

**North Carolina
Bipartisan Infrastructure Law
Drinking Water State Revolving Fund
(DWSRF)
Lead Service Line Replacement (LSLR)
Program
Intended Use Plan
(Federal Fiscal Year 2023 Appropriations)**

**Draft for Public Review
5/28/2024**

The Priority Rating System in this IUP was approved after a public comment period in March 2024.
The Division is seeking public comments on the proposed IUP and Project Priority List.

Main changes from the FY2022 IUP are identified in red font text for clarity.

Division of Water Infrastructure

North Carolina Department of Environmental Quality

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1. Introduction

This Intended Use Plan addresses the **FY2023** Bipartisan Infrastructure Law (BIL) Drinking Water State Revolving Fund Lead Service Line Replacement (DWSRF-LSLR) funding made available through the Bipartisan Infrastructure Law (BIL). **North Carolina's allotment of the FY2023 BIL DWSRF-LSLR funds is \$87,290,000. No state match is required for this funding.**

The Division of Water Infrastructure (Division) is part of the North Carolina Department of Environmental Quality (NCDEQ). The Division administers financial assistance programs to assist eligible public water supply systems in constructing projects that both benefit public health and improve the human environment. Eligible public water supply systems¹ are local government units (LGUs), non-profit water utilities, and investor-owned drinking water companies. Most of the customers of public water supply systems across North Carolina are served by local government units.

In 2013, the North Carolina General Assembly created the State Water Infrastructure Authority (Authority) to determine projects eligible for certain water infrastructure funding programs, including the Drinking Water State Revolving Fund (DWSRF), consistent with federal law. The priorities reflected in this document have been approved by the Authority.

Specific to this document, the Division administers the DWSRF program as established by the 1996 Amendments to the Safe Drinking Water Act (SDWA), (P.L. 104-182), Section 1452. The DWSRF program offers loans to public water supply systems for drinking water infrastructure at interest rates lower than market rates. As a public water supply system repays the loan, the monies are again loaned out, hence the revolving nature of the program. All loan repayments must go back into the general DWSRF program. This Intended Use Plan (IUP) explains how the capitalization grant will be used and how the fund will operate in accordance with Section 1452(b) of the SDWA.

The IUP is incorporated into the capitalization grant agreement and becomes the grant work plan. Combined, the operating agreement, grant agreement, IUP, SDWA, and state statutes set the program requirements for the DWSRF and its components, such as the BIL DWSRF-LSLR funds. The IUP identifies anticipated projects scheduled for loan commitments from the BIL DWSRF-LSLR. It also explains how the BIL DWSRF-LSLR will utilize a priority rating system to identify those projects that will address the greatest need and/or provide the greatest positive public health impact in North Carolina.

Funding is available to identify, inventory, and replace lead service lines in drinking water systems. A service line connects the water main to the building inlet. A lead service line may be owned by the water system, the property owner, or both. A galvanized service line is considered a lead service line if it ever was or currently is downstream of any lead service line or service line of unknown material. The replacement of lead goosenecks, pigtails, and connectors are eligible expenses for BIL DWSRF-LSLR funds, whether stand-alone or connected to a lead service line. For brevity, "lead service line replacement" in this IUP refers to the replacement of all of the above, including the replacement of lead goosenecks, pigtails, and connectors.

¹ For brevity, "LGUs" in this Intended Use Plan refers to all eligible entities, including local government units, non-profit water utilities, and investor-owned drinking water utilities.

2. Financial History

Congress appropriated funds to the 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 lead service line replacements, referred to as the BIL DWSRF-Lead Service Line Replacement (BIL DWSRF-LSLR) Fund. The BIL also appropriated funds specifically to supplement the DWSRF funds and to address emerging contaminants issues, plans for which will be described in separate IUPs.

North Carolina will receive \$87,290,000 in a federal capitalization grant for the FY2023 BIL DWSRF-LSLR program. No state match is required for this funding. Forty-nine percent of the capitalization grant (\$42,772,100) must be offered to LGUs in the form of principal forgiveness loans. Other funds available for projects must be offered to LGUs in the form of low-interest loans that are not principal forgiveness, according to the BIL. North Carolina will offer those loans with a 0% interest rate.

DWSRF-LSLR funds will not be used to satisfy debt security requirements and set-aside funds will not be made available as loans.

3. Programmatic Goals

Pursuant to the SDWA, the State must identify the goals and objectives of the state loan fund (i.e., the BIL DWSRF-Lead Service Line Replacement). North Carolina has set its short- and long-term goals of this IUP to align with EPA's strategic goals and objectives FY2022-2026 EPA Strategic Plan, specifically Goal #5, to Ensure Clean and Safe Water for all communities and Objective 5.1 to Ensure Safe Drinking Water and Reliable Water Infrastructure. The Office of Water has identified specific measures that address the strategic goals and objectives outlined by EPA in its strategic plan. A basis for each goal in this program IUP has been identified. These references ensure that all the specific commitments made by the State are properly correlated to the strategic goals and objectives of the Agency. The State has the following goals for its BIL DWSRF-LSLR program:

3.1. Overall DWSRF Program Goal

Provide funding for drinking water infrastructure while advancing the NCDEQ's mission to provide science-based environmental stewardship for the health and prosperity of ALL North Carolinians and to advance the public health goals of SDWA while targeting the systems with the greatest needs.

