

**State Water Infrastructure Authority
Meeting Date – September 16, 2026
Agenda Item F – Funding Awards for CWSRF-Decentralized Wastewater Treatment Systems
Pilot Program**

Division of Water Infrastructure Staff Report

Background

Starting in FY 2022, The Decentralized Wastewater Treatment System (DWTS) Pilot Program (Pilot Program) was established as a pass-through funding program in the Clean Water State Revolving Fund (CWSRF). There were some initial discussions with the local government units (LGUs) that expressed interest in this program between 2022 and 2024. However, LGUs were reluctant to accept a loan. Through discussions with stakeholders and public comments received during the FY 2024 CWSRF Intended Use Plan (IUP) public comment period, which ran from May 31, 2024, through July 1, 2024, the Division made significant modifications to the Pilot Program to make it more attractive.

Pilot Program Overview

The Pilot Program may use up to \$1,500,000 from the Clean Water State Revolving Fund capitalization grant to fund repairs or replace failed or malfunctioning DWTSs (e.g., onsite septic systems) as a pass-through funding program. Local government units and water/wastewater utility providers are eligible to apply to the Division for the Pilot Program funding and are responsible for administering loans or grants to qualified property owners. As described in the IUP, funding for the Pilot Program may bypass a higher priority project (i.e., wastewater applications that score higher using the Priority Rating System [PRS]). Pilot Program funding is offered with a targeted interest rate of zero percent loans, with the possibility of principal forgiveness (PF). Applications for this funding program are accepted on a rolling basis.

Principal Forgiveness Qualification Criteria

An award can be up to 100 percent PF based on the proportion of property owners receiving improvements to their DWTSs meeting qualification criteria established by the LGU. These criteria must be based on the property owners receiving assistance, rather than general LGU indicators. If the recipient's income level is used by the LGU as a qualification criterion, it cannot exceed the state's median household income (MHI). Applicants are responsible for verifying recipients' qualification information.

Applicants that will pass through all funding to recipients that individually meet qualification criteria for PF and that do not have household income exceeding the state's MHI will receive up to 100 percent of the full project award as PF. The total award cannot exceed \$250,000.

Applicants that will pass through at least 50 percent of the total funds to recipients that individually meet qualification criteria for PF and do not have household income exceeding the state's MHI will receive 50 percent of the full award amount, limited to \$500,000, as PF.

Applicants that will pass through at least 50 percent of the total funds to recipients in disadvantaged areas as defined in Section 5.3.2.2.3 of the CWSRF IUP will receive up to 50 percent of the full amount, limited to \$500,000, as PF.

Applications Received During the Summer August 3, 2026, Rolling Funding Cycle

During the September 16, 2026, funding cycle with an application deadline of August 3, 2026, the Division received one application from Lenoir County for consideration for the Pilot Program. Since the Pilot Program uses the rolling application process, Division staff present these projects to the Authority for funding at this meeting.

The total funding recommended in the proposed funding scenario is \$250,000 (see Table 1). If the Authority approves the proposed funding scenario, \$500,000 will be available for the Pilot Program for the rest of the fiscal year.

Lenoir County

Lenoir County is requesting \$250,000 to establish a principle forgiveness program up to \$250,000 for residents that fall under the state medium household income to repair or replace failing or malfunctioning septic systems.

Staff Recommendation

Division staff recommend that the Authority award funding to Lenoir County from the CWSRF Decentralized Wastewater Treatment System Pilot Program.

Table 1. Proposed Funding Scenario for Funding from the Clean Water State Revolving Fund Decentralized Wastewater Treatment Systems Pilot Program					
Applicant Name	Project Name	Funding Requested	CWSRF DWTS Pilot Program Principal Forgiveness	Proposed CWSRF DWTS Pilot Program Loan	Proposed Total CWSRF DWTS Pilot Program Funding
Lenior County	Lenior County CWSRF Decentralized Wastewater System Pilot	\$250,000	\$250,000	\$0	\$250,000
		Total:	\$250,000	\$0	\$250,000