

State Water Infrastructure Authority

Meeting Date: April 16-17, 2025

Agenda Item I

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 Infrastructure Investment and Jobs Act (IIJA) Drinking Water State Revolving Fund Lead Service Line Replacement (DWSRF-LSLR) funding by March 3, 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 IIJA of 2021. The IIJA 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. North Carolina's FY 2024 DWSRF-LSLR allotment is \$76,201,000. No state match is required for this funding. A portion of the allotment, up to 26 percent or \$19,812,260, 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 2024 funds was published for public comment on February 28, 2025, and public comments were due by March 14, 2025. After review of public comments, the IUP for FY 2024 DWSRF-LSLR will be finalized. Funding awards that will be approved by the Authority at the April 16-17, 2025, meeting are contingent upon funds being released by the U.S. Environmental Protection Agency (USEPA).

Table 1 on the next page shows the FY 2024 DWSRF-LSLR funds awarded at the February 2025 Authority meeting 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 2024 IJIA DWSRF-LSLR Funds Awarded and Available by Founding Round			
SWIA Meeting (Award Date)	Total Available or Awarded (includes PF)	Principal Forgiveness (PF) Available or Awarded	No-interest Loan Available or Awarded
February 19, 2025	\$5,360,560 (awarded)	\$0 (awarded)	\$5,360,560 (awarded)
April 16-17, 2025	\$18,408,746 ^{1,2}	\$12,845,516 ¹	\$5,563,230 ²
July 16, 2025	\$17,009,394	\$12,446,164	\$4,563,230
September 17, 2025	\$17,009,392	\$12,446,162	\$4,563,230
December 10, 2025	Any unobligated FY2024 amt. + TBD ³	Any unobligated FY2024 amt. + TBD ³	Any unobligated FY2024 amt. + TBD ³

¹ Includes \$399,352 remaining from FY2023 allotment.

² Includes \$1,000,000 of previous awards declined by applicants.

³ To be determined based on remaining availability of FY2024 funds after September 2025 awards. It will be supplemented with additional funding from FY2025 funds if demand exceeds availability of FY2024 funds.

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 (i.e., non-replacement activities) 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 March 3, 2025, divided by project type.

Table 2. Summary of Project Applications Considered				
	Replace Known LSL	Find and Replace	Inventory	Total
Applications Received	3	3	0	6
Applications Reconsidered from previous Round	1	0	0	1
Funding Requested	\$11,523,010	\$2,980,400	\$0	\$14,503,410

Principal Forgiveness

There are three applications that qualify for PF. The following steps were 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 were applied to all projects eligible for PF to either fully fund the projects or up to the applicable funding cap.
2. 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.

Proposed Funding Scenario for the DWSRF-LSLR Program

The Authority may consider different funding scenarios.

In the preliminary funding scenario presented, all the projects for which new applications were received, as well as the project reconsidered from the previous funding round, would be awarded funding.

Five projects proposed for funding would be funded in full, while two projects would be only partially funded.

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

In the proposed funding scenario, a total of \$10,129,110 would be awarded, of which \$9,000,000 would be in zero-interest loans and \$1,129,110 in PF. Table 3 below summarizes the proposed preliminary funding scenario.

Table 3. Proposed Funding Scenario for April 16-17, 2025, Award					
Application Projects	Eligible Applications Considered	Funded Applications in Scenario	Potential Principal Forgiveness	Potential Zero-interest Loan	Potential Total Funding
Replacement Projects	4	2	\$0	\$5,000,000	\$5,000,000
Find-and-Replace Projects	3	5	\$1,129,110	\$4,000,000	\$5,129,110
Inventory-only Projects	0	0	\$0	\$0	\$0
0Total	7	7	\$1,129,110	\$9,000,000	\$10,129,110