3.2. Lead Service Line Replacement Short-Term Goals

- Continue efforts to inform eligible drinking water systems of the availability of funds, benefits of the DWSRF-LSLR program, and funding process improvements.
- Work closely with local water agencies to complete lead service line (LSL) inventories and verifications of unknown service line materials. Under the Lead and Copper Rule Revisions and the Lead and Copper Rule Improvements, all water

systems must have initial lead service line inventories by October 2024, and service lines of unknown materials verified afterwards. Technical assistance set-aside funds will be used to help water systems develop inventories and verify service line materials for the “unknowns”. Preparing the inventory and verifying service line materials will allow systems to assess the magnitude of their LSLs, better identify sampling locations, and begin removal actions of LSLs.

3.3. Long-Term Goals

- Support water agencies in full LSL replacement. A service line connects the water main to the building inlet. A lead service line may be owned by the water system, the property owner, or both. A galvanized service line is considered a lead service line if it ever was or currently is downstream of any lead service line or service line of unknown material. The replacement of lead goosenecks, pigtails, and connectors are eligible expenses for BIL DWSRF-LSLR funds, whether stand-alone or connected to a lead service line. For brevity, “lead service line replacement” in this IUP refers to the replacement of all of the above, including the replacement of lead goosenecks, pigtails, and connectors.

4. Information on Activities to be Supported

North Carolina's program will continue to be one of low-interest loans, supplemented with principal forgiveness as allowed by federal law. The State intends to access up to 4% (up to **\$3,491,600**) of the FY2023 capitalization grant for the administrative costs associated with running the program. These activities include application review, scope review, engineering report and environmental document review, design review, loan processing, final report review, construction inspection, and loan repayment processing and accounting for funded projects.

In addition to funding lead service line inventorying and replacement projects by eligible entities, the State intends to use set-asides from the BIL DWSRF-LSLR capitalization grant for non-construction project activities related to identifying, inventorying and replacing lead service lines. Non-construction project activities will be conducted directly by the Division, by the Public Water Supply (PWS) Section of the Division of Water Resources in the North Carolina Department of Environment Quality, and through contracts with other agencies and organizations. See Appendix A for more information about set-aside activities. The administrative set-aside is administered by the Division of Water Infrastructure. The Division reserves the right to use unused portions of set-asides at a later date.

The following table provides a summary of the projected funds available as a result of the FY2023 federal capitalization grant for BIL DWSRF-LSLR, which is the second year of capitalization in the five-year program. Funding from the FY2022 capitalization grant has recently been awarded and made available to the state. Project disbursements from the FY2022 cap grant are expected to begin in FY2024.

Sources and Uses for the Life of the Program (updated May 2024)

Historic Sources and Uses									
	Revenues					Expenditures		Net	
FY	Federal Cap	State Match	Repayments Principal	Repayments Interest	Interest Earned	Project Disbursements	Set-Asides	Net For FY	Cumulative Net
2023 (FY22 conditional award)	\$18,283,020	\$0						\$18,283,020	\$18,283,020
Totals	\$18,283,020	\$0						\$18,283,020	
Projected Sources and Uses for FY 2024 and FY 2025 (based on Availability Model)									
	Revenues					Expenditures		Net	
FY	Federal Cap	State Match	Repayments Principal	Repayments Interest	Interest Earned	Project Disbursements	Set-Asides	Net For FY	Cumulative Net
2024 (FY22 cap grant remainder)	\$68,778,980	N/A				\$10,000,000	\$14,800,540	\$43,978,440	\$62,261,460
2025 (FY23 cap grant)	\$87,290,000	N/A				\$57,237,740	\$18,317,220	\$11,735,040	\$73,996,500
Projected Uses beyond FY 2025									
Project and Set-Aside Disbursements						\$64,394,600	\$9,601,900	\$(73,996,500)	\$0
Repayments from 0% Loans			\$46,199,860	\$0	Will be added to DWSRF program to provide DWSRF loans.				

Values in BLUE as approximate values.

5. Criteria and Methods for Distributing Funds

5.1. Project List and Prioritization

The Intended Use Plan Project Priority List may be supplemented or replaced based on applications received as part of future funding cycles (see 5.2. below). Applications that are received in one funding cycle and are not selected for funding will be reconsidered in one more cycle (the next one) for funding.

The State's ranking for projects will be based on the DWSRF-Lead Service Line Replacement Priority Rating System established by the State Water Infrastructure Authority working with the Division (see Appendix D). **Applications will be ranked based on the following scores, in the following order: 1) total application score (points), 2) project purpose points, 3) project benefit points, and 4) affordability points.**

BIL DWSRF-LSLR funds will only be awarded to projects when the entire project is eligible for BIL DWSRF-LSLR funds and receives Project Purpose priority points in the priority rating system.

- Eligible costs include the following:
 - Replacement of curb stops, curb stop boxes, and other service line appurtenances that are removed as part of full LSLR.
 - Site restoration, including landscaping, sidewalks, driveways, curbs, etc., if the removal is necessary to replace the lead service line.
 - Permit fees if the fees are normal, required, and specific to the LSLR. It is recommended that LGUs waive these fees.
 - Temporary pitcher filters or point-of-use (POU) devices certified to reduce lead during or for a short time period after LSLR projects by an American National Standards Institute-accredited certifier.
 - Non-routine (i.e., not for compliance purposes) lead sampling as part of a LSLR project.

The Priority Rating Systems considers three elements: project purpose, project benefit, and affordability.

- Project purpose points are available for projects to accomplish the following:
 - Complete removal of lead service lines (both public and privately owned portion) or service lines made of galvanized iron or galvanized steel that are currently or have previously been downstream of lead components and replacement with pipe that meets the requirements established under 40 CFR 143 and complies with state and local plumbing codes and/or building codes.
 - Removal of lead or galvanized goosenecks, pigtails, and connectors and replacement with an acceptable material that meets the requirements established under 40 CFR 143 and complies with state and local plumbing codes and or building codes.

