



STATE OF MICHIGAN  
DEPARTMENT OF ENVIRONMENTAL QUALITY  
LANSING



JENNIFER M. GRANHOLM  
GOVERNOR

STEVEN E. CHESTER  
DIRECTOR

May 22, 2009

TO: Interested Parties

SUBJECT: State Revolving Fund (SRF)  
Final Supplemental to Intended Use Plan  
Fiscal Year 2009

In March of 2009, a supplement to Michigan's Fiscal Year (FY) 2009 Intended Use Plan (IUP) was produced, public noticed and finally posted, detailing how Michigan would utilize funding made available to the SRF from the American Recovery and Reinvestment Act (ARRA). At that time it was anticipated that projects seeking assistance from the ARRA in FY 2009 would total approximately \$600 million, and as a result, Michigan intended to offer/provide 23 percent principal forgiveness to qualifying projects. Since March, a significant number of projects have decided to not proceed, dramatically reducing the volume of anticipated loans this FY to @ \$230 million.

**As a result, Michigan has opted to implement a minor revision to the IUP Supplement and increase the amount of principal forgiveness to qualifying applicants to 40 percent.**

This action will:

- (1) Provide a important additional subsidy to borrowers and a heightened financial benefit to the users of those systems in these difficult economic times.
- (2) Facilitate the obligation of Michigan's ARRA funding before February 17, 2010 and avoid the reallocation of funds to other states.
- (3) Continue to ensure a substantial portion of Michigan's ARRA allotment (@ 50 percent) remain available for FY 2010 1<sup>st</sup> quarter borrowers.
- (4) Not alter Michigan's attempts to solicit/encourage qualifying green reserve projects and allocate at least 20 percent of its allotment to such projects if sufficient applications exist.

If you have questions about this decision please feel free to contact me at the telephone number listed below.

Sincerely,

Chip Heckathorn, Chief  
Revolving Loan and Operator Certification Section  
Environmental Science and Services Division  
517-373-4725

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

**Department of Environmental Quality**



**Steven Chester, Director**

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

**State Revolving Fund  
Strategic Water Quality Initiatives Fund  
Final Supplement to Intended Use Plan  
Fiscal Year 2009**

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Prepared by:  
Revolving Loan and Certification Operation Section  
Environmental Science and Services Division  
March 2009

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### Attachments:

SRF Final Project Priority List for Fiscal Year 2009 remains unchanged  
SWQIF Final Project Priority List for Fiscal Year 2009 remains unchanged

These documents are available on the SRF/SWQIF web page at:

[http://www.michigan.gov/deq/0,1607,7-135-3307\\_3515\\_4143-10723--,00.html](http://www.michigan.gov/deq/0,1607,7-135-3307_3515_4143-10723--,00.html)

**I. INTRODUCTION**

The passage of the American Recovery and Reinvestment Act of 2009 (ARRA) provides additional funding for the State Revolving Fund (SRF), the ability to enhance assistance to municipalities who access the SRF, 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 SRF**

There will be no change to the basic structure of Michigan's SRF 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 SRF allotment is satisfied. . It is anticipated, however, that no changes to Part 53 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. STRUCTURE OF THE STRATEGIC WATER QUALITY INITIATIVES FUND (SWQIF)**

The ARRA will have no impact on the SWQIF.

**IV. ADVANTAGES OF THE SRF AND SWQIF**

The primary advantage for Michigan municipalities remains their ability to borrow funds at interest rates below market. As the result of ARRA capitalization, additional benefits will accrue to SRF borrowers and to the wastewater program in Michigan. SRF loans funded with ARRA monies will provide additional subsidy to borrowers, while the state will see increased lending capacities in the SRF during FY 2009 and beyond resulting from the additional capitalization provided under the ARRA.

**V. PROJECT PRIORITY**

There will be no change to the FY 2009 Project Priority List (PPL) or the ranking process annually used to develop the PPL.

**VI. LONG-TERM GOALS**

No changes.

**VII. SHORT-TERM GOALS**

In addition to the short term goals identified in the FY 2009 IUP, ARRA capitalization/use will also 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. Allocate ARRA funds in a manner to insure at least 50 percent of the funds are used to provide additional subsidization in the form of principal forgiveness.

- 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 notice of the IUP supplement and further outreach activities.

### **VIII. ALLOCATION OF FUNDS FOR SRF**

Michigan anticipates receiving \$168,509,000 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 potentially equaling one hundred percent of the ARRA cap grant amount. Michigan will not offer loan restructuring with ARRA assets to those projects tendered loans in December of 2008 (Monroe Co. 5278-02, Allegan 5300-02, Muskegon Co 5304-02 and Chelsea 5319-02). 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 SRF loan recipients willing and able to meet the requirements of the ARRA.

- A. Michigan intends to bank four percent of the capitalization grant for future administration of the SRF. This will not reduce the amount of ARRA capitalization that will pass to borrowers in FY 2009.
- B. Michigan will use its current FY 2009 Project Priority List to allocate ARRA funds. That list contained \$651,185,000 in projects seeking assistance in FY 2009.
- C. Providing the same level of loan forgiveness to each project expecting to close on a loan this fiscal year, while initially using 75 percent of Michigan's ARRA resources, will result in a fixed amount of loan forgiveness for each project, calculated at 23 percent of the project costs established at the time of the Order of Approval. 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 municipalities to seek ARRA assistance in FY 2010 and allow Michigan to solicit additional projects that could qualify for green project reserve funding.
- 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. To insure that all ARRA funds are obligated before February 17, 2010 and that at least 50 percent of the funds are used to provide additional subsidy, Michigan reserves the options of: (1) Allocating some ARRA funds to the regular portion of FY 2009 loans and/or (2) Providing a higher level of loan forgiveness to projects proceeding in the 1<sup>st</sup> Quarter of FY 2010. 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.

**IX. SRF PROGRAM ASSETS**

SRF capital available from the ARRA will be used entirely for the principal forgiveness portion of projects. Funds will be drawn from the capitalization grant, directly forwarded to borrowers and will not be used in the traditional leveraged structure of Michigan's SRF.

**X. ALLOCATION OF FUNDS FOR SWQIF**

No changes.

**XI. ASSURANCES**

The final guidelines from the United State 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.

Michigan will continue to enter al SRF loans tendered into the CWSRF Benefits Reporting System.

**XII. CRITERIA AND METHOD FOR DISTRIBUTION OF FUNDS**

Michigan's SRF will continue to commit loans for qualified projects based on project plans that were submitted to the RLOCS by July 1, 2008 and will provide partial principal forgiveness to those projects. Projects funded in FY 2009 will have the principal forgiveness portion funded with ARRA monies while the balance of the loan will be funded with other SRF resources, or possibly a mix of ARRA monies and other SRF program assets. Green reserve projects will be entirely funded with ARRA assets.

**XIII. PUBLIC REVIEW AND COMMENT**

In order to satisfy public participation requirements, the DEQ 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 SRF mailing list. This notice afforded stakeholders and other interested parties an opportunity to comment on how the DEQ plans to disburse SRF 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 PPLs or this supplement to the IUP may be directed to:

**Mr. Chip Heckathorn, Chief  
Revolving Loan and Operator Certification Section**

**Environmental Science and Services Division  
Department of Environmental Quality  
P.O. Box 30457  
Lansing, MI 48909  
Telephone: 517-373-4725  
Fax: 517-335-0743  
E-Mail: [heckathc@michigan.gov](mailto:heckathc@michigan.gov)**

**XIV. ORIGINATION OF DOCUMENTS**

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