

# *The Strategic Water Quality Initiatives Fund (SWQIF) Loan Program*

## — Twenty-one Questions & Answers —

### **Question 1: What types of projects can qualify for SWQIF loan funding?**

Answer: Two types of projects can qualify for SWQIF loan funding: (a) projects to remove clear water [groundwater or storm water infiltration/inflow (I/I)] from sanitary or combined sewer house leads and (b) projects to replace or upgrade failing on-site septic systems that are adversely affecting public health or the environment. Please note that the SWQIF loan can cover only the private property portions of such projects; companion work on facilities that will be publicly-owned, such as storm sewer connections, must be handled under a separate SRF loan (as discussed in Question 20 below).

### **Question 2: Who can apply for a SWQIF loan?**

Answer: Only a municipality, not individual homeowners, can apply for a SWQIF loan. The term “municipality” means a city, village, county, township, authority, or other public body, including an intermunicipal agency of two or more municipalities, authorized or created under state law; or an Indian tribe that has jurisdiction over construction and operation of sewage treatment works.

### **Question 3: What should be considered first?**

Answer: Since SWQIF assistance is effectuated by applicant issuing municipal bonds, it is imperative that the applicant carefully evaluate whether it has the legal authority to incur bonded indebtedness for these specific types of private property improvements. The applicant should also carefully evaluate how it can legally establish a dedicated source of revenue to service that debt and whether it is willing/able to provide the required bond security. **For these reasons, potential applicants are highly encouraged to consult a bond consul before proceeding with the application process.**

### **Question 4: How do we apply for a SWQIF loan?**

Answer: The first step towards obtaining a SWQIF and/or SRF loan is the submittal of a complete project plan to the DEQ Revolving Loan Section by July 1st for funding in the subsequent fiscal year. A municipality interested in SWQIF loan funding should follow the instructions provided in the *SRF/SWQIF Project Plan Preparation Guide (PPPG)* to complete its project plan. The *PPPG* can be downloaded from our *Forms and Guidance* web page at [http://www.michigan.gov/deq/1,1607,7-135-3307\\_3515\\_4143-10784--00.html](http://www.michigan.gov/deq/1,1607,7-135-3307_3515_4143-10784--00.html).

### **Question 5: How do we decide which areas/buildings are parts of a clear water removal project?**

Answer: Clear water removal projects must be justified based upon one or both of the following: (1) the existence of chronic operational problems related to hydraulic overloading of the collection/treatment system during storm events, such as sewer surcharging, basement backups, combined and sanitary sewer overflows, or bypassing at the treatment plant; and/or (2) cost-effective clear water removal as determined by an I/I analysis and a sanitary sewer system evaluation (SSES).

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**Question 6:** How do we fulfill the required demonstration of cost-effectiveness for a project involving clear water removal from house leads?

Answer: A traditional cost-effectiveness analysis must be done for house lead lining/replacement and footing drain disconnection (FDD) projects to show that the cost to remove I/I flow is less than the cost to transport and treat it, likely making some properties eligible for SWQIF-funded work and others ineligible. Specific guidance is provided on pages 17 through 19 of the *PPPG*. Please note that clear water removal projects which are based upon O&M savings alone are not eligible for funding.

**Question 7:** Are there any special planning requirements for SWQIF projects?

Answer: Most of the environmental agency contacts that are required for an SRF loan project will not apply to a SWQIF-only project. A municipality interested in SWQIF loan funding for a clear water removal project will need to provide advanced notice to and request comments from the DEQ Water Resources Division's District Municipal Storm Water Contact (<http://www.deq.state.mi.us/documents/deq-swq-stormwater-municipalcontacts.pdf>) during project planning. A municipality interested in SWQIF loan funding for an on-site septic system (OSSS) upgrade/replacement project will need to provide advanced notice to and request comments from the local health department (analogous to the regional planning agency notification in the SRF program).

**Question 8:** What components of on-site work are eligible for SWQIF reimbursement?

Answer: In addition to the items discussed in the *SRF Eligibility Guidance*, the following list addresses some common items.