- Establish and implement a program to find and replace lead service lines in areas suspected of having lead service lines or connectors.
- Develop or update lead service line inventories, including locating and mapping lead service lines. Methods of investigation to develop inventories may include visual observation, water quality sampling (non-compliance), excavation, vacuum or hydro-excavation, statistical analysis, or other emerging technologies.
- Project benefit points are given for applicants that have a documented exceedance of the lead action level, and additional prioritization for projects that will address the documented exceedance of the lead action level.
- The Division also considers the ability of the applicant to afford projects. For example, those applicants that have a high poverty rate, high utility bills, lower population growth, lower median household incomes, higher unemployment, or projects that benefit disadvantaged areas receive higher priority points. **Local government units that are under the fiscal control of the Local Government Commission and that have required Emergency Operating Grants to balance their budgets are also prioritized.**

5.2. Estimated Funds Available for Each Funding Round

It is the intent of the Division to make the BIL DWSRF-LSLR funds available to systems more quickly than the traditional funding cycles which occur twice per year (awards in February, and July). BIL DWSRF-LSLR funds will be made available for awards as part of regular State Water Infrastructure Authority (SWIA) meetings throughout the year. The Division will establish application due dates for each funding cycle based on established SWIA meeting dates **and will communicate those due dates on the Division's website.** Complete and eligible applications received on or prior to the application due date will be considered for funding and the Division will make funding recommendations to SWIA at the next scheduled SWIA meeting. Projects not selected for funding will be automatically reconsidered for the next funding cycle.

The following table shows the expected funding rounds for the **FY2023** BIL DWSRF-LSLR funds but are subject to change based on SWIA meeting dates and on availability of funds.

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 ¹	\$0 ²
Totals		\$64,594,600	\$ 42,772,100

¹ April 2024 funding awards by SWIA in excess of previous capitalization grant funding available; pending receipt of FY2023 capitalization grant funds from EPA.

² Funding may be available based on remaining availability of FY2023 BIL DWSRF-LSLR funds and on awards for funding from FY2024 BIL DWSRF-LSLR.

5.3. Application and Project Deadlines

The BIL DWSRF-Lead Service Line Replacement program operates on a priority basis. Funding is allocated to projects in priority order (as noted above) and within special reserve requirements (e.g., Principal Forgiveness Reserve, etc. as described herein) until available funds for a funding round are exhausted. Funding availability for each funding round is determined based on LSLR funds remaining and number of funding rounds remaining in the Capitalization Grant cycle. Results will be posted on the program’s website. Funding applications will be accepted throughout the year. Only projects with a scope entirely eligible for LSLR funds will be eligible for funding from the BIL DWSRF-LSLR by the State Water Infrastructure Authority.

Awards will be made by the Authority at meetings scheduled and advertised on the Division’s website. After the Authority approves awards of funds to eligible projects during a funding cycle, the DWSRF program will issue Letters of Intent to Fund (LOIF) based on the projects’ prioritization and the amount of funds available in the cycle.

Project funding is contingent on adherence to the schedule below in accordance with §159G-41 (times listed are measured from the date of the Letter of Intent to Fund unless noted otherwise). Projects that do not require engineering design may have an alternate project schedule that skips unnecessary milestones and moves project to completion more quickly. Such projects will be expected to be completed within one year of the award:

- Within four months, a complete Engineering Report for construction projects or a project scope for inventorying work must be submitted to the Division. Inventory

projects will not be required to submit an Engineering Report and will have an alternative schedule established.

- Within six months, the Engineering Report or scope of work must be approved by the Division.
- Within nine months, plans and specifications or bid and design documents must be submitted to the Division for construction projects. Inventory Projects will not be required to submit an Engineering Report and will have an alternative schedule established.
- Within 12 months, plans and specifications or bid and design documents must be approved by the Division.
- Within 16 months, the following events must be completed (If applicable):
 - Advertise the project for bids
 - Receive bids
 - Submit bid information to Division
 - Obtain the Division's Authority to Award construction contracts.
- Within 18 months, construction contracts must be executed. Inventory Projects will have an alternative schedule established.

Per G.S.159G-41, a letter of intent to offer (LOIF) an award is withdrawn if the applicant fails to enter into a construction contract for the project within two years after the LOIF. An award for a project is withdrawn if the applicant fails to enter into a construction contract for the project within one year after the date of the award. Both milestones may be extended if the Department finds that the applicant has good cause for the failure and the Department sets a date by which the applicant must take action or forfeit the loan or grant.

The milestones in the timeline above are absolute for all projects in a particular cycle and will not be extended except upon a demonstrated need for extension by the LGU. Projects may be able to meet these milestones ahead of schedule. However, in the event that any milestone noted above is not met, work by the Division staff may be suspended and all documents returned to the Applicant until the proposed project is resubmitted for consideration during a future funding round.

5.4. Detailed Loan and Project Funding Criteria

5.4.1. General

- 5.4.1.1. To be eligible for BIL DWSRF-Lead Service Line Replacement funding, a project must be on the Intended Use Plan Project List.
- 5.4.1.2. Funding can be provided for any eligible projects as provided for in the Safe Drinking Water Act and NCGS 159G. A project or activity is eligible for funding when it is both DWSRF-eligible and either a lead service line

replacement (LSLR) project or associated activity directly connected to the identification, inventorying, planning, design, and replacement of lead service lines. Any project involving the replacement of a lead service line must replace the entire lead service line, not just a portion, unless a portion has already been replaced, is concurrently being replaced with another funding source, or identified as not needing replacement due to the absence of a lead service line component.

