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Department of Environmental Quality



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**Drinking Water Revolving Fund
Draft Intended Use Plan
Fiscal Year 2019**

**Prepared by:
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Drinking Water and Municipal Assistance Division
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DWRF Draft Project Priority List (PPL) for Fiscal Year (FY) 2019
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I. INTRODUCTION

The Michigan Department of Environmental Quality (DEQ) through the Drinking Water and Municipal Assistance Division (DWMAD) administers the Drinking Water Revolving Fund (DWRF). The DWRF program details are set forth in Part 54, Safe Drinking Water Assistance, MCL 324.5401-324.5421, of the Natural Resources and Environmental Protection Act, 1994 PA 451, as amended (Act 451). In addition, the Michigan Finance Authority (Authority) is charged with administering DWRF funds through the Shared Credit Rating Act, 1985 PA 227, as amended (Act 227).

The DWRF provides reduced interest rate loan financing to qualified water suppliers to finance construction of public water systems. Projects may include new wells, new water treatment plants, storage facilities, upgrades or expansions to existing facilities, transmission lines, pumping facilities, and other related waterworks system improvements. Suppliers must meet federal and state program requirements, as well as demonstrate their ability to publicly finance their project and retire project debt. In addition to the loan provided by the DEQ, suppliers also have the option to pay for part of their project with cash and other resources. Since 1998, Michigan has awarded over \$958 million in financial assistance to over 290 borrowers. In fiscal year (FY) 2019, the DWRF will fund \$169 million worth of projects.

This draft Intended Use Plan (IUP) describes how the DEQ and the Authority will jointly administer all available DWRF funds during FY 2019. An IUP is a required part of the process to request the federal 2018 capitalization grant, which will be matched with 20 percent in state match funds. The 2018 capitalization grant allotment for Michigan is \$27,266,000. The Revolving Loan Section (RLS) of the DWMAD is charged with carrying out the program administration responsibilities. The Community Water Supply Section (CWSS) of the DWMAD will assess project priority, issue the necessary construction permits, and offer technical review and assistance throughout project planning, design, and construction. Financial administration of the program will be handled by the staff of the Authority.

The U.S. Environmental Protection Agency (EPA) Region 5 staff will offer guidance and conduct annual program oversight reviews of the DWRF. The EPA serves as a helpful partner in creating and maintaining this program.

The relationship between the DEQ, the Authority, and the EPA is established in an Operating Agreement signed by authorized signatories from each agency. The Operating Agreement is incorporated into this IUP by reference and is available from the DEQ upon request.

This draft IUP includes details on specific project funding and identifies amounts to be set aside from federal capitalization grants for other uses authorized under the federal Safe Drinking Water Act (SDWA) and Part 54 of Act 451. The city of Flint projects are being funded from a supplemental funding source, Water Infrastructure Improvements for the Nation (WIIN). WIIN has a separate IUP that does not impact the DWRF. A public hearing for this draft IUP and the Project Priority List (PPL) will be held on August 22, 2018, in the Edward Hutchinson Conference Room in Constitution Hall, located at 525 West Allegan Street in Lansing.

The DEQ certifies that it is recognized by the EPA as the primary agency for management of the drinking water program. The priority system was developed by the DEQ and will be used each fiscal year to determine which projects will have access to DWRF assistance. The priority system is designed to provide low-interest financing to those projects that will have the greatest impact in facilitating safe drinking water supplies.

American Recovery and Reinvestment Act

In FY 2009, Michigan received additional capitalization of \$67,454,000 through the American Recovery and Reinvestment Act of 2009 (ARRA), the federal stimulus bill. Twenty-eight projects received low-cost financing through ARRA. Twenty-seven projects have completed construction as of June 4, 2018.

Fiscal Year 2019 Project Funding

Michigan's 2018 federal capitalization grant allocation is \$27,266,000. Congress mandated that at least 20 percent of this amount be provided as additional subsidy to borrowers. The DEQ plans to provide the entire amount (20 percent) as principal forgiveness. All DWRF projects funded in FY 2019 must pay their workers the federal Davis Bacon wage rates for their job classification and comply with American Iron and Steel requirements.

II. STRUCTURE OF THE DWRF

In FY 2019, the DEQ will continue with a direct loan structure. In a direct loan structure, federal funds and state match, or fund assets that have 'revolved' back into the fund, are paid directly to municipal borrowers. There will be no cross collateralization of the DWRF.

For borrowers who are non-municipal entities, limitations on private activity from tax-exempt issues would require the DEQ and the Authority to fund private water suppliers from funds other than tax-exempt revenue bonds. These loans will be made as direct loans with a letter of credit supplied by the private borrower or through a partnership with a private lending institution with the state providing an insurance annuity. There are no private water suppliers on the FY 2019 draft PPL.

