

State Water Infrastructure Authority
Meeting Date: April 16-17, 2024
Agenda Item N

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

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 on April 17, 2024. This staff report represents applications submitted as of March 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 Bipartisan Infrastructure Law (BIL). The BIL appropriated additional 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 BIL DWSRF Lead Service Line Replacement Funds (DWSRF-LSLR Funds). North Carolina's allotments for FY 2022 and FY 2023 are \$87,062,000 and \$87,290,000, respectively. A portion of each allotment 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 each of the last three Authority meetings. At the September 2023, December 2023 and February 2024 meetings, the Authority awarded funding to 40, 18 and 21 applications, respectively. To date, the USEPA has conditionally approved the release of DWSRF-LSLR funds for the September 2023 and December 2023 awards.

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 March 1, 2024.

Application due date	SWIA Meeting Award date	Available LSLR funds (includes PF)	LSLR funds available for Principal Forgiveness
August 18, 2023	September 19, 2023	\$34,364,423 ¹	\$21,719,363 ¹
November 1, 2023	December 12, 2023	\$13,162,750 ¹	\$8,247,350 ¹
January 5, 2023	February 20, 2024	\$12,776,731 ¹	\$7,937,912 ¹
March 1, 2024	April 16-17, 2024	\$6,733,836 ²	\$4,755,755 ²
Total		\$67,037,740	\$42,660,380

¹ Actual amount awarded.

² Use of funds from FY 2023 DWSRF-LSLR allotment will be recommended for the April 2024 awards if demand exceeds available FY 2022 funds.

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.

	Replace Known LSL	Find & Replace	Inventory	Total
Applications Received	0	4	14	18
Applications Reconsidered from Previous Round	0	0	3	3
Funding Requested (including Reconsiderations)	\$0	\$6.5M	\$8.6M	\$15.1M

Principal Forgiveness (PF)

For the April 2024 funding round, the Division contacted applicants to verify their minimum PF request if their application would have been otherwise bypassed. Typically, applications requesting a minimum PF amount greater than either the available PF funds or the project's PF eligibility are automatically bypassed in the funding scenario.

The following steps were used to determine PF awards in the proposed funding scenario:

1. PF funds (up to an initial cap of \$500,000) and repayable loan funds were applied to eligible projects to either fund the projects fully or up to the applicable funding caps.
2. After 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.
3. After all projects were awarded PF up to the respective 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 ten-percent PF.
4. Apply any additional available PF, up to PF eligibility, to eligible projects as described in the DWSRF-LSLR IUP, starting with the highest scoring application receiving funds.
5. Adjust the proposed funding scenario recommendations to bypass projects where the minimum PF request for the project could not be met even after verifying the minimum PF request with the applicant.

Proposed Funding Scenario for DWSRF-LSLR Programs

The Authority may consider different funding scenarios. In the proposed funding scenario presented, 17 LSLR projects would receive a total of approximately \$14 million of DWSRF-LSLR funds. Table 3 summarizes the proposed funding scenario.

Table 3. Proposed Funding Scenario for BIL DWSRF-LSLR Funds^a					
Application Projects	Eligible Applications Considered	Funded Applications in Scenario	Potential Principal Forgiveness	Potential Repayable Loan	Potential Total LSLR Funding
Replacement Projects ^b	0	0	\$0	\$0	\$0
Find and Replace Projects	4	4	\$2,959,779	\$3,973,186	\$6,932,965
Inventory-only Projects	15	13 ^c	\$4,591,369	\$2,431,122	\$7,022,491
Total	19^a	17^c	\$7,551,148	\$6,404,308	\$13,955,456

^a Not included are two applications that were received incomplete and not eligible for consideration.

^b Proposed scenario includes no data for Replacement projects, as no applications were received for this type of project.

^c Two (2) Inventory-only applications required a minimum amount of PF that exceeded their PF eligibility and would not consider an award with a lower PF amount.

Project-Specific Notes for Applications in the Proposed Funding Scenario

- Two applications from the previous funding round (February 2024), (1) the Aqua North Carolina Iredell and Catawba County Systems LSL Inventory and (2) the Aqua North Carolina Brookwood Area LSL Inventory Phase 2, were reconsidered for this funding round and are included in this scenario. The two applications were awarded only partial funding in February due to amounts requested exceeding the \$1-million funding cap per project type (i.e., \$1.587 million and \$1.394 million, respectively). Both reconsidered applications are included in this funding scenario to receive the remaining unfunded amounts.
- Two new applications, Town of Edenton Lead Service Line Replacement, Town of Swepsonville LSL Field Service Investigation, that had required a minimum PF amount greater than their PF eligibility subsequently indicated that they would accept an award that included a PF amount equal to the respective PF eligibilities.
- One new application, City of Graham LSL Field Service Investigation, and one that was reconsidered from the previous funding round, Town of Coats Lead Inventory, are not awarded funding in this recommended funding scenario because of the minimum amount of PF required was greater than the amount of PF for which they were eligible. The applicants verified that they are not interested in funding if their minimum PF request is not met.

The proposed funding scenario includes a recommendation to award funding in excess of the estimated available funds shown in Table 1 for the April 2024 awards. Staff recommends funding all eligible project applications by using all the available funding remaining from the FY 2022 DWSRF-LSLR allotment plus funds from the FY 2023 allotment. It remains the Division’s intent to apply for and 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 proposed April 2024 funding scenario, and how the recommendation will impact the next funding round for LSLR projects.