- 5.4.1.3. To support Lead and Copper Rule Revision and Lead and Copper Rule Improvement requirements for water systems to inventory lead service lines and to verify the service line materials by established federal deadlines, a minimum of 50% of funds made available for each funding round will be reserved for inventory projects. “Inventory projects” include verification of service line materials. Funds reserved in this section will be made available to all projects in priority order if there are not sufficient applications to meet the 50% minimum funding reserve.
- 5.4.1.4. Funding will be provided in priority order based on project score, Authority determination, and the amount of funds made available with consideration of the principal forgiveness reserve detailed below.
- 5.4.1.5. The maximum BIL DWSRF-LSLR funding loan amount (including principal forgiveness) per applicant for each funding round as defined in Section 5.2 are as follows:
 - \$5,000,000 for projects replacing known lead service lines.
 - \$2,000,000 for projects finding and replacing lead service lines in areas suspected of having lead service lines. Project 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 Revised Rule. Budget must limit service line material verification to \$1,000,000.
 - \$1,000,000 for projects to conduct a lead service lines inventory.
- 5.4.1.6. The maximum loan amount per applicant can exceed caps listed in 5.4.1.5 if additional funding is available in the funding round as defined in Section 5.2. 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 in Section 5.2 are awarded.
- 5.4.1.7. Projects receiving project purpose priority points will receive loans with a targeted interest rate of 0%.

5.4.2. Principal Forgiveness

5.4.2.1. Communities that are eligible to receive principal forgiveness are defined as disadvantaged communities. A total of 49% (\$42,772,100) of the BIL DWSRF-LSLR Capitalization Grant will be used to provide additional subsidization in the form of principal forgiveness to disadvantaged communities.

5.4.2.2. The Division will provide additional subsidization to projects in the categories provided in 5.4.2.2.1 – 5.4.2.2.2 in project priority order. The Division will provide principal forgiveness to a project based on only one of the categories provided in 5.4.2.2.1 – 5.4.2.2.2.

- 5.4.2.2.1. Affordability: Projects will receive principal forgiveness, if available, following the affordability criteria grant percentage matrix found in Appendix E when the applicant has:
- less than 20,000 residential water connections;
 - at least three (3) of five (5) LGU economic indicators (“LGU indicators”) worse than the state benchmark;
 - an operating ratio (future) of less than 1.3; and
 - utility rates greater than the state median or a project cost per connection that is projected to increase the utility rates above the 70th percentile of state-wide utility rates.

Projects will receive principal forgiveness, if available, following the affordability criteria grant percentage matrix found in Appendix E when the benefiting system has:

- been designated as distressed per NCGS § 159G-45; and
- utility rates greater than the state median or a project cost per connection that is projected to increase the utility rates above the 70th percentile of state-wide utility rates.

Local government units under the fiscal control of the Local Government Commission on the day of the application deadline qualify for 100% principal forgiveness.

Principal forgiveness will range from 25% to 100% of the award, in increments of 25%, up to \$1,000,000 per project per round at the targeted interest rate, as described under 5.4.1.7, applied to the remaining portion of the loan.

- 5.4.2.2.2. Disadvantaged Area: Projects for which at least 50% of the project costs are to benefit disadvantaged areas will receive principal forgiveness for 50% of the award, up to \$1,000,000.

A targeted project area will be considered a “disadvantaged area” based on factors that shall include:

- affordability of water and sewer service rates relative to the income levels of residents of the targeted project area;
- median household income of the targeted project area;
- poverty rates of the targeted project area;
- property values of the targeted project area; and/or
- employment rates of the targeted project area.

Additional factors that may qualify the targeted project area as disadvantaged, such as (but not limited to) demographic, historical, cultural, linguistic, socio-economic stressors, cost-of-living stressors, or existing contamination factors, may also be considered for targeted project areas that meet the size specification above. Applicants must provide a narrative in the application to justify the targeted project area as disadvantaged using the factors above and may use maps or other existing sources to document their justification. For example, applicants can demonstrate a targeted project area as a disadvantaged area if it meets the size specifications above and falls within a Potentially Underserved Block Group or Tribal boundary layer in the North Carolina Department of Environmental Quality’s Community Mapping System, or similar state or federal maps such as the Climate and Economic Justice Screening Tool.

5.4.2.3. Notwithstanding the above limits in 5.4.2.2.1 and 5.4.2.2.2, if available principal forgiveness funds in a funding round exceed the limits in 5.4.2.2.1 and 5.4.2.2.2, those limits may be exceeded to ensure that available principal forgiveness funds in the funding round are used in the following order:

5.4.2.3.1. Principal Forgiveness limit of **\$1,000,000** may be exceeded by \$500,000 (not to exceed the applicant’s grant percentage eligibility) for eligible projects in priority order. If principal forgiveness funds remain for that funding cycle, additional increments of up to \$500,000 principal forgiveness can be awarded (not to exceed applicants’ grant percentage eligibility) for eligible projects in priority order.

5.4.2.3.2. Principal Forgiveness percentages determined in 5.4.2.2.1 and 5.4.2.2.2 may be exceeded by 10% (not to exceed 100%) for eligible projects in priority order. If funds remain after all eligible projects receive the first percentage increase, principal

forgiveness percentages can be increased for eligible projects by additional 10-percent increments (not to exceed 100%) until available Principal Forgiveness funds are awarded.