There is a provision for subordinate investment of funds between the DWRF and the State Revolving Fund (SRF). This concept permits the administrators of the two funds to make temporary investments from one fund or the other in the event that monies are needed to service debt on the state's tax-exempt bond issues, cover deficiencies in a fund's reserve accounts, or satisfy other reserve account requirements. Only those funds periodically released from debt service reserve accounts, supplemental reserve accounts, revenue accounts, or any other account of the fund, wherein released monies may be generated, may be used for the purposes of subordinate investment.

At each point that monies are released, the DEQ and the Authority will undertake a "snapshot" look at both the SRF and the DWRF. For each fund, we will first examine whether we need to service debt or satisfy reserve account requirements within the fund from which the released monies originated. Next, we will examine the other fund for the same conditions. Then, if sufficient monies are available to satisfy requirements for each fund, the released money will pass completely through and become available for future commitments to new projects consistent with its source. This provision will not be exercised in FY 2019.

Set-asides in the DWRF are derived from the capitalization grant awarded to the state by the EPA. Set-asides are designated for specified uses within the DWRF to address areas of concern included in the reauthorization of the SDWA. Legal provisions included in Act 227, permit the Authority and the DEQ to establish accounts and sub-accounts to track revenues and expenditures for the set-asides. The set-asides for program and other activities will be directly administered by the Environmental Health Section (EHS), with support from the CWSS. EHS and CWSS staff will also be responsible for the technical assistance activities, except for those funds made available to subsidize loans to disadvantaged communities. The disadvantaged community loans will be managed by the RLS.

The following is a list of potential set-asides identified in Section 1452 of the federal SDWA. The percentages noted would affect the federal capitalization grant.

DWRF Administration - 4 percent

Technical Assistance - 2 percent

Program Set-asides - 10 percent

- Public Water System Supervision

Other Activities - 15 percent, not to exceed 10 percent for any one activity

- Local Assistance for Capacity Development
- Wellhead Protection

III. ADVANTAGES OF THE DWRF

The primary advantage for Michigan water suppliers is their ability to borrow funds at interest rates below market. The DWRF interest rate is established prior to each new fiscal year. As identified in Part 54 of Act 451, determination of the interest rates is based on loan demand, market conditions, program costs, and future needs.

In setting the interest rates for FY 2019, the DEQ will examine a widely used market index for general obligation municipal bonds to identify current market conditions existing at the time the draft IUP is prepared. Then, to establish a rate of interest for municipal borrowers, the DEQ will consider present and future demand for DWRF assistance and the costs to comply with program requirements.

Once the interest rate is determined for municipal borrowers, the resulting interest subsidy to municipalities will be used for private borrowers. If a private borrower chose to obtain a letter of credit and receives a direct DWRF loan from the Authority, the interest rate would be determined by using the U.S. T-bill rate as the base and applying an identical percentage reduction of interest as municipalities receive. For those private borrowers who chose to obtain financing through a financial institution, the interest rate would be the lending institution's rate, reduced by an identical percentage as a municipality would receive.

The interest rate for municipal borrowers in FY 2019 will be established by the DEQ Director and announced at the public hearing. Private borrowers would receive an interest rate subsidy that equates to the same subsidy received by municipal borrowers.

Apart from the low-interest rate, suppliers also benefit from the DWRF in that they can finance all eligible waterworks system costs. The major benefit results from the fact that water supply financing in the past has always been left to the local units of government or private entities. Historically, there has been no significant state financial assistance available to local officials in meeting water supply needs. Recently, DEQ provided \$9.5M to 18 communities for a pilot grant program. Communities have one year to perform grant activities (update asset management program, update inventories of the types of service lines present in the distribution system and full lead service line replacement). The pilot will provide lessons learned for lead service line removal and asset management.

IV. GOALS

Michigan's DWRF establishes a funding source designed to protect and preserve public health within the state's boundaries. Michigan's geographical identity as a "Great Lakes" state affords its residents with an abundant and high-quality water resource from which to draw its drinking water. Unlike many states, Michigan water supplies are plentiful and periods of restricted use are few in most communities. The great challenge for water suppliers lies in protecting the high quality of the resource, as well as ensuring that adequate volume and pressure exist to deliver potable water to the customer.