Table 4. Potential BIL DWSRF-LSLR funds available for future funding rounds.			
	PF	Repayable Loan	Total
Available from FY 2022	\$4,755,755	\$1,978,081	\$6,733,836
Proposed April 2024 Awards	\$7,551,148	\$6,404,308	\$13,955,456
Proposed from FY 2023	\$2,795,393	\$4,426,227	\$7,221,620
Available after April 2024 Awards (estimate)	\$37,990,216	\$19,382,764	\$57,372,980
Est. July 2024 Awards (estimate)	\$9,497,554	\$4,845,691	\$14,343,245
Est. Sep 2024 Awards (estimate)	\$9,497,554	\$4,845,691	\$14,343,245
Est. Dec 2024 Awards (estimate)	\$9,497,554	\$4,845,691	\$14,343,245
Est. Feb 2025 Awards (estimate)	\$9,497,554	\$4,845,691	\$14,343,245
Est. Apr 2025 Awards (estimate)	TBD*	TBD*	TBD*

*Allotments for 2025 SWIA meetings may be recommended for award if funds remain available from FY 2023 BIL DWSRF LSLR funds. It is anticipated that FY 2024 BIL DWSRF LSLR funds can be made available for 2025 awards if project demand exceeds funds available.

Table 5 identifies the projects that would be awarded funding under this proposed funding scenario. A full list of applications, including those that would not be funded under this scenario, are shown in the Attachment N-1 (LSLR spreadsheets). The SWIA Sheet Application Number in the first column in the table below references Application No. in Attachment N-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. April 2024 BII DWSRF-LSLR Proposed Funding Scenario¹

SWIA Sheet Appl. No.	Applicant Name	County	Project Name	Project Type	Amount of Funding Requested	Potential Principal Forgiveness	Potential Repayable Loan	Potential Unfunded
1	Town of Middlesex	Nash	Middlesex Lead Service Line Inventory	Inventory	\$330,000	\$280,500	\$49,500	\$0
2	Town of Edenton	Chowan	LSL Replacement	Find and Replace	\$934,000	\$560,400	\$373,600	\$0
3	Town of Stantonsburg	Wilson	LSL Inventory and Replacement Project, Phase 1	Inventory	\$495,000	\$420,750	\$74,250	\$0
4	Town of White Lake	Bladen	Town of White Lake Lead Service Line Find and Replace	Find and Replace	\$2,000,000	\$1,200,000	\$800,000	\$0
5	Aqua North Carolina, Inc.	Catawba and Iredell	Iredell and Catawba County Systems LSL Inventory	Inventory	\$1,587,750 ²	\$352,650	\$235,100	\$0
6	North Lenoir Water Corp.	Lenoir	NLWC Lead Service Line Inventory	Inventory	\$627,811	\$627,811	\$0	\$0
7	City of Asheville	Buncombe	LSL Find & Replace-Shiloh Community Area	Find and Replace	\$1,998,965	\$1,199,379	\$799,586	\$0
8	Northampton County	Northampton	Northampton County Lead Service Line Inventory Project	Inventory	\$1,000,000	\$850,000	\$150,000	\$0
9	Bertie County	Bertie	Lead Line Investigation Study	Inventory	\$290,000	\$246,500	\$43,500	\$0
10	Aqua North Carolina, Inc.	Cumberland	Brookwood Area Lead Service Line Inventory - Phase 2	Inventory	\$1,394,390 ²	\$236,634	\$157,756	\$0
12	Town of Elizabethtown	Bladen	Elizabethtown Service Line Inventory	Inventory	\$278,920	\$167,352	\$111,568	\$0
13	Town of Ocean Isle Beach	Brunswick	Town of Ocean Isle Beach LSL Find and Replace	Find and Replace	\$2,000,000	\$0	\$2,000,000	\$0

Table 5. April 2024 BII DWSRF-LSLR Proposed Funding Scenario¹

SWIA Sheet Appl. No.	Applicant Name	County	Project Name	Project Type	Amount of Funding Requested	Potential Principal Forgiveness	Potential Repayable Loan	Potential Unfunded
14	City of Wilson	Wilson	Lead Service Line Inventory Phase 1	Inventory	\$1,000,000	\$600,000	\$400,000	\$0
15	Harnett County	Harnett	Harnett County LCRR Compliance Program Assistance	Inventory	\$1,000,000	\$600,000	\$400,000	\$0
16	Town of Swepsonville	Alamance	Town of Swepsonville LSL Field Service Investigation	Inventory	\$250,000	\$0	\$250,000	\$0
17	Town of Gibsonville	Guilford	Town of Gibsonville LSL Field Service Investigation	Inventory	\$420,000	\$0	\$420,000	\$0
18	Iredell Water Corporation	Iredell	Iredell Water Corporation Lead Service Line Inventory	Inventory	\$348,620	\$209,172	\$139,448	\$0
Totals for Lead Service Line Replacement Applications in Funding Scenario					\$15,005,456³	\$7,551,148	\$6,404,308	\$0

¹ All April 2024 awards from the BII DWSRF-LSLR Funds are contingent on the Division's receipt of the LSLR Funds from the USEPA.

² Reconsideration previously awarded \$1,000,000.

³ Includes two previous partial awards of \$1,000,000 each.