

State Water Infrastructure Authority

Meeting Date – February 18, 2026

Agenda Item J -Draft Priority Rating System 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) program. During FY 2024 IUP updates, the Division made significant modifications to the CWSRF Intended Use Plan (IUP)'s portion for the DWTS Pilot Program. The Pilot Program may use up to \$1,500,000 from the Clean Water State Revolving Fund (CWSRF) program to fund repairs or replacement of failed or malfunctioning DWTSs (e.g., onsite septic systems) as a pass-through funding program. Local government units (LGUs) 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.

Since the 2024 updates, State Water Infrastructure Authority (Authority) has funded three DWTS pilot projects for a total of \$1,250,000. As the popularity of this program increases, staff realize that the approved Priority Rating System (PRS) for Wastewater Projects is not a good fit for the Pilot Program. The Division proposes a new PRS for the Pilot Program to better prioritize DWTS projects. The FY 2026 IUP will be updated to include the new PRS for the Pilot Program once the draft PRS is approved by the Authority, the PRS has gone through the public comment process, and the Authority approves the final PRS. All other aspects of the program will remain the same as described in the FY 2024 and FY 2025 CWSRF IUP.

Proposed Priority Rating System for the CWSRF-DWTS Pilot Program

Division staff developed a proposed PRS related to the Pilot Program. To be eligible for the funds, an applicant must repair, improve, or replace existing DWTSs in North Carolina. The proposed draft PRS for the Pilot Program is included as Attachment 1. The draft PRS utilizes line items from the existing PRS and was developed after discussions with different stakeholder groups and industry experts. Discussions with the stakeholder groups continue and may result in suggested changes to the PRS during the public review period. Any resulting changes and comments received will be presented to the Authority at the April meeting. The draft PRS has four categories.

- Category I: Project Purpose
- Category II: Project Benefits
- Category III: Program Management
- Category IV: Affordability

The maximum priority points that can be earned by an Applicant for this program is 50. Staff are developing guidance detailing documentation requirements for successfully claiming each line item.

Category I (Project Purpose)

For Category I, the entire project must address one of the two line items. Applicants can receive points for only one project purpose.

Line Item 1.A (15 points) is for projects where the Applicant has identified at least 50 percent of the DWTSS to be remedied by the project.

Line Item 1. B (5 points) is proposed where the Applicant proposes a project that identifies DWTSS that need repair, replacement, or upgrade in the project area and also proposes construction projects that will enable the identified DWTSS to conform with current NC permitting laws.

If an Applicant claims Line Item 1.A and the application is deemed to be lacking the required documentation, staff can roll the purpose points down to Line Item 1.B, provided all required documentation of Line Item 1.B is included with the application.

Staff propose a maximum of 15 points for this category.

Category II (Project Benefits)

For Category II, Project Benefits, at least 25 percent of the proposed DWTSS must improve effluent water quality by upgrading or adding treatment or a unit process. Projects that successfully claim Line Item 1.A points can be eligible for consideration for Line Item 2.A points. To successfully claim Line Item 2.A. (5 points), the Applicant must document how the proposed new treatment will improve water quality using data from literature or modeling outputs.

Staff propose a maximum of 5 points for this category.

Category III (Program Management)

Line Item 3.A (15 points) provides priority for utilizing existing repair/replacement programs. To successfully claim this line item, the Applicant must demonstrate that they have created and implemented an existing septic repair program or are working with an agency that has an existing septic repair program and describe how the program is currently managed. A signed letter of commitment from the non-profit entity must be included, if the applicant currently does not have their own repair program.

Line Item 3.B (5 points) provides priority for LGUs that already have an existing Responsible Management Entity (RME) ensuring management of decentralized onsite wastewater treatment systems. To successfully claim this line item, the Applicant must demonstrate that an

RME is established and will have the managerial, technical, and financial capacity to manage the proposed project. A signed letter of commitment from the RME is required for the Applicant to successfully claim these points.

An Applicant can successfully claim both 3.A and 3.B points, and staff propose a maximum of 20 points for this category.

Category IV (Affordability)

Applicants that provide assistance to customers that may be struggling financially or are located in disadvantaged areas can claim Category 4 points. Applicants can only successfully claim one Category IV line item. Applicants have the option to develop their own qualification criteria to determine which beneficiaries qualify for financial assistance, and the use of such criteria could qualify the Applicant for additional subsidies to the CWSRF loan.

Line Item 4.A (10 points) is for projects that will award 100 percent of the funds to recipients that meet the Applicant's qualification criteria for assistance and have a household income less than the North Carolina Median Household Income (MHI).

Line Item 4.B (5 points) is for projects that will award at least 50 percent of the funds to recipients that meet the Applicant's qualification criteria for assistance and have a household income less than the NC MHI, or are located in disadvantaged areas as defined in Section 5.3.2.2.3 of the FY2025 CWSRF IUP.

Staff propose a maximum of 10 points for this category.

Staff Recommendation

Staff recommend that the Authority approve the proposed Draft Priority Rating System for public review for the CWSRF Decentralized Wastewater Treatment (Pilot) Funding Program.

Priority Rating System Score Sheet for CWSRF Decentralized Wastewater Treatment System Pilot Program Projects

Proposed PRIORITY RATING SYSTEM for CWSRF Decentralized Wastewater Treatment Systems Pilot Program Projects			
<p><i>Instructions: For each line item, mark "X" to claim the points for that line item. Be sure that your narrative includes justification for every line item claimed. At the end of each category, provide the total points claimed for each program in the subtotal row for that category. Then add the subtotals from each category and enter the Total of Points for All Categories in the last line. Note that some categories have a maximum allowed points that may be less than the total of individual line items.</i></p>			
<p>Line Item # Category 1 – Project Purpose <i>(Points will be awarded for only one Project Purpose; note that the project must be eligible for DWTS Funds)</i></p>			
1.A	At least 50% of the Decentralized Wastewater Treatment Systems in the project area or to be remedied by the project are identified OR	Claimed Yes/No	Points
1.B	Find-and-fix repair and replacement project	Claimed Yes/No	5
Maximum points for Category 1 – Project Purpose			15
Subtotal claimed for Category 1 – Project Purpose			
Line Item #	Category 2 – Project Benefits	Claimed Yes/No	Points
2.A	Project improves treated water quality by adding or upgrading a unit process (at least 25% of proposed systems)	Claimed Yes/No	5
Maximum points for Category 2 – Project Benefits			5
Subtotal claimed for Category 2 – Project Benefits			
Line Item #	Category 3 – Program Management	Claimed Yes/No	Points
3.A	Applicant has an established loan repair/replacement program for failing or failed Decentralized Wastewater Treatment Systems	Claimed Yes/No	15
3.B	Applicant has an established Responsible Management Entity for managing Decentralized Wastewater Treatment Systems	Claimed Yes/No	5
Maximum points for Category 3 – System Management			20
Subtotal claimed for Category 3 – System Management			
Line Item #	Category 4 – Affordability	Claimed Yes/No	Points
	Project benefits qualified residents		
4.A	100% of the project award is limited to households that meet the applicant's qualification criteria for assistance and have household income less than NC Median Household Income OR	Claimed Yes/No	10

Proposed PRIORITY RATING SYSTEM for CWSRF Decentralized Wastewater Treatment Systems Pilot Program Projects			
4.B	At least 50% of the project award is limited to households that meet the applicant's qualification criteria for assistance and have household income less than NC Median Household Income, or at least 50% of the project award is limited to "disadvantaged areas"		5
Maximum points for Category 4 – Affordability			10
Subtotal claimed for Category 4 – Affordability			
Total of Points for All Categories			50