To this end, Michigan's DWRF has the following long-term goals:

Goal: *To provide low-cost financing for waterworks system improvements or upgrades while maintaining the perpetuity of the DWRF.*

The Authority uses a financial advisor to guide decisions on funding levels, interest rates, and other financing terms. Michigan looks to balance the goals of meeting the capitalization grant requirements (i.e., additional subsidies, green projects, Davis Bacon, signage, American Iron and Steel) while maintaining the DWRF in perpetuity.

Goal: *To continue effective partnerships with other federal and state financing sources to promote efficiency in environmental review procedures and coordination of funding.*

Given the limitations on pooled capital, the DEQ continues to work together with various federal and state agencies, such as the U.S. Department of Agriculture - Rural Development, Rural Community Assistance Program, the Michigan Department of Health and Human Services, Michigan Economic Development Corporation and the Michigan Department of Transportation, so that we may collectively fund qualifying projects and maximize use of our capital pool to achieve stated goals. Such partnerships ultimately benefit everyone. Industry, tourism, and day-to-day quality of life are strengthened when our most valuable natural asset is preserved and made available for use and enjoyment.

Goal: *To maintain statewide compliance with all applicable state and federal drinking water laws, rules, and standards while protecting the public health and environmental quality of our state.*

The DEQ will use DWRF set-aside funding to: maintain source water assessment, wellhead protection, and source water protection programs; assist economically disadvantaged communities in meeting drinking water standards; and apply a capacity assessment program for all new and existing community and nontransient, noncommunity water supplies.

Goal: *To continue use of the DWRF program.*

The DEQ will continue to use effective outreach methods such as: direct mail, electronic media, newsletter publication, and informational meetings to publicize and encourage the use of DWRF to meet the infrastructure needs of communities. Starting in June 2018, RLS staff began using an Intent to Apply form. This form was developed from a lean process improvement that included external stakeholders. The Intent to Apply form is expected to give RLS staff a heads up for projects anticipating funding and provide information to communities on the specific application actions needed to fund DWRF projects.

In order to accomplish the long-term goals, we must also focus on more immediate objectives. Therefore, our short-term goals in FY 2019 are:

Goal: *Secure Michigan's full share of federal funding and to expeditiously obligate these monies, along with the state contribution.*

The DEQ has prepared and identified on the FY 2019 draft PPL all projects that are willing and able to progress to loan closing consistent with a project milestone schedule for the construction of eligible facilities. All projects receiving DWRF funds in FY 2019 will issue a Notice to Proceed within 60 days of the loan closing.

Goal: *Ensure that the additional requirements of the 2016, 2017 and 2018 capitalization grants are met, including those that are imposed on local borrowers.*

The 2016, 2017 and 2018 capitalization grants do not have a Green Project Reserve requirement. Congress mandated that at least 20 percent of the 2016, 2017 and 2018 capitalization grants be provided as additional subsidy to borrowers. The DEQ plans to provide the additional subsidy as principal forgiveness to communities deemed to be disadvantaged. Congress also requires all DWRF projects funded in FY 2019 to pay their workers the federal Davis Bacon wage rates for their job classification, comply with the American Iron and Steel and EPA signage requirements.

Goal: *Fund more projects, prompt communities to do lead service line replacement projects*

RLS provides guideline information to assist communities with handling the private property portion of lead service line replacement projects. The recent signing of the Michigan Lead and Copper Rule may also result in communities doing more lead service line replacement projects. The state-funded pilot drinking water grant is expected to increase participation in the DWRF.

V. ALLOCATION OF FUNDS

The establishment of a fundable range for any given fiscal year entails a series of steps that culminate in a determination of how much fund resources could support. Using a series of assumptions (DWRF loan rate, return on investment rates, and level of capitalization) the process for FY 2019 is outlined below:

1. The DEQ reviewed the total amount of loans committed through June 30, 2018 and anticipated to be awarded by September 30, 2018.

Total loan commitments through 6/30/2018	\$958,025,000
Expected loans to close by 9/30/2018	\$19,055,000

- The DEQ assumes that the new federal capitalization grant and the appropriated state match will remain constant until 2019 (for planning purposes only). However, it should be noted that the DEQ has **no assurance** of state general fund monies to match federal funds beyond the 2018 capitalization grant. Five million dollars (\$5M) of general funds was appropriated in the state budget for use in FY 2018 to match the 2017 and 2018 capitalization grants. Any remaining state match needed will come from state match revenue bonds. Michigan was appropriated \$27,266,000 in DWRf federal capitalization grant funds for use in FY 2019.

2018 capitalization grant for loans (total grant is \$27,266,000)	\$18,813,540
2018 state match revenue bond	\$2,178,000
General fund/state match	\$3,275,200

- After subtracting the amount needed to service existing loans, with continuation of a direct loan structure, fund resources could support \$169 million in new binding loan commitments in FY 2019. A direct loan structure will result in higher lending capacities in future years and maximize the fund’s ability to compensate for the loss of state match funds that have resulted from general fund budget cuts in recent years.