5.4.3. Small System Reserve

- 5.4.3.1. 40 CFR 35.3525(a)(5) requires that a minimum of 15% of the base DWSRF and the BIL General Supplemental DWSRF loan assistance be awarded to small systems. This requirement and the Small System Reserve do not apply to the BIL DWSRF-Lead Service line Replacement Funds.

5.4.4. Capacity Development Reviews

Capacity Development reviews for construction projects that require permitting will be done by the Public Water Supply Section. Inventory projects and 'find and fix' projects are not anticipated to have a Capacity Development review. However, inventory details resulting from the projects will be sent to the Compliance agency (PWS) for review. The Division will work closely with the Public Water Supply Section to develop scope and guidance requirements for LSLR projects.

5.4.5. Miscellaneous Criteria/Provisions:

- 5.4.5.1. Davis-Bacon prevailing wage rates apply to all State Revolving Fund loans.
- 5.4.5.2. American Iron and Steel provisions apply to loans as required by federal mandates.
- 5.4.5.3. Build America, Buy America Act (BABA) requirements apply to loans as required by US EPA and federal mandates.
- 5.4.5.4. The DWSRF loan interest rate is based on half of The Bond Buyer's 20-Bond Index except as specifically allowed herein. The maximum interest rate for each loan will be set at the time of the application, while a lower interest rate, if available, will be set at the time of the award offer. An interest rate of 0% will be used for all BIL DWSRF-LSLR loans.
- 5.4.5.5. Approval of a repayable loan is contingent on approval by the Local Government Commission (LGC).
- 5.4.5.6. DWSRF loan terms are set by the LGC.
- 5.4.5.7. The maximum DWSRF loan term is determined by state statute and federal requirements. The loan term for LSLR inventories-only (with no construction) will be five (5) years, unless the local government unit is designated as distressed per NCGS § 159G-45 and requests a longer term

due to debt capacity limitations.

- 5.4.5.8. A 2% loan fee is required. The loan fee cannot be financed by the DWSRF fund.
- 5.4.5.9. Loan repayments are due in May (principal and interest) and November (interest only) of each year.
- 5.4.5.10. Interest begins accruing on the date of completion established in the Notice to Proceed.
- 5.4.5.11. The first loan repayment is due no sooner than six months after the completion date as established in the Notice to Proceed.

6. Programmatic Conditions

6.1. Assurances and Specific Proposals

Pursuant to SDWA, the State of North Carolina certifies that:

- 6.1.1. The State will enter into binding commitments for 100% of the amount of each payment received under the capitalization grant less the set aside allowances within one year after receipt of each payment.
- 6.1.2. The State will expend all funds in the DWSRF in an expeditious and timely manner.

6.2. Federal Requirements

- 6.2.1. The State will ensure that all federal requirements are met as noted in the DWSRF Operating Agreement between the State and US Environmental Protection Agency and the Grant Agreement, including Single Audit, Disadvantaged Business Enterprise compliance, federal environmental crosscutters, and Federal Funding Accountability and Transparency Act (FFATA) reporting requirements.
- 6.2.2. The State will enter all required reporting information at least quarterly into respective federal databases including FFATA and the SRF Data System.
- 6.2.3. The State will ensure that all applicants to the DWSRF program certify that they meet the fiscal sustainability planning requirements. Such certifications will be received by the time of loan offer.

6.3. Transfer between DWSRF and Clean Water State Revolving Fund

Transfer of funds between the DWSRF and the Clean Water State Revolving Fund are authorized by federal statutes, however no such provisions are applicable to the BIL DWSRF-LSLR funds. This IUP does not propose any such transfer of funds.

7. Program Evaluation Report

DWSRF anticipates receiving and responding to the Program Evaluation Report (PER) for FY2024 funding in calendar year 2025, during and following the Annual Review. The Division participated in the EPA FY2023 Annual Review, which was kicked off on February 27-28, 2024. The State didn't have any audit findings during FY2023.

8. Public Review and Comment

As funding awards are made by the State Water Infrastructure Authority, the Intended Use Plan is updated and is sent to EPA's Regional Office for review. Once the Division receives approval for the draft IUP, it is published for public review and comment. Links for the documents and notification to the public are done through the Department's website and email notifications sent to various listservs. Once the public review is completed, the Division prepares responses to any comments received and any updates to the IUP, if necessary. If no changes are proposed by the Division, a reason is provided as the response and all of these comments and responses become part of the final IUP.

This section will be completed after the public review period is concluded. Public comments are sought for the draft IUP.

Note that the public comment period for the Priority Rating System (Appendix D) was completed between March 1 and April 1, 2024. In February 2024, the State Water Infrastructure Authority (Authority) reviewed and updated the Priority Rating System (PRS) for drinking water projects and approved the draft to be posted for public comments. The Division presented the proposed Priority Rating System in a separate public comment period between March 1 and April 1, 2024. There was only one comment that applied to the Priority Rating System for Lead Service Line Replacement projects, which is provided below. The Division presented the public comments for all Priority Rating Systems to the State Water Infrastructure Authority in April 2024, which then finalized the Priority Rating System that is being adopted in this IUP.

The public comment and response to the Priority Rating System for LSLR is:

Priority Rating System (public comments received between March 1 – April 1, 2024):

Comment: It is difficult to comment on the proposed PRS without associated Intended Use Plans or guidance to understand eligibility and prioritization of how funding is distributed.

