

State Water Infrastructure Authority
Meeting Date: September 16, 2026
Agenda Item E: 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 North Carolina 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 September 16, 2026 meeting. This staff report represents applications for funding from the Infrastructure Investment and Jobs Act (IIJA) Drinking Water State Revolving Fund - Lead Service Line Replacement (DWSRF-LSLR) that were received between June 2, 2026 and August 3, 2026, included. 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 IIJA of 2021. The IIJA appropriated funds for five fiscal years (FY 2022 – FY 2026) specifically for the purpose of identifying, inventorying, and replacing lead service lines (LSLs). These funds are referred to as the DWSRF-LSLR funds.

North Carolina's FY 2025 DWSRF-LSLR allotment is \$28,650,000. In addition to the FY 2025 allotment, NCDEQ applied to the U.S. Environmental Protection Agency (USEPA) to receive North Carolina's allotment of the FY 2023 and FY 2024 IIJA DWSRF-LSLR funds that were not awarded to other states: \$23,038,000 and \$21,069,000, respectively. With the FY 2023 and FY 2024 re-allotments, the total allotment for FY 2025 amounted to \$72,757,000.

A portion of the total allotment, up to 26 percent (or \$18,916,820), will be used for set-asides. The remaining 74 percent (or \$53,840,180) will be available to award for projects as zero-interest loans and principal forgiveness (PF).

The draft DWSRF-LSLR program's Intended Use Plan (IUP) for FY 2025 funds was published for public comment on March 13, 2026, and public comments were due by April 13, 2026. The IUP for FY 2025 was finalized and submitted to the USEPA on April 20, 2026.

Funding awards will be approved by the Authority at its September 16, 2026, meeting and are contingent upon funds being released by the USEPA.

Table 1 on the next page shows the FY 2025 DWSRF-LSLR funds available for projects in zero-interest loans and PF. Note that more funds may be awarded than what is presented in the table at any Authority meeting .

Table 1. FY 2025 DWSRF-LSLR Funds Available by Funding Round			
SWIA Meeting Date	Principal Forgiveness (PF)	No-interest Loan	Total (includes PF)
Available Funds ¹	\$38,948,699	\$39,806,880	\$78,755,579
April 15-16, 2026 (awarded)	\$9,118,559	\$6,668,200	\$15,786,759
July 15, 2026 (awarded)	\$10,673,605	\$2,398,425	\$13,072,030
September 16, 2026 (estimated available)	\$10,695,279	\$10,930,935	\$21,626,214
December 9, 2026 (estimated available)	\$8,461,256 + TBD ²	\$19,809,320 + TBD ²	\$28,270,576 + TBD ²

¹Includes total allotment for FY 2025, remaining funds from FY 2024 allotment, and declined funds from previous awards.

²Additional funds from FY 2026 allotment may be available to meet demand.

Funding Caps

The maximum DWSRF-LSLR funding loan amounts, including PF, awarded at Authority meetings per applicant, per round of funding are as follows:

- Replacement projects: \$5 million for projects replacing known lead service lines (LSLs).
- Find-and-Replace projects: \$2 million for projects identifying and replacing LSLs in areas suspected of having LSLs. The amount budgeted for verification of service line material cannot exceed \$1 million.
- Inventory-only projects: \$1 million for projects to conduct service line inventory activities, including filed verification of line material, with no replacement of LSLs.

The maximum loan amount awarded per applicant per round can exceed the funding cap if additional funding is available in the funding round, as indicated 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.

Principal Forgiveness

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

1. Per the DWSRF-LSLR IUP, starting with the highest-scoring application, PF and repayable loan funds are applied to all projects eligible for PF to either fully fund the project or up to the applicable funding cap.
2. In accordance with the IUP, if additional PF funds remain available after all projects are awarded PF up to their respective percent PF eligibility, then 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

Inventory Reserve

To support the requirements of the Lead and Copper Rule for water systems to inventory lead service lines and verify the service line materials by established federal deadlines, a minimum of 50 percent of the funds available for each funding round will be reserved for inventory-only projects. This type of project may include field verification of service line materials. Funds from the Inventory Reserve are made available to all project types in priority order if the funding request for inventory-only applications is insufficient to meet the 50 percent minimum funding reserve.

Summary of Applications Considered

Table 2 shows number of new applications received, number of applications reconsidered, if any, because they were either not funded or only partially funded in the previous funding round, and the cumulative funding amounts requested between June 2, 2026 and August 3, 2026, divided by project type.

Table 2. Summary of Project Applications Considered				
	Replace Known LSLs	Find & Replace	Inventory	Total
New Applications Received	2	2	4	8
Applications Reconsidered from previous round	0	0	0	0
Funding Requested	\$6,772,000	\$2,430,000	\$3,175,000	\$12,377,000

Proposed Funding Scenario for the DWSRF-LSLR Program

In the preliminary funding scenario presented, all eight (8) new funding applications received between June 2, 2026 and August 3, 2026, are proposed for funding and included in the preliminary funding scenario.

No applications had to be reconsidered from the previous funding round.

Two projects from two local government units (LGUs) included in the proposed scenario would be partially funded.