The draft PPL has 16 projects, totaling \$248 million. Six (6) projects would like to proceed with construction as noted on the PPL in FY 2019. These projects total \$169 million. Eight (8) projects, totaling \$62 million, will be considered for funding in the future.

The provision of additional subsidy is a requirement of the capitalization grant. The additional subsidy will be in the form of principal forgiveness and will not exceed \$6,411,944 in FY 2019. The principal forgiveness amount will be allocated and provided to projects with disadvantaged community status only. When principal forgiveness is provided from available loan proceeds to projects, it greatly reduces the amount of the assets returning to the DWRf as loan repayments, which could be used to make future loans.

Principal forgiveness will be allocated to disadvantaged community projects expected to close on a loan in FY 2019 as follows:

\$1,700,000	Muskegon Heights
\$4,711,944	Detroit

Each state may transfer 33 percent of available funds between the SRF and the DWRf programs. This may occur starting one year after a state receives its first capitalization grant for project funds. Michigan does not propose to transfer funds between the SRF and DWRf programs in FY 2019.

VI. CRITERIA AND METHOD FOR DISTRIBUTION OF FUNDS – SET-ASIDES

The DEQ has established the set-asides and requests funding for each set-aside based on what is needed to effectively administer the public drinking water programs, to enhance public health protection and the protection of surface and ground waters through additional non-regulatory programs, projects, and activities. In recent years, the DEQ has become more dependent on the funding provided by the set-asides to fund the staff needed to

effectively administer the programs because the federal Public Water Supply Supervision grant awards have not increased to cover the costs of additional work required to implement several new federal drinking water regulations nor for inflation.

In FY 2017, the DWMAD workload continued to increase due to focus on lead in drinking water, as well as, perfluoroalkyl and polyfluoroalkyl substances (PFAS) and other emerging contaminants. DWMAD needs additional staff resources to adequately oversee compliance with these issues.

Each year, Michigan is required to submit detailed work plans to the EPA for approval describing how each set-aside fund will be expended or the amount to be reserved. Work plans for the FY 2019 set-asides will be submitted to the EPA in late summer-early fall 2018.

Administration

Up to 4 percent of the federal capitalization grant can be used to administer the fund. Michigan intends to utilize the full 4 percent from the 2018 grant which is \$1,090,640. Any funds not utilized in FY 2019 will be retained on account for administration costs in future years.

Small Systems Technical Assistance

The DEQ is requesting 2 percent of the 2018 grant, or approximately \$545,320. These funds will support staff that provide technical assistance to small public water systems. This work includes, but is not limited to:

- Providing technical assistance to local health department (LHD) staff responsible for implementation of the Noncommunity Water Supply (NCWS) in Michigan.
- Assisting LHD staff in providing direct technical assistance to NCWS owners and operators, registered well drillers, and pump installers.
- Overseeing the work conducted by the LHDs to implement the NCWS throughout Michigan.
- Reviewing engineering plans and issuing permits for treatment systems at NCWSs.
- Providing direct assistance to small public water systems that employ treatment to comply with drinking water standards, primarily those that treat for arsenic and for nitrates.
- Assisting small nontransient, noncommunity public water supplies, formerly on an arsenic bottled water agreement, gain compliance with the arsenic maximum contaminant level by installing water treatment systems or using some other compliance option.
- Conducting one-on-one or group technical training for LHD staff, NCWS owners and operators, and other stakeholders involved in the operation and maintenance of small systems. This technical training typically focuses on:
 - sampling and monitoring practices;
 - performing Revised Total Coliform Rule Level 1 assessments and Seasonal Start Up Procedures;
 - compliance with NCWS regulations or Michigan's well construction code;

- investigatory techniques used to identify a problem with a NCWS or well and remedies to correct a given problem;
 - cross connection control, including proper use and maintenance of control devices; and
 - properly completing and submitting all required documentation or certifications, such as monthly operation reports.
- Assisting LHD, NCWS, and consultants involved with the development and operation of small systems with understanding rule and code requirements to improve compliance rates.
 - Drafting technical guidance documents, fact sheets, brochures, or forms that can be used by the LHDs or distributed to NCWSs, well drillers, and pump installers to help improve or maintain compliance with applicable regulations.
 - Administering Michigan's NCWS database, WaterTrack.
 - Providing clerical, managerial, and administrative support to the scientific and engineering staff performing the activities listed above.

