

State Water Infrastructure Authority
Meeting Date: February 18, 2026
Agenda Item L – Intended Use Plan Updates
Informational Item

Division of Water Infrastructure Staff Report

Background

The Division develops Intended Use Plans (IUPs) for the Drinking Water State Revolving Fund (DWSRF) and Clean Water State Revolving Fund (CWSRF) programs to describe how the program funds will be administered. The IUPs are required as part of the Division's application to the U.S. Environmental Protection Agency (USEPA) for the State Revolving Fund (SRF) capitalization grants. The IUPs are incorporated into the capitalization grant agreements and become the grant work plan. Combined, the operating agreement, grant agreement, IUP, Safe Drinking Water Act, Clean Water Act, and state statutes set the program requirements for the SRF programs. The IUPs identify anticipated projects scheduled for funding commitments from the DWSRF and CWSRF funds. They also explain how the DWSRF and CWSRF will utilize Priority Rating Systems (PRSs) to identify those projects that will address the greatest need and/or provide the greatest positive public health and environmental impact on the water resources in North Carolina.

The Division is developing draft IUPs for the SRF programs in order to apply for the FY 2026 capitalization grants from multiple SRF programs as well as updating the originally submitted FY 2024 DWSRF Lead Service Line Replacement (LSLR) IUP to account for some recent changes EPA has introduced to the program.

Draft and revised IUPs undergo a public comment period and input from the public is considered before finalizing the IUPs, which are then submitted to EPA as part of the Division's application to receive SRF capitalization grants.

Proposed Change to Loan Repayment Schedule for All SRF IUPs

According to the current IUPs,

- Loan repayments are due in May (principal and interest) and November (interest only) of each year
- Interest begins accruing on date of completion in the Notice to Proceed
- The first loan repayment is due no sooner than six months after the completion date as established in the Notice to Proceed

For projects with a single construction contract, this process will remain the same. The Division proposes that for multi-contract projects that have a promissory note in place based on a contract other than the latest ending contract (an 'early' contract), if a repayment invoice is triggered by that early contract, then the Division will intend to collect on that invoice. That early invoice is only triggered if a later contract is not executed in time to replace the early

amortization schedule. Projects with closely spaced contracts should not receive an early invoice.

The Division used to allow deferment of these early repayment invoices on a case-by-case basis. This new process will ensure that funds are repaid to the Division in a timelier fashion and avoid confusion regarding when repayments are due. This new process does not increase the total cost for the borrower because:

- Final total accrued interest calculations will be based on the latest contract's date of completion in the Notice to Proceed. This effectively wipes away any interest accrued based solely on the early contract.
- Interest and principal paid on an earlier amortization schedule will both be credited upon the conclusion of the entire project and the development of a final amortization schedule. These payments are typically reflected on the next repayment due but can be spread over the entire amortization period if requested.

The Division may still entertain extremely limited cases for delaying repayments if completion of the project would create the revenues needed to make the repayments or an unforeseen financial hardship occurs (e.g., a natural disaster).

All loan approvals and repayment schedules will be coordinated with the Local Government Commission.

Proposed Changes to the FY 2024 LSLR IUP

Previously, for FY 2024 capitalization grants, the EPA restricted the eligibility of galvanized service lines that are currently or ever were downstream of known lead service lines from receiving LSLR funding. This was a departure from the FY 2022 and 2023 capitalization grants, for which such galvanized service lines are eligible for funding. On November 1, 2025, the EPA issued a new Memorandum that removed the restriction from FY 2024. Hence, the Division proposes to amend the FY 2024 LSLR IUP to remove the limitation of funding eligibility for galvanized lines and to bring it in line with the eligibility set under the previous FY 2022 and FY 2023 LSLR capitalization grants and IUPs by extending it to all galvanized pipe downstream of service lines or components of unknown material (i.e., not known lead).

Further, the EPA had previously determined water mains, water meters, and similar items were not eligible for replacement using LSLR funding. However, the November 2025 Memorandum gave the States an option to make "integrated components" to funded LSLR projects eligible for LSLR funding, provided that the projects meet certain criteria. The Division proposes to broaden the LSLR funding eligibility to include the replacement of integrated components (such as water mains, meters and valves) in the disadvantaged areas of a drinking water system that are directly connected to lead service lines, where replacing lead service lines would be infeasible without also addressing such components. This proposal is in line with the new eligibility requirements specified in the EPA's November 2025 Memorandum. Division approval to make integrated components eligible for LSLR-funded projects will be given on a case-by-case basis.

Neither of these LSLR IUP proposals affects the PRS for LSLR funding.

Proposed Changes to FY 2026 CWSRF IUP

The CWSRF prioritizes projects that eliminate failed/failing onsite wastewater systems via CWSRF PRS line item 2.C.1 and 2.C.2. Current guidance requires systems to produce a Notice of Violations (NOVs) related to septic failures. Meetings with stakeholder groups revealed that it is extremely rare for Health Departments to issue NOVs for failing septic systems. Hence the guidance is being updated to include alternate documentation requirements to document failed or malfunctioning systems. These proposed changes to the guidance will be included as an Attachment to the draft IUP.

CWSRF IUP's Section 5.3.4 describes the CWSRF Decentralized Wastewater Treatment System (DWTS) Pilot Program that makes up to \$1.5 million of the CWSRF available each year for a pass-through program to fund the replacement of decentralized wastewater treatment systems. The Division will update this section to include the new proposed PRS for the Pilot Program (see Agenda Item J) if the Authority approves the proposed PRS for public review.

Currently, the Division is considering no other changes for the DWSRF and CWSRF IUPs. New proposals may be incorporated into the draft IUPs published for public comments and will be presented at a future SWIA meeting.

Public Comments and Staff Response

The draft IUPs must be presented to the public for a public comment period, and it is the intention of the Division to complete the public comment period ahead of SWIA's April meeting. The Division will then summarize the comments received and provide responses to each comment. If the Division receives substantial comments that warrant changes to the PRS or IUP, that information will be presented to the Authority in a subsequent meeting.