Response: We understand the value of posting both the IUP and PRS for public comment at the same time. At this time, the FY2024 allotments for SRF and BIL funds [not the LSLR funds] are not available, and therefore the draft IUPs for FY2024 cap grants [not LSLR] are not ready for public comment. Once the allotments are announced, the draft IUPs will be made available in a separate public comment period. **No action required.**

9. Budget and Project Periods

- 9.1. The budget and project period being requested for the capitalization grant is shown in Appendix B and on EPA Form SF 424.
- 9.2. The anticipated cash draw ratio will be 100% federal for disbursements made from the capitalization grant.
- 9.3. No State match is required for the BIL DWSRF-LSLR Funds.
- 9.4. Loan fees (2% of loan amount) on loans from the grant and fees from loans from repayment funds will be deposited into separate account centers. Fees will be used to administer the DWSRF program. In addition, fees considered non-program income will also be used for other water quality purposes within the Division of Water Infrastructure and Division of Water Resources, including funding for staff positions.
- 9.5. In order to reduce and minimize federal unliquidated obligations and undisbursed non-federal cash balances, the state will draw down on the capitalization grants in the order it was received, fully spending on each year's capitalization grant fund types before drawing down from the next years capitalization grant.

Appendix A

Set-Aside Activity Description

A. Program Administration

Up to 4% (**\$3,491,600**) of the capitalization grant will be used for program administration. Administration includes management of the program; financial management; development of yearly comprehensive project priority lists; scope or project engineering document review; construction inspections for funded projects; supporting inventorying lead service lines; data management; data analysis; reporting; records keeping; public engagement; etc. These funds will also be used to procure all equipment and training necessary for the adequate performance of staff on related duties.

B. Technical Assistance to Small Systems

The State will allocate up to 2% (**\$1,745,800**) of the capitalization grant to provide technical assistance to small water systems. The Division of Water Resources' Public Water Supply (PWS) Section will provide funding support for staff in NC DEQ headquarters and in regional offices. **In addition, funds will be used to pay vendors contracted by the Department in a competitive RFP process to conduct inventories, service line verifications, non-routine lead sampling, funding applications, reporting, public engagement, and/or technical assistance to small water systems across the state. Assistance will be provided to small water systems including those that may not be able to access SRF funding effectively.** Assistance provided with these funds must be directed to benefit public water supply systems that service a population of less than 10,000.

C. Administration of the Public Water Supply Supervision Program (State Program Management)

The State will allocate up to **10% (\$8,729,000)** of the capitalization grant to supplement the Public Water System Supervision Grant from EPA for salary and support for the Lead and Copper Rule program implementation of the SDWA. The set-aside provides funding for staff plus any additional permanent, time-limited, or temporary positions, as resources allow, or contracts, as well as additional staff to cover additional resource needs due to new tasks or reduced state budgets. **In addition, funds will be used to pay vendors contracted by the Department in a competitive RFP process to conduct inventories, service line verifications, non-routine lead sampling, funding applications, reporting, public engagement, and/or technical assistance to small water systems across the state. Assistance will be provided to small water systems including those that may not be able to access SRF funding effectively.** Adjustments to the set-asides will be made as the project priority list is fully established for the 2023 grant.

D. Local Assistance and Other State Programs

The State will allocate up to 10% (\$8,729,000) of the capitalization grant for Local Assistance and Other State Programs to support lead service line inventory, replacement, and funding. The set aside funds will be reduced to make funds available for projects to inventory and replace lead service lines as needed. Adjustments to the set-asides will be made as the project priority list is fully established for the 2023 grant.

a. Lead Service Line Inventory/Verification and Funding Application Assistance

Support to water systems will be provided by vendors contracted by the Department under a competitive RFP process. The assistance will help water systems meet requirements established by the Lead and Copper Rule (Revisions and Improvement). Services will include technical support to communities to conduct inventories, verify service line materials, conduct non-routine lead sampling, identify lead service lines in need of replacements to be potentially funded with BIL DWSRF Lead Service Line Replacement Funds, apply for BIL DWSRF-LSLR or DWSRF funding to address lead service line inventorying and replacement, report inventories to the Department, engage with the public and/or provide related technical assistance to water systems across the state. Assistance will be provided to small water systems including those that may not be able to access SRF funding effectively.

Appendix B

Draft - Intended Use Plan Project Priority List for BIL DWSRF-LSLR

The Intended Use Plan Project Priority List will be supplemented or replaced based on applications received as a part of future funding cycles.

Funding awards for FY2023 BIL DWSRF-LSLR funding began in April 2024. Based on the number of water systems applying for BIL DWSRF-LSLR funds (which were awarded FY2022 funds), the Division expects applications for FY2023 BIL DWSRF-LSLR funds to continue throughout calendar year 2024. The Project Priority List will be created and subjected to a public comment period after applications are received and awarded FY2023 BIL DWSRF-LSLR funds pending receipt from US EPA.

Project priority list items the output/outcomes of the policies and procedures outlined in this Intended Use Plan for the FY2023 funds.

Of the projects selected for funding awards in April 2024, \$7,221,621 of the funding assistance (including \$2,795,394 in principal forgiveness) will be funded from the FY2023 BIL DWSRF-LSLR capitalization grant. The rest of the projects to be funded from FY2023 BIL DWSRF-LSLR funds have not yet been selected, but are expected to be selected throughout 2024 in various SWIA meetings. The Intended Use Plan Project Priority List will be supplemented based on applications received as a part of future funding cycles.