In addition, the funds in this set-aside will be used in FY 2019 for the following program activities:

- Training for LHD staff responsible for implementation of the NCWS program in Michigan.
- Ongoing maintenance of the database system, WaterTrack, which houses all the NCWS program data.

Program Set-Asides

The DEQ is requesting set-aside funds for one state program management set-aside in the 2018 grant, the Public Water System Supervision Program Set-Aside. The following is a breakdown of the projected amount:

Public Water System Supervision – The DEQ requests \$2,726,600, or 10 percent of the 2018 grant, to support existing staff and the existing scope of the Public Water System Supervision Program. This work includes, but is not limited to:

- Maintaining an inventory of public water supplies in Michigan.
- Providing compliance assistance to public water supplies.
- Conducting sanitary surveys and surveillance visits at public water supplies.
- Issuing permits for new construction or for modifications.
- Assessing public water supply compliance with the federal SDWA, the National Primary Drinking Water Standards, Michigan's Safe Drinking Water Act, 1976 Public Act 399, as amended (Act 399), and the Administrative Rules.
- Initiating escalated enforcement actions, when indicated, to compel a public water supply to comply with applicable federal and state drinking water regulations.
- Maintaining program data and submitting reports to the EPA as required.
- Maintaining a drinking water operator training and certification program.

- Drafting Michigan’s Annual Capacity Development Report and the triennial Capacity Development Report to the Governor.
- Providing clerical, managerial, and administrative support to the scientific and engineering staff performing the activities listed above.

In addition, the funds in this set-aside will be used for partnering with outside experts for assistance in transitioning into the Safe Drinking Water Information System (SDWIS) Prime. DWMAD has completed and submitted a Statement of Work and related documentation for the Blanket Purchase Agreement (BPA) for the SDWIS Prime and Compliance Monitoring Data Portal transition.

Wellhead Protection (Section 1452(k))

The DEQ is requesting \$1,363,300 for the Wellhead Protection set-aside from the 2018 grant, approximately 5 percent of the 2018 grant. The amount requested will be used to support new and existing staff responsible for the following work:

- Prioritize efforts relative to emerging issues such as PFAS in groundwater and large quantity groundwater withdrawal, including digitizing legacy files and well records to ensure a more robust dataset for decision making.
- Update and distribute technical guidance related to PFAS contamination in drinking water from groundwater supplies including, fact sheets, information for distribution to stakeholders and public, including communication routes like social media.
- Overseeing contractual work on DWMAD’s groundwater databases, such as Wellogic and the Michigan Groundwater Management Tool (MGMT).
- Managing and maintaining Wellogic, Michigan’s on-line water well data system.
- Updating the Source Water Assessments (SWAs) for community water supplies and noncommunity water supplies. Provide education and outreach on wellhead protection, including providing delineations of wellhead protection areas to community water supplies and nontransient noncommunity water supplies. This will utilize MGMT and other tools as they become available.
- Review and process SWAs submitted by the LHDs. DWMAD technical staff will track the updating of the assessments and determine if the nontransient NCWSs qualify for substantial implementation of source water protection activities.
- Attend ongoing training, tools and trends in areas of groundwater protection and source evaluations, including new GIS technologies.
- Reviewing and approving traditional wellhead delineations submitted by community water supplies.
- Administrating the wellhead protection matching grant program to local communities.
- Registering well drillers and pump installers to ensure they are qualified to construct wells or install well equipment, according to Michigan’s well construction code requirements.
- Ensuring wells are constructed to code, initiating enforcement for compliance, or revoking a registration from a well driller or pump installer when necessary.
- Administering the Abandoned Well Management Program.
- Collaborating on issues, training, and projects identified by members of the Director’s Water Well Advisory Committee formed in 2015.

- Administrating the On-site Wastewater Program, including evaluating each LHDs on-site wastewater program for consistency and assurance that minimum program requirements are met.
- Promoting the need for a statewide sanitary code and assisting with efforts to promulgate one.
- Reviewing construction plans and issuance of permits for on-site wastewater installations or modifications at campgrounds to ensure site suitability, installation and operation.
- Evaluating and approving the use of new technologies for treatment of on-site wastewater.
- Administrating the Septage Waste Program, including the licensing of septage waste haulers and permitting of land application sites.
- Providing technical training and assistance to public water supplies, LHDs, well drillers, pump installers, and septage waste haulers.
- Providing clerical, managerial, and administrative support to the scientific and engineering staff performing the activities listed above.

