

**State of Michigan**  
Jennifer M. Granholm, Governor

**Department of Environmental Quality**



**Steven Chester, Director**

INTERNET: <http://www.michigan.gov/deq>

**Drinking Water Revolving Fund  
Final Supplement to Intended Use Plan  
Fiscal Year 2009**

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**Prepared by:  
Revolving Loan and Operator Certification Section  
Environmental Science and Services Division  
and Water Bureau  
March 2009**

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The DWRF Final Project Priority List (PPL) for Fiscal Year (FY) 2009 remains unchanged.

This document is available on the DWRF web page at:

[http://www.michigan.gov/deq/0,1607,7-135-3307\\_3515\\_3517-10786--,00.html](http://www.michigan.gov/deq/0,1607,7-135-3307_3515_3517-10786--,00.html)

**I. INTRODUCTION**

The passage of the American Recovery and Reinvestment Act of 2009 (ARRA) provides additional funding for the state's Drinking Water Revolving Fund (DWRf), the ability to enhance assistance to public water suppliers who access the DWRf, and necessitates a supplement to the Fiscal Year (FY) 2009 Final Intended Use Plan (IUP) to detail how ARRA funds will be utilized.

**II. STRUCTURE OF THE DWRf**

There will be no change to the basic structure of Michigan's DWRf as the result of the ARRA. The legislation does, however necessitate some program modifications to comply with requirements of the ARRA and ensure the basic intent of the ARRA for Michigan's DWRf allotment is satisfied. It is anticipated, however, that no changes to Part 54 of Michigan's Natural Resources and Environmental Protection Act, Act 451 of 1994, will be necessary in order to implement the provisions of the ARRA.

**III. ADVANTAGES OF THE DWRf**

The primary advantage for Michigan water suppliers remains their ability to borrow funds at interest rates below market. As the result of ARRA capitalization, additional benefits will accrue to borrowers and to the drinking water program in Michigan. DWRf loan recipients funded with ARRA monies will be able to receive additional subsidy, while the state will see increased lending capacities in the DWRf during FY 2009 and beyond resulting from the additional capitalization provided under the ARRA.

**IV. LONG-TERM GOALS**

No changes.

**V. SHORT-TERM GOALS**

In addition to the short term goals identified in the FY 2009 IUP, ARRA capitalization/use will address the following additional short term goals:

- A. To efficiently obligate all allocated ARRA funds before February 17, 2010, and be poised to receive reallocated funds if/when available.
- B. Allocate funds equitably among those projects currently appearing on the FY 2009 Project Priority List (PPL) that are willing and able to progress to loan closing during the final three quarters of the Fiscal Year. Ensure all FY 2009 funded projects are under construction before November 20, 2009.
- C. Take those steps necessary to insure ARRA funds not obligated this year can be obligated early in FY 2010, and have construction of these projects initiated before February 17, 2010.
- D. Ensure that additional requirements of the ARRA (Buy American and Davis Bacon compliance) are effectively and efficiently met, including those that are imposed on local borrowers.
- E. Encourage changes during the final design of projects seeking FY 2009 assistance to incorporate sustainable/green components and solicit additional qualifying green projects for entry on the FY 2010 PPL through public notice of the supplement to the IUP and further outreach activities.

## **VI. ALLOCATION OF FUNDS**

Michigan anticipates receiving \$67,454,000 in capitalization from the ARRA to tender loans to projects the remainder of FY 2009 (at two and one-half percent) and early in FY 2010 where possible, while providing principle forgiveness in aggregate equaling fifty percent of the cap grant amount. In light of the widespread economic malaise existing in Michigan and the fact the state now has the highest unemployment rate in the country (12.0 percent in February), substantial additional subsidy will be provided to all FY 2009 DWRP loan recipients willing/able to meet the requirements for ARRA supported assistance.