Applications and Awards – April 2024 Round

Of the projects selected for funding awards in April 2024, \$7,221,621 of the funding assistance (including \$2,795,394 in principal forgiveness) will be funded from the FY2023 BIL DWSRF-LSLR capitalization grant.

Applicant Name	County	Project Type	PWSID	Service Population	Funding Amount Requested	Priority Points	BIL DWSRF-LSLR Principal Forgiveness	BIL DWSRF-LSLR 0% Interest Loans	Total Funding
Middlesex, Town of	Nash	Inventory	NC0464050	1,350	\$330,000	33	\$280,500	\$49,500	\$330,000
Edenton, Town of	Chowan	Find & Replace	NC0421010	5,500	\$934,000	32	\$560,400	\$373,600	\$934,000
Stantonsburg, Town of	Wilson	Inventory	NC0498025	1,275	\$495,000	31	\$420,750	\$74,250	\$495,000
White Lake, Town of	Bladen	Find & Replace	NC0309030	5,862	\$2,000,000	30	\$1,200,000	\$800,000	\$2,000,000
Aqua North Carolina, Inc.	Catawba, Iredell	Inventory	(multiple) ¹	N/A	\$587,750*	29	\$352,650	\$235,100	\$587,750*

Applicant Name	County	Project Type	PWSID	Service Population	Funding Amount Requested	Priority Points	BIL DWSRF-LSLR Principal Forgiveness	BIL DWSRF-LSLR 0% Interest Loans	Total Funding
Noth Lenoir Water Corporation	Lenoir	Inventory	NC0454025	15,494	\$627,811	29	\$627,811	\$0	\$627,811
Asheville, City of	Buncombe	Find & Replace	NC0111010	156,720	\$1,998,965	28	\$1,199,379	\$799,586	\$1,998,965
Northampton County	Northampton	Inventory	(multiple) ²	N/A	\$1,000,000	27	\$850,000	\$150,000	\$1,000,000
Bertie County	Bertie	Inventory	NC0408085	12,893	\$290,000	27	\$246,500	\$43,500	\$290,000
Aqua North Carolina, Inc.	Cumberland	Inventory	(multiple) ³	N/A	\$394,390*	27	\$236,634	\$157,756	\$394,390*
Coats, Town of	Harnett	Inventory	NC0343020	2,887	\$50,000	25	\$0	\$0	\$0 (bypassed – not eligible for min. PF requested)
Elizabethtown, Town of	Bladen	Inventory	NC0309010	5,311	\$278,920	25	\$167,352	\$111,568	\$278,920
Ocean Isle Beach, Town of	Brunswick	Find & Replace	NC0410035	7,925	\$2,000,000	25	\$0	\$2,000,000	\$2,000,000
Wilson, City of	Wilson	Inventory	NC0498010	50,001	\$1,000,000	21	\$600,000	\$400,000	\$1,000,000
Harnett County	Harnett	Inventory	NC0343045	111,655	\$1,000,000	21	\$600,000	\$400,000	\$1,000,000
Sweepsonville, Town of	Alamance	Inventory	NC3001005	2,456	\$250,000	20	\$0	\$250,000	\$250,000
Gibsonville, Town of	Guilford	Inventory	NC0241025	8,920	\$420,000	20	\$0	\$420,000	\$420,000
Iredell Water Corporation	Iredell	Inventory	NC0149025	27,173	\$348,620	18	\$209,172	\$139,448	\$348,620
Graham, City of	Alamance	Inventory	NC0201015	18,057	\$1,000,000	17	\$0	\$0	\$0 (bypassed – not eligible for min. PF requested)
TOTALS (funded from FY2022 and FY2023 BIL DWSRF-LSLR cap grants)					\$15,005,456	-	\$7,551,148	\$6,404,308	\$13,955,456
To be awarded from the FY2023 BIL DWSRF-LSLR cap grant							\$2,795,394	\$4,426,227	\$7,221,621

* Reconsideration from previous round. Previously awarded \$1,000,000. Only the amount that remained unfunded from the previous funding round is shown in this round.

¹ NC0149191, NC0149186, NC0149141, NC0149104, NC2049015, NC0149106, NC2049011, NC0149182, NC0149189, NC0149113, NC0149117, NC0149190, NC0149169, NC0149118, NC0149123, NC0149125, NC0149177, NC0149162, NC0149168, NC0149148, NC0149128, NC0149179, NC0149131, NC0149124, NC0149133, NC0149193, NC0149134, NC2049030, NC2049035, NC0149138, NC0149139, NC2049003, NC0149163, NC0149155, NC2049016, NC2049042, NC0118101, NC0118103, NC0118280, NC0118166, NC0118238, NC0118105, NC0118275, NC0118287, NC0118268, NC0118264, NC0118122, NC0118171, NC0118130, NC0118258, NC0118274, NC0118142, NC0118135, NC0118255, NC0118155, NC0118282, NC0118247, NC0118256.

² NC0466108, NC4066001, NC0466110, NC0466113, NC0466045, NC4066002.

³ NC0326127, NC0326332, NC5026018, NC0326124.

Other Applications and Awards (to be completed in 2024)

Applications will be accepted throughout 2024 and 2025. The State Water Infrastructure Authority is anticipated to make funding awards of \$57,372,979 (including \$39,976,706 in principal forgiveness) to applicants in the July 2024, September 2024, December 2024, and February 2025 meetings. An updated Project Priority List will be published after the funding awards to amend the Intended Use Plan.