In addition, the funds in this set-aside will be used for the following program activities:

- Implementation of wellhead protection activities.
- Maintenance of the Wellogic database software.
- Grants to local communities to increase source water protection efforts and initiatives. The DEQ plans to utilize approximately \$400,000 from the 2018 Wellhead Protection Set-Aside to provide the state funding for these 50/50 match grants.
- Water well construction technical training for LHD staff.
- Onsite wastewater technical training for LHD staff.
- EQulS is currently the proposed solution for DEQ, to gather, handle and store PFAS drinking water data collected from Public Water Supplies. EQulS is an electronic data management system and decision support system (annual subscription fee is \$40,000). The DEQ has begun a systematic sampling effort of all community water supplies and nontransient noncommunity schools. It is estimated over 2,000 drinking water samples (most of them groundwater supplies) will be collected at over 1,000 locations around the state through FY 2019. This work is critical to determining where these compounds are occurring in groundwater to protect public health. Also, this data is valuable for future wellhead protection activities, asset management, and decision making.

This software allows for field data collection; receipt of electronic data transfers from external laboratory information management systems; advanced data analysis to depict trends and exceedances; dashboards and maps to allow for data transparency; and communication tools to external partners, the regulated community, and the public.

Local Assistance for Capacity Development (Section 1452(k))

The DEQ is requesting approximately \$2,726,600, or 10 percent of the 2018 grant, for the Local Assistance for Capacity Development Set-Aside to staff and other source water protection activities. The staff funded by this set-aside are responsible for providing direct

technical assistance to public water supplies to enhance and maintain their technical, managerial and financial capabilities. Specific duties include:

- Assisting public water supplies in acquiring and maintaining capacity as outlined in Michigan's Capacity Development Strategy for Existing Water Systems, dated August 1, 2000.
- Update and distribute technical guidance related to PFAS detections in surface water systems as needed.
- Assisting public water supplies vulnerable to PFAS, including providing information on treatment technologies.
- Development and implementation of source water microcystin screening and source water assessment methodology for surface water sources.
- Coordination with other departmental programs, state and federal agencies, in the development and integration of drinking water protection strategies.
- Assisting public water supplies vulnerable to harmful algal blooms, including promoting a voluntary microcystin monitoring network among vulnerable supplies.
- Implementing a centralized approach to the oversight of surface water treatment of public water supplies, where three engineering specialists are responsible for all surface water supplies statewide to promote consistency and expertise development.
- Implementing an Engineering Unit, including three surface water engineers, three engineering specialists in the areas of distribution systems, treatment systems and corrosion control.
- Implementing a centralized approach to the Revised Total Coliform Rule (RTCR), where two Lansing rule managers handle Community Water Supply RTCR monitoring and reporting statewide.
- Implementing a centralized approach to Community Water Supply Lead and Copper Rule (LCR) oversight, where a staff-level analyst and a Lead and Copper Compliance Specialist process all LCR monitoring and reporting statewide and provide assistance to supplies.
- Implementing a centralized approach to Consumer Confidence Report technical assistance and compliance determinations at Community Water Supplies (CWS), to promote consistency and clarity.
- Conducting sanitary surveys within the required timeframes.
- Conducting plan reviews for new construction.
- Performing source water assessments at CWS.
- Providing one-on-one technical assistance and consultation with water supply personnel to assist in the understanding of and compliance with state and federal requirements.
- Reviewing master plans and engineering studies to assure regulatory compliance and optimum performance.
- Providing cross connection control guidance, training, and continuing to assist CWS with the development of residential cross connection programs.
- Expanding the operator certification and training program, including further involvement in training classes and the possible formation of a stakeholder group to strengthen and clarify the applicable rules.
- Updating 5 level, certified drinking water operator training modules for continuing education credits.
- Providing reminder letters for compliance activities.

- Providing extensive training for new and existing staff, including continuing the successful “Rule School” series providing an in-depth review of the Act 399 Rules; a rolling six-week series of new analyst training; and an extensive training series on engineering topics in both classroom and hands-on settings. These trainings, in addition to outside training for staff, are positively impacting the consistency and technical expertise available to the regulated community.

In addition, the funds in this set-aside will be used for the following program activities:

- Continuing a surface water intake protection program.
- Determining if a new community water supply meets the financial adequacy requirements of the capacity development program.
- Reimbursing LHDs for updating source water assessments at nontransient NCWSs.
- Reimbursing LHDs for performing capacity assessments at new or existing nontransient NCWSs.
- Reimbursing LHDs for performing annual site visits in situations where the noncommunity public water supply provides treatment for public health purposes.
- The DWMAD will continue the Area Wide Optimization Plan Training.
- Purchasing technology that will allow historical public water supply plans and “as built” on microfiche to be transmitted electronically to public water supplies timely to assist in asset management and system repairs.

