

State Water Infrastructure Authority
Meeting Date: February 19, 2025
Agenda Item G

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. The preliminary funding scenario presented in this staff report is limited to those applicants that filed a complete and eligible application for Bipartisan Infrastructure Law (BIL) Drinking Water State Revolving Fund Lead Service Line Replacement (DWSRF-LSLR) funding by January 10, 2025. 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’s Intended Use Plan (IUP) for FY 2023 funds was published for public comment on May 31, 2024, and public comments were due by July 1, 2024. After review of public comments, the IUP for FY 2023 DWSRF-LSLR was finalized. Funding awards approved by the Authority at the February 19, 2025 meeting are contingent upon funds being released by the U.S. Environmental Protection Agency.

Table 1 on the next page shows the FY 2023 DWSRF-LSLR funds awarded in 2024 and what remains available for award in 2025. Note that more funds may be awarded at any Authority meeting than what is presented in the table.

Table 1. FY 2023 DWSRF-LSLR Funds Awarded and Available by Founding Round			
SWIA Meeting (Award Date)	Total Awarded or Available (includes PF)	Principal Forgiveness (PF) Awarded or Available	No-interest Loan Awarded or Available
April 16-17, 2024	\$7,221,621	\$2,795,394	\$4,426,227
July 16, 2024	\$21,214,440	\$14,994,151	\$6,220,289
September 24, 2024	\$12,171,259	\$2,136,259	\$10,035,000
December 10, 2024	\$14,186,474	\$9,686,474	\$4,500,000
Funds available for awards in February 2025 and later ¹	\$17,331,346 ²	\$14,936,906 ³	\$2,394,440 ⁴

¹ To be determined based on remaining availability of FY 2023 DWSRF-LSLR funds after February 2025 awards. It will be supplemented with additional funding from FY 2024 DWSRF-LSLR funds if demand exceeds FY 2023 funds availability.

² Includes \$7,530,540 of previous awards declined by applicants.

³ Includes \$1,777,084 of previous awards declined by applicants.

⁴ Includes \$5,753,456 of previous awards declined by applicants.

Funding Caps

The following maximum DWSRF-LSLR funding loan amounts, including principal forgiveness (PF), apply per applicant for each round of funding awarded at Authority meetings:

- Replacement projects: \$5 million for projects replacing known LSLs.
- Find-and-Replace projects: \$2 million for projects finding and replacing LSLs in areas suspected of having LSLs. These projects must result in service lines of unknown material 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.
- Inventory-only projects: \$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 requested 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 January 10, 2025, divided by project type.

Table 2. Summary of Project Applications Considered				
	Replace Known LSL	Find and Replace	Inventory	Total
Applications Received	4	5	5	14
Applications Reconsidered from previous Round	0	1	0	1
Funding Requested	\$14,573,900	\$9,742,100	\$4,675,954	\$28,991,954

Principal Forgiveness

There are ten applications that qualify for PF. The following steps were used to determine PF awards in the proposed preliminary funding scenario:

1. As described in the DWSRF-LSLR Intended Use Plan (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 fully fund the projects or up to the applicable funding cap.
2. After receiving the initial \$1,000,000 PF cap, additional PF funding remained available in this funding round. In accordance with the IUP, additional PF can be awarded in \$500,000 increments, in priority order, 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 applicants that qualified for PF. For this round, all projects eligible for PF would be provided with additional ten-percent PF increments, up to 100 percent.
4. Adjust the proposed funding scenario recommendations to bypass projects where the minimum PF requested for the project could not be met. This did not apply in this funding round.

Proposed Funding Scenario for DWSRF-LSLR Programs

The Authority may consider different funding scenarios.

In the preliminary funding scenario presented, all but one of the 14 new LSLR applications considered and the one reconsidered from the previous funding round would be funded.

Thirteen of the 14 projects proposed for funding would be fully funded and one would be partially funded.

Of the 14 projects proposed for funding, ten qualify for PF. Additional PF may be awarded to these applicants following the procedures listed above, and all ten applications are proposed to receive up to 100 percent PF funding awards due to PF funding availability in this round.

In the proposed funding scenario, \$7,755,000 of zero-interest loans would be awarded using all the FY 2023 DWSRF-LSLR loan funding available in this round (i.e., \$2,394,440), thus requiring the use of the FY 2024 DWSRF-LSLR funding. The Division will work towards applying for the FY 2024 capitalization grant.

Altogether, the projects in the proposed funding scenario would receive a total of \$22,241,954 in DWSRF-LSLR funds, including \$14,486,954 in PF and \$7,755,000 in zero-interest loans.

Table 3 summarizes the proposed preliminary funding scenario.

Table 3. Proposed Funding Scenario for February 19, 2025 Award					
Application Projects	Eligible Applications Considered	Funded Applications in Scenario	Potential Principal Forgiveness	Potential No-interest Loan	Potential Total Funding
Replacement Projects	4	3	\$4,568,900	\$5,005,000	\$9,573,900
Find-and-Replace Projects	6	6	\$5,242,100	\$2,500,000	\$7,742,100
Inventory-only Projects	5	5	\$4,675,954	\$250,000	\$4,925,954
Total	15	14	\$14,486,954	\$7,755,000	\$22,241,954

Project-Specific Notes for Applications in the Proposed Funding Scenario

- The Inventory Reserve amount of \$8,665,673 (i.e., 50 percent of the total available funds for this round) was not met. However, since all the Inventory-type projects would receive the requested funding, the balance of unused funds from the Inventory Reserve was made available to other project types.
- Two applications from the City of Winston-Salem were considered, one for a Replacement project and one for a Find-and-Replace project. Both applications qualified only for zero-percent interest loan and no PF.
 - The application for the Replacement project failed to meet the requirements to be rated as a Replacement project and was rated instead as a Find-and-Replace project.
 - The combined funding requested for these two projects exceeds the cap of \$2,000,000 per applicant per funding round for the Find-and-Replace project type. Per the IUP, the funding cap may be exceeded if additional funding is available for the round after all eligible projects are fully funded.