- A. Michigan intends to take only one set aside from the capitalization grant, the administrative set-aside.
- B. Michigan will use its current FY 2009 PPL to allocate 75 percent of available ARRA funds. That list contained \$86,420,000 in projects seeking assistance in FY 2009.
- C. The same level of loan forgiveness will be provided to each project still anticipated to close on a loan this fiscal year. This will result in a fixed amount of loan forgiveness for each project, calculated at 40 percent of the project costs established at the time of the Order of Approval, while the balance of the project(s) will be funded 36 percent with ARRA resources and 24 percent with non-ARRA fund assets. Utilizing only 75 percent of available ARRA resources this fiscal year will allow all FY 2009 applicants to qualify for additional subsidy, provide an opportunity for other water suppliers to seek ARRA assistance in FY 2010 and allow Michigan to solicit additional projects that could qualify for green project reserve funding. This mix of funding will also insure that Michigan is able to meet the ARRA requirement that at least 50 percent of ARRA funds are used to provide principal forgiveness. Setting the principal forgiveness amount at 40 percent provides substantial subsidy for borrowers to off set the additional costs of ARRA compliance, equitably spreads that assistance to all borrowers and enhances the long term lending capacity of the fund since 50 percent of ARRA funds will "revolve" back to the DWRP.
- D. Should stimulus funds remain available after FY 2009, they will be used to provide the same level of assistance to projects in priority order that are ready/capable of proceeding in the first quarter of FY 2010, where binding commitments are currently scheduled for December of 2009. Should qualifying green projects be ready to proceed in the first quarter of FY 2010 they may be funded out of priority order if possible/necessary to meet the 20 percent reserve requirement of the ARRA.

## **VII. CRITERIA AND METHOD FOR DISTRIBUTION OF FUNDS - SET-ASIDES**

### **Administration**

Up to four percent of the federal capitalization grant can be used to administer the fund. Michigan intends to utilize the full four percent, which for FY 2009 amounts to \$2,698,160. Any funds not utilized in FY 2009 will be retained on account for administration costs in future years.

**Technical Assistance**

No funds will be set-aside.

**Program Set-Asides**

The Michigan Department of Environmental Quality (MDEQ) intends to continue four programs in FY 2009 using existing program set-asides (capacity development, source water protection, operator certification, and public water supply supervision) without setting aside additional funds from the ARRA.

**Wellhead Protection (Section 1452(k))**

No funds will be set-aside.

**VIII. CRITERIA AND METHOD FOR DISTRIBUTION OF FUNDS - PROJECT LOANS**

Michigan's DWRP will continue to commit loans for qualified projects based on project plans that were submitted to the RLOCS by May 1, 2008, and will provide partial principal forgiveness to those projects. Projects funded in FY 2009 will be funded with a mix of ARRA capitalization funds and other fund assets. Green reserve projects will be entirely funded with ARRA assets.

**IX. PROPOSED PROGRAM CHANGE**

Additional project requirements imposed, including those associated with Buy American and Davis Bacon compliance will be met for those projects utilizing ARRA funds.

**X. DISADVANTAGED COMMUNITY STATUS**

No change.

**XI. EPA AUTOMATED CLEARINGHOUSE ACTIVITIES**

The EPA employs an Automated Standard Application for Payments (ASAP) system to make disbursements of federal funds. Michigan will comply with this system and deposit funds drawn from it into appropriate accounts set up for the DWRP. Where projects are financed with ARRA capital and funds from other cap grants, grant funds will be drawn down proportionally.

Michigan is currently administering its DWRP as a direct loan program and will continue to do so.

**XII. ASSURANCES**

The final guidelines from the United States Environmental Protection Agency (EPA) set forth provisions that the state must provide certain assurances in order to qualify for capitalization grant funding from ARRA. Such assurances are either incorporated into the Operating Agreement, are included here by reference or will be included as conditions in the ARRA capitalization grant.

**XIII. OUTPUT/OUTCOME MEASURES**

To comply with the EPA desire for information on the Environmental Benefits of the DWRf, and to meet additional reporting/transparency requirements of the ARRA, Michigan will begin in FY 2009, reporting all DWRf loans into the EPA Drinking Water Project Tracking System.

Principal forgiveness will have the additional benefit of reducing debt service needs, which will enable the water supplier to keep user rates lower and/or free up financial capacity to undertake additional water system improvements.

**XIV. PUBLIC REVIEW AND COMMENT**

In order to satisfy public participation requirements, the MDEQ public noticed this supplement to the FY 2009 Intended Use Plan on its website. In addition, the notice was mailed to approximately 1,400 interested parties on the state's DWRf mailing list. This notice afforded stakeholders and other interested parties an opportunity to comment on how the MDEQ plans to disburse DWRf loan funds and utilize capital from the ARRA. All comments were considered (two were received) prior to submittal of the final supplement to the IUP to the EPA.

Questions about the final PPL or this supplement to the IUP may be directed to:

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**XV. ORIGINATION OF DOCUMENTS**

The Chief of the Revolving Loan and Operator Certification Section of the MDEQ is responsible for issuing the IUP.