VII. CRITERIA AND METHOD FOR DISTRIBUTION OF FUNDS - PROJECT LOANS

Michigan’s DWRP will commit loans for qualified projects based on project plans that were submitted to the RLS by May 1, 2018. Plans were reviewed by staff of the DEQ to ensure compliance with Section 5405 of Act 451, before being placed on the draft PPL for FY 2019. The DWRP, to the maximum extent practicable, must give priority to projects that:

- address the most serious risks to human health,
- are necessary to ensure compliance with the requirements of the federal SDWA,
- in addition, assist systems most in need according to the state’s affordability requirements.

Michigan’s priority system takes these factors into account in the assignment of priority points. Acute violations receive a larger number of points than any other category. In fact, standard compliance offers over 41 percent of a project’s total possible points. All factors point to the need for the project to comply with federal drinking water requirements; affordability is addressed by the award of additional points for disadvantaged community status and is the ultimate tiebreaker. Michigan’s priority point system is detailed in Section 5406 of Act 451.

The FY 2019 DWRP draft PPL is included as part of the IUP and will be presented as part of the public hearing scheduled for August 22, 2018. The DWRP draft PPL has 16 projects totaling \$248 million. This includes eight (8) projects and/or segments equaling \$62 million for funding in the future, two projects that will be funded in the fourth quarter of FY 2018 totaling \$17 million and six (6) projects that would like to proceed with construction in FY 2019, totaling \$169 million.

Section 1452(a)(2) of the federal SDWA requires the state to first make available 15 percent of all funds annually credited to the DWRF for financial assistance to water suppliers serving fewer than 10,000 persons. For the 2018 capitalization grant, Michigan must reach or exceed \$4,089,900 to satisfy this requirement.

All projects are reviewed and scored based upon the priority point system outlined in Part 54 of Act 451. Funds are made available for commitment based on the priority ranking and projects will only be funded out of order to satisfy requirements for small community assistance.

Employing the criteria found in Section 5415 of Act 451, the Director of the DEQ will set the interest rate prior to the public hearing for FY 2019. The term of the loan will run up to 20 years for most projects. Those suppliers meeting disadvantaged community criteria will, however, be able to extend their terms for up to 30 years, if desired.

Part 54 of Act 451 also permits suppliers serving less than 10,000 persons to receive reimbursement of project planning costs upon delivery of an approvable project plan to the DEQ. Legislation has been passed to provide a funding mechanism for this reimbursement. Interim planning loans first became an option for DWRF applicants in FY 2001.

VIII. DISADVANTAGED BUSINESS ENTERPRISE

Beginning October 1, 2009, the DEQ implemented the EPA's Disadvantaged Business Enterprise (DBE) Rule (40 CFR Part 33). The DBE rule applies specifically to ANY procurement made utilizing EPA financial assistance. EPA financial assistance includes DWRF funding. The DBE rule changed substantially from the prior Minority Business Enterprise (MBE) and Women's Business Enterprises (WBE) rule. The DBE rule requires that MBE and WBE firms be certified. Certification applies to enterprises that are at least 51-percent owned and/or controlled by socially and economically disadvantaged individuals who are of good character, are citizens of the United States, and have an initial and continued personal net worth of less than \$750,000.

DBE requirements apply to the DEQ, DWRF loan recipients, and the loan recipient's prime contractors. Additional information regarding the DBE requirements is available on the DEQ, DWRF Web site (<http://www.michigan.gov/drinkingwaterrevolvingfund>).

IX. DISADVANTAGED COMMUNITY STATUS

Disadvantaged community status is determined by the DEQ based on information submitted with a supplier's project plan. To qualify, an applicant must first meet the definition of "municipality" found in Part 54 of Act 451. Next, the updated median annual household income (MAHI) of the area to be served must be less than 120 percent of the state's updated MAHI. Finally, the costs of the project must be borne by the customers in the service area. If costs are spread over a larger area, then that area must demonstrate that it meets the poverty or affordability criteria.

Once these conditions are met, a community will be awarded the disadvantaged community status if one of the following is true:

- More than 50 percent of the area to be served by the proposed project is identified as a poverty area by the U.S. Census Bureau.
- The updated MAHI of the area to be served is less than the most recently published federal poverty guidelines for a family of four in the contiguous United States.
- The updated MAHI is less than the updated statewide MAHI and the annual user costs for water supply exceed 1 percent of the service area's MAHI.
- The updated MAHI is more than the updated statewide MAHI and the annual user costs for water supply exceed 3 percent of the service area's MAHI.