1. The Town of Columbus has requested \$4,859,500 for a Replacement-type project. Replacement projects are for replacement of service lines of known materials that need replacement. The application indicated that the project includes service lines of unknown material status, which may or may not need replacement. The Division has rated the project as a Find & Replace type instead, thus limiting the proposed funding award to the Find & Replace \$2 million funding cap.
2. The Town of Smithfield's \$2,000,000 application for a Find & Replace project does not include an estimate of the number of LSLs potentially existing in the project area or

documentation of what data the project's budget is based on. The Division has rated this as an Inventory-only project instead, limiting the proposed funding award to \$80,000, the amount budgeted in the application for non-replacement activities.

Seven (7) of the applications considered qualify for PF. Due to the availability of PF funds in this round, additional PF can be awarded to these projects following the procedures listed earlier in this report. All seven applications are included in the preliminary funding scenario proposed to receive up to 100 percent PF funding.

In the proposed funding scenario, a total of \$7,597,500 would be awarded, with \$5,597,500 in PF and \$2,000,000 in zero-interest loans. Table 3 below summarizes the proposed preliminary funding scenario, divided by project type.

Table 3. Proposed Funding Scenario for September 16, 2026 Awards					
Application Project Type	Complete and Eligible Applications Considered	Funded Applications in Scenario	Proposed Principal Forgiveness	Proposed Zero-interest Loan	Proposed Total Funding
Replacement Projects	2	2	\$1,912,500	\$2,000,000	\$3,912,500
Find-and-Replace Projects	2	2	\$510,000	\$0	\$510,000
Inventory-only Projects	4	4	\$3,175,000	\$0	\$3,175,000
Total	8	8	\$5,597,500	\$2,000,000	\$7,597,500

Project-Specific Notes for Applications in the Proposed Funding Scenario

- The Inventory Reserve amount of \$10,813,107 (i.e., 50 percent of the total available funds for this round) was not met. However, since all applications for Inventory-type projects for this round would be fully funded in the proposed funding scenario, the remaining funds from the Inventory Reserve were made available to other project types.
- Two applications were received from two LGUs designated as Distressed and both are included in the funding scenario: the Town of Pink Hill and the Town of Columbus. For the Town of Pink Hill, the application would be fully funded at 100 percent principal forgiveness. The application from the Town of Columbus would be funded at the Find & Replace cap of \$2,000,000 as a zero-interest loan.
- Three applications were received for projects for which at least 50 percent of the estimated project costs benefit disadvantaged areas. All three applications are included in the proposed funding scenario to be fully funded with 100 percent PF.

Table 4 on the next page summarizes the funds available for this round, the proposed funding scenario recommended for awards at the September 16, 2026 Authority meeting, and how the recommendation will impact future funding awards.

Table 4. FY 2025 DWSRF-LSLR Funds Available for Future Funding Rounds			
	Principal Forgiveness	No-interest Loan	Total
Funds available as of August 4, 2026	\$19,156,535	\$30,740,255	\$49,896,790
Proposed for September 16, 2026 awards	\$5,597,500	\$2,000,000	\$7,597,500
Estimated available for future awards after proposed funding scenario for September 16, 2026 awards	\$14,950,035 + TBD ¹	\$27,349,255 + TBD ¹	\$42,299,290 + TBD ¹

¹Additional funds from the IJIA DWSRF-LSLR FY 2026 allotment may be awarded to meet demand once all of the FY 2025 funds have been awarded

Table 5 on the next page identifies the projects that would be awarded funding under this proposed preliminary funding scenario.

Additional information on the applications considered and their priority ranking is included in a table provided as Attachment E-1.

Staff can assist the Authority with other scenarios during the meeting.

Staff Recommendation

Staff recommend awarding funding to Applications 1 – 7, 9 as presented in Table 5.

Note that all awards from the DWSRF-LSLR Funds are contingent on the Division's receipt of the LSLR funds from the USEPA.

Table 5. July 15, 2026 IJA DWSRF-LSLR Proposed Funding Scenario

App. No.	Applicant Name	County	Project Name	Project Type	Amount of Funding Requested	Proposed Principal Forgiveness	Proposed Zero-Interest Loan	Proposed Unfunded
1	Town of Pink Hill	Lenoir	Lead and Copper Service Line Replacement	Replace	\$1,912,500	\$1,912,500	\$0	\$0
2	Town of Elon	Alamance	LSL Investigation and Replacement	Find & Replace	\$430,000	\$430,000	\$0	\$0
3	Town of Mount Gilead	Montgomery	Lead Service Line Investigation	Inventory	\$350,000	\$350,000	\$0	\$0
4	Town of Columbus	Polk	Lead Service Lines Replacements	Replace	\$4,859,500	\$0	\$2,000,000	\$2,859,500
5	Montgomery County	Montgomery	Lead Service Line Inventory	Inventory	\$825,000	\$825,000	\$0	\$0
6	City of Kinston	Lenoir	Lead Service Line Inventory Phase II	Inventory	\$1,000,000	\$1,000,000	\$0	\$0
7	Town of Smithfield	Johnston	Town of Smithfield Lead Service Line Find & Replace Project	Find & Replace	\$2,000,000	\$80,000	\$0	\$1,920,000
9	Town of Smithfield	Johnston	Smithfield Lead Service Line Inventory	Inventory	\$1,000,000	\$1,000,000	\$0	\$0
Totals for LSLR Applications in Recommended Funding Scenario					\$12,377,000	\$5,597,500	\$2,000,000	\$4,779,500