### Clear Water Removal Projects

- ✓Yes Fees for building permits and inspections?
- ✓Yes Installation of sumps and sump pumps?
- ✓Yes Relocation of basement furnishings (if justification can be provided)?
- ✓Yes Installation of check valves?
- ✓Yes Restoration of basements (to pre-existing conditions)?
- ✗No Provision of back-up sump pumps?
- ✗No Provision of radon gas remediation measures?
- ✗No Installation of improvements such as new toilets, showers, or tubs?
- ✗No Payment of private property damage claims?<sup>1</sup>
- ✗No Reimbursement for pilot studies?<sup>2</sup>

### On-Site Septic System Projects

- ✓Yes Fees for local health department permits and inspections?
- ✓Yes Installation of new on-site systems?
- ✓Yes Payment for project-specific piping and/or electrical work?

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<sup>1</sup> Such claims should be covered under the contractor's insurance.

<sup>2</sup> This is considered to be a planning cost, which by definition is not eligible for loan funding.

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- ✓Yes Abandonment of existing septic tanks being replaced?
- ✓Yes Payment for in-kind site restoration?

Please note that other items not listed may be eligible for SWQIF reimbursement; please contact your DEQ project manager for detailed guidance.

**Question 9: Besides initially submitting a project plan, are there other forms we need to complete to apply for a SWQIF loan?**

Answer: Yes, the three-part SRF Application has been modified to include items specific to a SWQIF loan and can be downloaded from our *Forms and Guidance* web page at [http://www.michigan.gov/deq/1,1607,7-135-3307\\_3515\\_4143-10784--,00.html](http://www.michigan.gov/deq/1,1607,7-135-3307_3515_4143-10784--,00.html).

**Question 10: To what extent should we be concerned about assurances regarding the long-term operation and maintenance of SQWIF projects like we do with SRF projects?**

Answer: Assurance of long-term operation & maintenance will not be required for private property work except in the case of an OSSS project. For an OSSS project, the municipality may want to create a septic system management district (SSMD).

**Question 11: Must a SSMD be established for every OSSS project?**

Answer: The term “septic system management district” is open to different interpretations and the DEQ does not want to prescribe that an elaborate “district” be established. A range of options exists for the municipality to pursue, from a SSMD involving total management of all aspects of wastewater treatment to the management of one aspect of treatment such as septic tank maintenance. The first option would require that user charges be established to fund the management and maintenance program services; this may be the preferred option for non-conventional on-site systems in order to meet their high maintenance demands. At a minimum, the municipality needs to adopt an ordinance requiring homeowners to properly maintain the SWQIF-funded septic system (e.g., the homeowner must certify to the municipality that the septic tank was pumped periodically). This leaves responsibility in the hands of the homeowner, although the municipality would be responsible for assuring ordinance compliance.

**Question 12: What revenue (user charge) system or sewer use ordinance requirements will apply to a SWQIF project?**

Answer: In the case of a project involving the disconnection of footing drains in order to remove clear water from sanitary or combined sewer house leads, an ordinance or similar legal instrument will be an indication that the municipality has the legal authority to complete the proposed project. The project plan must identify this legal document.

In the case of a project involving the replacement or upgrading of failing on-site septic systems, user charge system requirements would apply only when a SSMD is established with the authority to collect fees for the operation and maintenance of the on-site septic systems funded by SWQIF. On all OSSS projects, a draft septic system maintenance ordinance must be submitted for DEQ review and approval in accordance with the executed project milestone schedule. The municipality would then enact the ordinance

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before the project initiates operation. (Please note that, in all cases, a dedicated source of revenue will be needed in order to retire the loan debt.)

