Use Plan (IUP) for FY 2023 funds was published for public comment in May/June 2024, and public comments are due by July 1, 2024. After review of public comments, the IUP for FY 2023 BIL DWSRF-LSLR will be finalized, which is anticipated to be in July 2024. Funding awards by the Authority in July 2024 are contingent on finalizing the IUP, approval by the US Environmental Protection Agency (EPA), and on release of federal funds by EPA.

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.

Table 1. Expected Funding Rounds for the FY2023 BIL DWSRF-LSLR funds			
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 (actual)	\$2,795,394 (actual)
June 7, 2024	July 16, 2024	\$19,124,326	\$13,325,569
August 2, 2024	September 17, 2024	\$19,124,326	\$13,325,569
November 1, 2024	December 10, 2024	\$19,124,326	\$13,325,569
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 may be available based on remaining availability of FY 2023 DWSRF-LSLR funds and on awards for funding from the FY 2024 DWSRF-LSLR.

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.

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 June 7, 2024, divided by project type.

Table 2. Summary of Project Applications Considered				
	Replace Known LSL	Find & Replace	Inventory	Total
Applications Received	2	4	13	19
Applications Reconsidered from Previous Round	0	0	1	1
Funding Requested (including Reconsiderations)	\$9.2M	\$7.2M	\$6.8M	\$23.3M

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 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.
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 this round, all projects eligible for PF were provided up to four additional ten-percent PF increments.
4. Adjust the proposed funding scenario recommendations to bypass projects where the minimum PF requested for the project could not be met.

Proposed Funding Scenario for DWSRF-LSLR Programs

The Authority may consider different funding scenarios. In the proposed funding scenario presented, 18 LSLR projects would receive a total of \$21,214,440 in DWSRF-LSLR funds, including \$14,994,151 in PF and \$6,220,289 in 0%-interest loans. Table 3 summarizes the proposed preliminary funding scenario.

Application Projects	Eligible Applications Considered	Funded Applications in Scenario	Potential Principal Forgiveness	Potential Repayable Loan	Potential Total LSLR Funding
Replacement Projects	2	2	\$4,500,000	\$3,745,000	\$8,245,000
Find and Replace Projects	4	4	\$6,500,430	\$722,270	\$7,222,700
Inventory-only Projects	14	12	\$3,993,721	\$1,753,019	\$5,746,740
Total	20	18	\$14,994,151	\$6,220,289	\$21,214,440

Project-Specific Notes for Applications in the Proposed Funding Scenario

- The Inventory Reserve amount of \$9,562,163 (i.e., fifty percent of the total available funds for this round) was not met. However, since all the inventory projects receive the requested funding, the balance of unused funds from the Inventory Reserve (\$3,815,423) was made available to other project types.
- One new application, Harrells Water Corporation’s Project Lead, and one that was reconsidered from the previous funding round, the City of Graham’s LSL Field Service Investigation, had minimum PF requirements as a condition for acceptance of the loan but were ineligible to receive PF in any amount and were bypassed for funding.

The proposed preliminary funding scenario includes a recommendation to award funding in excess of the estimated minimum funds available for the July 2024 awards. Staff recommends funding all eligible project applications using FY 2023 DWSRF-LSLR funds. Table 4 shows the estimated funds available for this round, the proposed July 2024 funding scenario, and how the recommendation will impact future funding rounds.

	PF	0% Loan	Total
Estimated funds available for July 2024 awards	\$13,325,569	\$5,798,757	\$19,124,326
Recommended July 2024 awards	\$14,994,151	\$6,220,289	\$21,214,440
Estimated min. funds available for Sep 2024 awards	\$13,325,569	\$5,798,757	\$19,124,326
Estimated min. funds available for Dec 2024 awards	\$11,656,987 + TBD*	\$5,377,225 + TBD*	\$17,034,212 + TBD*
Estimated min. funds available for Feb 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, including those that would not be funded under this scenario, are shown in the Attachment G-1 (DWSRF-LSLR spreadsheet). The SWIA Sheet Application Number in the first column in the table below references Application No. 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. 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. July 2024 DWSRF-LSLR Proposed Funding Scenario

	Applicant Name	County	Project Name	Project Type	Amount of Funding Requested	Potential Principal Forgiveness	Potential 0% Interest Repayable Loan	Potential Unfunded (will be reconsidered in the next round)
1	Whitakers, Town of	Nash, Edgecombe	Lead Service Line Inventory	Inventory	\$60,150	\$60,150	\$0	\$0
2	Haw River, Town of	Alamance	Town of Haw River LSL Investigation	Inventory	\$210,000	\$210,000	\$0	\$0
3	Cape Fear Public Utility Authority	New Hanover	Lead Gooseneck and Galvanized Water Service Replacement - Ph. 2	Replace	\$5,988,844	\$4,500,000	\$500,000	\$988,844
4	Orange Water and Sewer Authority	Orange	LCRR Compliance - LSL Replacement	Replace	\$3,245,000	\$0	\$3,245,000	\$0
5	Pinebluff, Town of	Moore	Pinebluff LSL Find and Replace Project	Find and Replace	\$1,222,700	\$1,100,430	\$122,270	\$0
6	Liberty, Town of	Randolph	Liberty LSL Find and Replace Project	Find and Replace	\$2,000,000	\$1,800,000	\$200,000	\$0
7	Newton Grove, Town of	Sampson	Newton Grove Lead Service Line Inventory	Inventory	\$66,700	\$66,700	\$0	\$0
8	Bessemer City, City of	Gaston	Lead and Copper Inventory	Inventory	\$780,000	\$702,000	\$78,000	\$0
10	Fayetteville PWC	Cumberland	Lead & Copper Service Line Inventory and Verification	Inventory	\$1,000,000	\$900,000	\$100,000	\$0
11	Orange Alamance Water Systems	Orange, Alamance	Orange Alamance Water System LSL Inventory	Inventory	\$231,700	\$0	\$231,700	\$0

Table 5. July 2024 DWSRF-LSLR Proposed Funding Scenario

	Applicant Name	County	Project Name	Project Type	Amount of Funding Requested	Potential Principal Forgiveness	Potential 0% Interest Repayable Loan	Potential Unfunded (will be reconsidered in the next round)
12	Rocky Mount, City of	Nash, Edgecombe	Rocky Mount LSL Find and Replace Project	Find and Replace	\$2,000,000	\$1,800,000	\$200,000	\$0
13	Washington, City of	Beaufort	Lead Service Line Inventory	Inventory	\$460,000	\$414,000	\$46,000	\$0
14	Duplin County	Duplin	2024 Lead Service Line Inventory Project	Inventory	\$823,190	\$740,871	\$82,319	\$0
15	Gastonia, City of	Gaston	Gastonia LSL Find and Replace Project	Find and Replace	\$2,000,000	\$1,800,000	\$200,000	\$0
16	Black Mountain, Town of	Buncombe	Lead Service Line Replacement	Inventory	\$500,000	\$0	\$500,000	\$0
17	Lumberton, City of	Robeson	Lead Service Inventory Project (Phase 1)	Inventory	\$1,000,000	\$900,000	\$100,000	\$0
19	Morganton, City of	Burke	Lead Service Line Inventory and Investigation	Inventory	\$450,000	\$0	\$450,000	\$0
20	Winterville, Town of	Pitt	Lead Service Line Inventory	Inventory	\$165,000	\$0	\$165,000	\$0
Totals for Lead Service Line Replacement Applications in Funding Scenario						\$14,994,151	\$6,220,289	\$988,844

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