

## Funding

Once your community has decided to accelerate the lead service line (LSL) replacement process and addressed questions of responsibilities and access, the next question is how to pay for the work.

Funding an LSL replacement initiative may be the biggest challenge to be addressed. Success will take persistence and the willingness to ask how to succeed with the funding options available. It also will require considering how to allocate funding so the LSL replacement benefits all members of the community, regardless of their economic status.

Some, or all, of the costs may come from rates paid by customers. The costs of developing an inventory of LSLs, developing a replacement initiative, and communicating to customers, are typically funded by ratepayers. Some communities also have replaced service lines located on private property, with or without a direct additional charge to the property owner. However, in some cases, state and local laws and policies may restrict use of ratepayer funds to replace LSLs on private property.

It is important to design funding strategies that will achieve full LSL replacement regardless of economic status, race or ethnicity. Low-income ratepayers tend to be disproportionately exposed to lead. Of the more than half million children with elevated blood lead levels, low income children are three times more likely than their counterparts to have elevated blood lead levels. Minorities are twice as likely to have elevated blood lead levels.

If individual ratepayers with LSLs are required to fund the replacement of the line on their property, people with access to resources are more likely to make the investment. As a result, minority and low-income residents may be an unintentional, disproportionate impact. For communities served by privately owned water companies, it is important to check what the state PUC will allow with respect to use of ratepayer funds to support replacement on private property. Read an example of how to [make resources available to communities or property owners](#) in order to accelerate LSL replacement that avoids a disproportionate impact on minority and low-income residents.

There are a number of potential sources for soliciting LSL replacement funding ranging from large government loan programs to smaller grants. The best funding mechanism will depend on

a combination of factors unique to each community. Affordability is an important consideration in this discussion. A local foundation or state grant program could ease the financial burden on homeowners if the community has a large segment of economically disadvantaged water customers.

### ***Funding factors to consider:***

- [Establish your baseline](#)
- [Rates and fees](#)
- [Federal funding sources](#)
- [State and local resources](#)

### **Establish your baseline**

Deciding on a funding approach will require understanding the scope of the problem. This is a task that the local water utility is likely to take the lead on and should be done early to define the problems and possible solutions.

- How many LSLs do you have?
- What is the exposed population?
- What are the baseline water quality data?
- What are the baseline lead data at the tap currently and historically?
- What is the estimated average cost of replacement in your community?
- What is the estimated total cost of LSL replacement in your community?

### **Rates and fees**

The core resource for water utilities is the customer rate base. Rates currently fund infrastructure rehabilitation and replacement either by direct use to fund activities or to repay loans or bonds. Like a homeowner's mortgage, loans and bonds provide financing for larger investments, but a water utility is only able to borrow as much as financial institutions believe the system can re-pay. When a water system replaces the utility-owned LSL, rates cover the LSL replacement costs.

All water systems must balance infrastructure investments against water rates so that those receiving the benefits from water service bear the costs of that service. Private water utility's rates are reviewed by the state PUC through a process called a rate case. A rate case is a formal process to determine if the proposed rates charged by the utility are just and reasonable. In a rate case, the private utility has the burden of proof to demonstrate that its costs and proposed rates are justified by the filing of supporting documentation. Public hearings are held by the state PUC to allow stakeholders to participate in the rate case. The state PUC is responsible for ensuring that consumers receive adequate and reliable utility services at just and reasonable rates. At the same time, the state PUC must set rates that allow utilities an opportunity to earn a profit that will fairly compensate the utilities' investors, enable the utilities to maintain their financial stability, and attract the capital necessary to provide satisfactory future service.

The use of rates to pay for replacement of LSLs on private property is impacted both by the legal factors discussed previously and this allocation of costs to those that benefit.

- [Designing Water Rate Structures for Conservation and Revenue Stability](#)
- [Resources for Setting Small System Water Rates](#)

Water systems also obtain revenue from sources other than rates, including connection fees, rental of utility property, sale of assets, and other business activities. Sometimes these other sources of funding are not subject to the same restrictions as funds obtained through rates.

## Federal funding sources

Water rates and charges are the primary source of revenue that supports utility operations including both ongoing maintenance of the distribution system and long-term capital improvements. Capital improvements are planned out over multi-year programs in Capital Improvement Plans (CIPs). Among those that will loan funds to water systems are several federal programs.

Funding for these programs to support drinking water infrastructure is largely decided by Congress. We will highlight below those policies that could directly benefit communities seeking to accelerate full LSL replacement.

1. [EPA Drinking Water State Revolving Loan Fund \(SRF\)](#)
2. [EPA Water Infrastructure Finance and Innovation Act \(WIFIA\)](#)
3. [USDA Rural Development Fund](#)

Each of these programs has specific eligibility criteria, funding priorities, and application processes. Some, like the SRF, provide for some limited principal forgiveness.

Congress also decides what funding is made available to communities to prevent lead poisoning and support our drinking water infrastructure. Currently, the following funding sources support programs related to health housing. If expanded to LSLs on private property, these funding sources could directly benefit communities seeking to accelerate full LSL replacement.

Funding sources may include the [USDA Rural Development Fund](#) referenced above, as well as:

### [HUD's Community Development Block Grants \(CDBG\)](#)

The CDBG program works to ensure decent affordable housing, to provide services to the most vulnerable in our communities, and to create jobs through the expansion and retention of businesses. CDBG is an important tool for helping local governments to tackle serious challenges facing their communities.

HUD determines the amount of each grant by using a formula comprised of several measures of community need, including the extent of poverty, population, housing overcrowding, age of housing, and population growth lag in relationship to other metropolitan areas.

In 2015, HUD distributed almost [\\$3.2 billion in grants](#) through the CDBG program. Because CDBG is a block grant program, states and communities that received CDBG funding from HUD set priorities within

the programs guidelines. Those priorities are established in a "[Consolidated Plan](#)." The Consolidated Plan is a jurisdiction's comprehensive planning document and application for funding under the following Community Planning and Development formula grant programs: CDBG, Emergency Solutions Grants (ESG), HOME Investment Partnerships (HOME), and Housing Opportunities for Persons with AIDS (HOPWA). The Consolidated Plan is executed through Annual Action Plans that must contain the required certifications, description of CDBG eligible activities to be funded, and timetables for completing the projects. Review your community's consolidated plan to determine whether funding can be used for LSL replacement.

## State and local resources

Local communities may wish to reach out to their state government to explore whether state funding could be made available for full LSL replacement initiatives. Examples of state funding for LSL replacement include:

- [Wisconsin Department of Natural Resources](#)
- [Washington, DC LSL Replacement Assistance](#)

Funding may be available locally, either through the water utility or other community-based assistance programs

- [Massachusetts Water Resources Authority](#)
- [Boston Water and Sewer Commission, Massachusetts](#)
- [Philadelphia Water Department, Pennsylvania](#)
- [Madison Water Utility, Wisconsin](#)
- [Milwaukee Water Works, Wisconsin](#)
- [Flint Child Health & Development Fund](#)