

State Water Infrastructure Authority
Meeting Date – February 19, 2025
Agenda Item I – Onsite Septic System Awards from Clean Water State Revolving Funds

Division of Water Infrastructure Staff Report

Background

The Decentralized Wastewater Treatment System Pilot Program (Pilot Program) was established as a pass-through funding program in the Clean Water State Revolving Fund (CWSRF) starting FY 2022. 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 \$1,000,000 from the Clean Water State Revolving Fund capitalization grant to fund repairs or replacements to failed or malfunctioning decentralized wastewater treatment systems (e.g., onsite septic systems) as a pass-through funding program. Local government units and non-profit 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 Intended Use Plan, funding for the Pilot Program may bypass a higher priority project (i.e., wastewater applications that score higher using the Priority Rating System). Pilot Program funding is offered with a targeted interest rate of zero percent loans, with the possibility of principal forgiveness.

Principal Forgiveness Qualification Criteria

An award can be up to a 100 percent principal forgiveness (PF) based on the proportion of property owners receiving improvements to their onsite septic systems 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 do not exceed 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% of the total funds to recipients that individually meet qualification criteria for PF and do not exceed the state's MHI income will receive 50 percent of the full award amount as PF. The total award per applicant cannot exceed \$500,000.

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 as PF. The total award per applicant cannot exceed \$500,000.

Application Received During the Fall 2024 Funding Cycle

During the Fall 2024 funding cycle, the Division received one application from the Town of Nags Head for consideration for the Pilot Program. This is the first application for the Decentralized Wastewater Treatment System Pilot Program received by the Division.

The Town of Nags Head has an adopted Decentralized Wastewater Management Plan (Plan). As part of the Plan, a town-wide risk assessment evaluation was conducted, and parcels identified based on susceptibility to septic system failure that pose the greatest risk to the environment and human health. In its application, the Town requested \$500,000 in loans to expend over a four-year period to assist homeowners with failing septic systems.

The Division reviewed and scored the application according to the current wastewater Priority Rating System. The project received 45 points but was not qualified to receive any PF. The funding line for wastewater projects was at 47 points, and a project scoring 47 points can only be partially funded due to availability of funding. As described in the Intended Use Plan, funding for the Pilot Program may bypass a higher priority project, similar to how Green Project Reserve projects may bypass a higher priority project. By awarding the Pilot Program project, the funding available for the wastewater application receiving 47 points is reduced by \$500,000 (which is not enough to fully fund that project).

Given the high need across the state and the general lack of funding available to fund repairs and replacements to failing decentralized wastewater treatment systems, the Division's staff recommendation is to award the Town of Nags Head \$500,000 from the Pilot Program to provide loan funds to property owners to fix failing septic systems. These funds will be provided at a zero-percent interest rate. The motion to award these funds will be made as part of Agenda Item K.