- No additional zero-percent interest loan funds were available to exceed the funding cap and the Replacement project rated as Find-and-Replace will be reconsidered for funding at the next Authority meeting.
- One application for a Find-and-Replace project, Carolina Water Service’s LSL Replacement Plan, did not meet the requirements to qualify for this type of project and was rated as an Inventory project. The project qualifies only for zero-percent interest loan and no PF. The preliminary funding scenario proposes to fund only the portion of this project budget for line material verification (i.e., \$250,000 of the \$2,000,000 requested). The applicant may submit a new application with the required documentation to be considered for additional funding in the next round.
- The Town of Waynesville’s LSL Inventory project, which was partially funded in the previous funding round due to insufficient funds being available, is up for reconsideration and is included in the proposed preliminary funding scenario for the unfunded portion.

If approved by the Authority, the proposed preliminary funding scenario would award total funding in excess of the FY 2023 DWSRF-LSLR funds available for the February 2025 awards shown in Table 1. Staff recommend funding all eligible project applications by using all the available funding remaining from the FY 2023 DWSRF-LSLR allotment plus funds from the FY 2024 allotment. It is the Division’s intent to apply for and request FY 2024 DWSRF-LSLR funds from EPA as soon as possible.

Table 4 summarizes the funds available for this round, the proposed funding scenario recommended for awards at the February 19, 2025 meeting, and how the recommendation will impact future funding awards.

Table 4. FY 2023 DWSRF-LSLR Funds Available for Future Funding Rounds			
	Principal Forgiveness	Zero-interest Loan	Total
Recommended February 2025 awards	\$14,486,954	\$7,755,000	\$22,241,954
FY2023 funds available for Feb 2025 awards	\$14,936,906	\$2,394,440	\$17,331,346
FY 2024 funds needed for Feb 2025 awards	\$0	\$5,360,560	\$5,360,560
FY 2023 and FY 2024 funds available for next awards*	\$449,952 + portion of \$37,338,490 from FY2024 allotment	\$0 + portion of loan funds from FY2024 allotment	\$449,952 + additional funds from the FY2024 allotment

*Additional funds from the FY 2024 DWSRF-LSLR allotment may be awarded at the April 2025 SWIA meeting once all of the FY 2023 BIL DWSRF-LSLR funds have been awarded.

All February 2025 awards are contingent on the Division’s receipt of the BIL DWSRF-LSLR Funds from the USEPA.

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 is shown in Attachment G-1. The Application Number in the first column in the table below references the Application Number in the attached DWSRF-LSLR spreadsheet.

Other Funding Scenarios

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. February 2025 DWSRF-LSLR Proposed Funding Scenario

App. No.	Applicant Name	County	Project Name	Project Type	Amount of Funding Requested	Potential Principal Forgiveness	Potential Zero-Interest Loan	Potential Unfunded
1	Bessemer City	Gaston	Lead and Copper Service Replacement	Replace	\$2,508,900	\$2,508,900	\$0	\$0
2	Town of Plymouth	Washington	Lead and Copper Service Replacement	Find and replace	\$1,742,400	\$1,742,400	\$0	\$0
3	Bessemer City	Gaston	Lead and Copper Service Find and Replace	Find and replace	\$1,499,700	\$1,499,700	\$0	\$0
4	Fayetteville PWC	Cumberland	Lead Service Line Replacement Work	Replace	\$5,005,000	\$0	\$5,005,000	\$0
5	Town of Plymouth	Washington	Lead and Copper Service Inventory	Inventory	\$737,200	\$737,200	\$0	\$0
6	AQUA North Carolina	(multiple)	Aqua Statewide LSL Inventory Phase 4	Inventory	\$938,754	\$938,754	\$0	\$0
7	City of Oxford	Granville	Oxford Lead Service Line Inventory	Inventory	\$1,000,000	\$1,000,000	\$0	\$0
8	Town of Kings Mountain	Gaston	Lead and Copper Service Line Replacement	Replace	\$2,060,000	\$2,060,000	\$0	\$0
9	Broad River Water Authority	Rutherford	Broad River Water LSL Inventory Project	Inventory	\$1,000,000	\$1,000,000	\$0	\$0
10	City of Kinston	Lenoir	Phase 1 Find and Replace LSL Project	Find and replace	\$2,000,000	\$2,000,000	\$0	\$0
12	City of Winston-Salem	Forsyth	LSL Find and Replace Project	Find and replace	\$2,000,000	\$0	\$2,000,000	\$0

Table 5. February 2025 DWSRF-LSLR Proposed Funding Scenario

App. No.	Applicant Name	County	Project Name	Project Type	Amount of Funding Requested	Potential Principal Forgiveness	Potential Zero-Interest Loan	Potential Unfunded
13	Town of Dallas	Gaston	Lead Service Line Inventory Ph. II	Inventory	\$1,000,000	\$1,000,000	\$0	\$0
14	Carolina Water Service	(multiple)	Lead Service Line Replacement Plan	Find and replace	\$2,000,000	\$0	\$250,000	\$1,750,000
15	Town of Waynesville	Haywood	Town of Waynesville LSL Inventory	Find and replace	\$500,000	\$0	\$500,000	\$0
Totals for LSLR Applications in Recommended Funding Scenario					\$23,991,954	\$14,486,954	\$7,755,000	\$1,750,000