Applicant Name	County	Project Type	PWSID	Service Population	Funding Amount Requested	Priority Points	BIL DWSRF-LSLR Principal Forgiveness	BIL DWSRF-LSLR 0% Interest Loans	Total Funding
To be determined									
TOTALS									

Note: NC DEQ continues to solicit applications from eligible drinking water systems for funding inventory and/or replacement of lead service lines. Applications are accepted year-round, and will be considered for funding in multiple State Water Infrastructure Authority meetings per year.

Appendix C

2023 BIL DWSRF-LSLR Proposed Payment Schedule

(Dependent on timing of award of federal grant)

<u>Payment Quarter</u>	<u>2023 BIL DWSRF- LSLR Payment Amount</u>
April 1, 2024 – June 30, 2024	
July 1, 2024 - September 30, 2024	
October 1, 2024 - December 31, 2024	\$40,000,000
January 1, 2025 - March 31, 2025	
April 1, 2025 - June 30, 2025	\$47,290,000
July 1, 2025 - September 30, 2025	
October 1, 2025 - December 31, 2025	
January 1, 2026 - March 31, 2026	
April 1, 2026 - June 30, 2026	
Total	\$87,290,000

Appendix D

PRIORITY RATING SYSTEM for Lead Service Line Replacement Projects

Finalized by the Authority in April 2024 after a public comment period was completed between March 1 – April 1, 2024.

The following PRS applies to projects where the entire project scope is eligible for LSLR funds.

2024 PRIORITY RATING SYSTEM for Lead Service Line Replacement Projects Eligible for BIL DWSRF-LSLR Funds			
<p><u>Instructions:</u> For each line item, mark "X" to claim the points for that line item. Be sure that your narrative includes justification for every line item claimed. At the end of each Category, provide the total points claimed for each program in the subtotal row for that Category. Then add the subtotals from each category and enter the Total of Points for All Categories in the last line. Note that some Categories have a maximum number of points allowed that may be less than the total sum of individual line items.</p>			
Line Item #	Category 1 – Project Purpose (Points will be awarded for <u>only one</u> Project Purpose)	Claimed Yes/No	Points
1.A	Project eliminates lead service lines (100% of project is to replace known lead service lines) OR		20
1.B	Project establishes and implements a program to find and replace lead service lines in areas suspected to have lead service lines OR		15
1.C	Project inventories lead service lines (no replacement)		10
Maximum points for Category 1 – Project Purpose			20
Subtotal claimed for Category 1 – Project Purpose			
Line Item #	Category 2 – Project Benefits	Claimed Yes/No	Points
2.A	Project addresses/resolves documented Lead Action Level Exceedance OR		5
2.B	Project area has documented Lead Action Level Exceedance		2
Maximum points for Category 2 – Project Benefits			5
Subtotal claimed for Category 2 – Project Benefits			
Line Item #	Category 3 – System Management	Claimed Yes/No	Points
	Reserved for future consideration		
Maximum points for Category 3 – System Management			0

2024 PRIORITY RATING SYSTEM for Lead Service Line Replacement Projects Eligible for BIL DWSRF-LSLR Funds			
Subtotal claimed for Category 3 – System Management			N/A
Line Item #	Category 4 – Affordability	Claimed Yes/No	Points
4.A	Residential Connections		
4.A.1	Less than 10,000 residential connections OR		2
4.A.2	Less than 5,000 residential connections OR		4
4.A.3	Less than 1,000 residential connections		8
4.B	Current Monthly Combined Utility Rates at 5,000-gallon Usage		
4.B.1	Greater than the 50 th percentile OR		4
4.B.2	Greater than the 70 th percentile OR		6
4.B.3	Greater than the 85 th percentile OR		8
4.B.4	Greater than the 95 th percentile		10
4.C	Local Government Unit (LGU) Indicators		
4.C.1	3 out of 5 LGU indicators worse than state benchmark OR		3
4.C.2	4 out of 5 LGU indicators worse than state benchmark OR		5
4.C.3	5 out of 5 LGU indicators worse than state benchmark OR		7
4.C.4	Project benefits disadvantaged areas		5
Maximum points for Category 4 – Affordability			25
Subtotal claimed for Category 4 – Affordability[‡]			
Total of Points for All Categories			

[‡]Local government units under Local Government Commission’s fiscal control that have received an Emergency Operating Grant under NC GS 159G-34.5 in the current or prior fiscal year qualify for the maximum points for Category 4: Affordability.

Appendix E

Grant Percentage Matrix

Percentile Ranges for grant eligibility categories	Combined Monthly Bills² based on 2024 data (\$/5000 gallons)	% Grant or PF	Combined Monthly Bills + Project cost per customer per month³ based on 2024 data (\$/5000 gallons)	% Grant or PF
> 99 Percentile	> \$166	100%	> \$166	100%
95 - 99 Percentile	\$145 - \$166	100%	\$145 - \$166	75%
85 - 95 Percentile	\$126 - \$145	75%	\$126 - \$145	50%
70 - 85 Percentile	\$107 - \$126	50%	\$107 - \$126	25%
50 - 70 Percentile	\$89 - \$107	25%	\$89 - \$107	0%
0 - 50 Percentile	\$0 - \$89	0%	\$0 - \$89	0%

¹ Local government units under the fiscal control of the Local Government Commission on the day of the application deadline qualify for 100% grant or principal forgiveness.

² Single utility providers may divide by 0.4 for water or 0.6 for sewer applicant for calculating a combined monthly bill.

³ Project cost per customer per month calculated assuming 0% interest financing for 20 years.

Monthly bill data updated May 2024 using January 2024 statewide rates data compiled by the Environmental Finance Center at the University of North Carolina, Chapel Hill.