Project-Specific Notes for Applications in the Proposed Funding Scenario

- The Inventory Reserve amount of \$9,204,373 (i.e., 50 percent of the total available funds for this round) was not met. However, since no applications for Inventory-type projects were considered for this round, the funds from the Inventory Reserve were made available to other project types.
- Three applications from the City of Mount Holly were considered, one for a Find-and-Replace project and two for Replacement projects.
 - Because of the funding cap for same-type project applications from the same applicant in the same funding round, only one Replacement project (Lead and Copper Service Replacement - Area 1) may be fully funded, while the other project (Lead and Copper Service Replacement - Area 2) may be only partially funded in this round and will be reconsidered for the unfunded balance in the next funding round.
 - The Lead and Copper Find and Replace project is included in the proposed preliminary funding scenario to be awarded the full requested amount.
- One application, the City of Winston-Salem LSL Replacement Project, which was considered but not funded in the previous funding round (February 2025), was re-considered and is included in the proposed funding scenario.
 - The application for a 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 funding requested for the project (\$5,000,000) exceeds the funding cap of \$2,000,000 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. The application qualifies for zero-percent interest rate loan only with no PF. No additional zero-percent interest loan funds are

available to exceed the funding cap and the Replacement project, rated as Find-and-Replace, is proposed to receive a \$2,000,000 total funding award.

- Because this application has been reconsidered once, it will not be considered again in the next funding round for the unfunded balance.
- Another application, the Town of Rose Hill Lead Service Line Replacement, did not meet the requirements to be rated as a Replacement project and was rated as a Find-and-Replace project instead. The project is included in the proposed funding scenario to be fully funded as the funding request does not exceed the funding cap for a Find-and-Replace type project.
- Two applications were received from the Town of Weldon for the same project. After verifying that the two applications were exact duplicates, one was determined to be ineligible and not considered for funding, while the other is included in the proposed preliminary funding scenario to be fully funded.

Table 4 below summarizes the funds available for this round, the proposed funding scenario recommended for awards at the April 16-17, 2025, meeting, and how the recommendation will impact future funding awards.

Table 4. FY 2024 DWSRF-LSLR Funds Available for Future Funding Rounds¹			
	Principal Forgiveness	Zero- interest Loan	Total
Recommended April 2025 awards	\$1,129,110	\$9,000,000	\$10,129,110
Estimated FY2024 minimum funds available for April 2025 awards	\$12,845,516	\$5,563,230	\$18,408,746
Estimated FY2024 funds available for future awards ²	\$36,608,732	\$5,689,690	\$42,298,422

¹ All April 2025 awards are contingent on the Division's receipt of the IJJA DWSRF-LSLR Funds from the USEPA.

² Additional funds from the FY2025 IJJA DWSRF-LSLR allotment may be awarded to meet demand once all of the FY2024 funds have been awarded.

Table 5 on page 7 identifies the projects that would be awarded funding under this proposed preliminary funding scenario.

A full list of applications is shown in Attachment I-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 DWSRF-LSLR Funds are contingent on the Division's receipt of the LSLR funds from the USEPA.

Table 5. April 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	Town of Weldon	Halifax	Lead Line Investigation and Replacement	Find-and-Replace	\$506,800	\$506,800	\$0	\$0
2	Town of Rose Hill	Duplin	Lead Service Line Replacement	Replacement (rated F&R)	\$148,710	\$148,710	\$0	\$0
3	Town of Snow Hill	Greene	Lead Line Investigation and Replacement	Find-and-Replace	\$473,600	\$473,600	\$0	\$0
4	City of Mount Holly	Gaston	Lead and Copper Service Replacement - Area 1	Replacement	\$4,023,600	\$0	\$4,023,600	\$0
5	City of Mount Holly	Gaston	Lead and Copper Service Replacement - Area 1	Replacement	\$2,350,700	\$0	\$976,400	\$1,374,300
6	City of Winston-Salem	Forsyth	LSL Replacement Project	Replacement (rated F&R)	\$5,000,000	\$0	\$2,000,000	\$3,000,000
7	City of Mount Holly	Gaston	Lead and Copper Service - Find and Replace	Find-and-Replace	\$2,000,000	\$0	\$2,000,000	\$0
Totals for LSLR Applications in Recommended Funding Scenario					\$14,503,410	\$1,129,110	\$9,000,000	\$4,374,300