### **Question 13: What procurement requirements will apply to SWQIF projects?**

Answer: The DEQ has created a waiver from competitive bidding requirements to accommodate a Request for Quotes/Qualifications (RFQ) process (although conventional competitive bidding might and can be used on some SWQIF projects). Under the RFQ process, the municipality would establish a list of pre-qualified contractors for its SWQIF project construction. A municipality applying for a SWQIF loan under the RFQ waiver will be required to (a) explain how it obtained its list of pre-qualified contractors and (b) provide that list and explanation with its Part II Application submittal. The list of pre-qualified contractors must include a sufficient number of licensed contractors to accomplish the timely completion of the municipality's project.

### **Question 14: In addition to the list of pre-qualified contractors and its explanation, what else needs to be submitted with the Part II Application to document construction costs?**

Answer: The basis by which the municipality derived its cost-per-house construction estimate for use in completing Line 12 on the Part II Application Project Cost Worksheet must be provided with the Part II submittal. That estimate must be supported by one of the following: (a) a pilot study used to determine a per-house cost; (b) comparative quotes from two or more potential contractors for a representative group of homes; or (c) another method which the DEQ has approved.

### **Question 15: What permits will be needed for a SWQIF project and from whom?**

Answer: Local building codes and inspections will cover the work on private property needed for a clear water project. Site-specific permits from the local health department will be needed for an OSSS upgrade or replacement.

### **Question 16: How do we provide the DEQ with “plans and specifications suitable for bidding” as required by state law?**

Answer: Generic plans & specifications (as opposed to site-specific documents for each property) will suffice for clear water removal projects. Site-specific health department permits will suffice as plans & specifications for an OSSS project. The permits for all OSSS sites must be received by our office at least one week before the quarterly bidding document approval deadline, which will require the municipality to provide sufficient lead time (perhaps months) for the local health department review/approval.

### **Question 17: What part does the DEQ district staff play in the review and approval of plans & specifications for a SWQIF project?**

Answer: The DEQ Water Bureau district staff will likely play no direct role in the approval of SWQIF project plans & specifications because Part 41 authority does not cover this type of work. However, district staff will review and approve a project plan submitted for a clear water removal project, including the review and approval of the I/I analysis and the SSSES.

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**Question 18: Must we submit project change orders for DEQ review and approval?**

Answer: Yes, a copy of every executed change order needs to be submitted to your DEQ project manager. All costs must be supported, just like an SRF project change order, so that an eligibility decision can be made by the DEQ. For an OSSS project change order, any new/amended local health department permit must be attached.

**Question 19: How will the DEQ handle the submittal of project cost documentation?**

Answer: All project costs must be documented in the same manner as required for an SRF loan, except for construction costs that are not covered by a conventionally-bid contract. In that case, the municipality must submit cost summaries based on construction invoices. Supporting documentation can be attached to each request for loan disbursement that is submitted to the DEQ for payment. A *Documentation for Project Progress* form can be found on our *Forms and Guidance* web page for you to use in documenting private property construction costs that are not covered by a conventionally-bid contract.

**Question 20: Are we required to certify that project construction was completed?**

Answer: Yes. For conventionally bid construction, submittal of a copy of the final pay estimate from each construction contractor, and the engineer's certificate of contract completion or owner's acceptance for each construction contract, will suffice. For costs that are not covered by a conventionally-bid contract, a *Certification of Project Completion* form has been created for you to use and can be found on our *Forms and Guidance* web page.

**Question 21: Are there any "hidden" costs involved in obtaining SWQIF loan funding?**

Answer: There are no fees charged by the DEQ to process a SWQIF loan application. However, if a municipality's project involves work on private property and on publicly-owned facilities, a separate SRF loan to cover the public work will be needed. This will entail a second bond issue and potential extra costs for bond counsel services. The separate loans are necessitated by the fact that the bonds sold by the state under the SWQIF program are taxable debt as opposed to the tax-exempt SRF program bonds.

A single project plan covering all of the proposed work, both public and private, must be submitted by the July 1st deadline so that the project can be ranked on both the SWQIF and the SRF annual project priority lists.

In cases where the non-construction costs for SWQIF and SRF program elements are not maintained separately by the municipality, a proration based on construction costs will be used to split the Part II Application budget line item costs between the SRF and SWQIF loans.