The major benefits for qualified communities include 50 additional priority points, extension of loan terms to 30 years, and assistance to help defray the costs of preparing project plans if the population is less than 10,000. There are two communities, the cities of Detroit and Muskegon Heights, on the FY 2019 draft PPL that qualify for disadvantaged community status. The two projects total \$21,720,000.

A complete discussion of the disadvantaged community status may be found in a guidance document prepared by the DEQ to more fully explain how a supplier can achieve the status and benefit from it. RLS staff encourages all applicants to supply the pertinent data to allow the DEQ to perform a disadvantaged community status analysis.

X. 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's requirements and deposit funds drawn from it into appropriate accounts set up for the DWRP.

Beginning in the 1st quarter of FY 2019, Michigan anticipates drawing capitalization grant funds from the ASAP system. The draw ratio will be 77.53 percent (federal) and 22.47 percent (state) for the 2018 capitalization grant.

One request for disbursement may be submitted by the local project's authorized representative (or state agencies) each month. As project costs (or program administrative/set-aside costs) are incurred, the request for disbursement of funds will be sent directly to the DEQ, who will then process the request as part of a weekly draw request. Upon delivery to its office, the Authority will execute the fund drawdown electronically by transferring money from the federal ASAP and state accounts. Monies will be automatically deposited into the debt service reserve account of the DWRP, while funds are electronically wired to a municipal water supplier's bank from a DWRP account. For non-municipal water suppliers, the funds will be transferred from direct federal and state capitalization amounts established specifically for the purpose of reimbursing their eligible project costs.

XI. ASSURANCES

The final guidelines from the EPA set forth provisions that the state must provide certain assurances in order to qualify for capitalization grant funding. Such assurances are incorporated into the Operating Agreement and are included here by reference. The DEQ has a Quality Management Plan that guides our selection of qualified staff, and that the relevant staff is in place to work on DWRP projects. DWRP project information will

continue to be provided to the EPA via the Drinking Water Project & Benefits Reporting (PBR) and the National Information Management System (NIMS). All projects funded in FY 2019 will meet the equivalency requirements for crosscutter review and Federal Funding Accountability & Transparency Act (FFATA).

XII. OUTPUT/OUTCOME MEASURES

To comply with the EPA requirements on Environmental Benefits of the DWRF, Michigan estimates that the following outputs could result from project loans in FY 2019 (including any projects noted as future on the PPL):

- A. Output: Michigan could fund approximately 13 drinking water transmission/ distribution loans to construct/rehabilitate/upgrade drinking water transmission and distribution systems across the state. The dollar amounts of these applications total approximately \$212 million.

Outcome: The funding of these projects could result in more people receiving improved drinking water from existing treatment systems in Michigan.

- B. Output: Michigan could fund approximately four drinking water treatment projects to construct and/or rehabilitate drinking water treatment facilities across the state. The dollar amount of these application total approximately \$29 million.

Outcome: The funding of these projects could result in improved drinking water for thousands of people in Michigan and upon completion of the project, facilities that meet all applicable permits and SDWA requirements.

- C. Output: Michigan could fund approximately one drinking water storage project to construct and/or rehabilitated drinking water storage facilities across the state. The dollar amount of the application totals approximately \$5 million.

Outcome: The funding of this project could result in the improved drinking water and storage facilities that meet all applicable permits and SDWA requirements.

Please note that the number of applications will not agree with the number of loans on the PPL, as many of the project loans include work in more than one category (i.e., transmission/distribution, treatment, storage, and source).

XIII. PUBLIC REVIEW AND COMMENT

In order to satisfy public participation requirements, the DEQ will hold a public hearing to discuss the DWRF draft IUP on August 22, 2018. This hearing will be publicly noticed in the *Detroit Legal News*, *the Lansing State Journal*, and *the Marquette Mining Journal*; posted on the DEQ calendar of events; mailed to all persons and engineering firms on our newsletter mailing list; and individually noticed to each water supplier on the FY 2019 draft PPL. These sources promote the hearing to ensure maximum public input from those interested in the DWRF. The hearing affords stakeholders and other interested parties an opportunity to hear and comment on how the DEQ plans to disburse the DWRF loan funds. All comments will be responded to upon the close of the hearing record.

Questions about the DWRF draft IUP may be directed to:

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Other contacts for the DWRF are:

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XIV. ORIGINATION OF DOCUMENTS

The DWMAD is responsible for issuing the DWRF draft IUP and its accompanying information.



Department of Environmental Quality

Current PPL

DWRF

Rank	Project #	Project Name, Location and Description	Population	Total Points	Binding Com Date	Binding Com Amount	
PROJECTS WITHOUT PRIOR YEAR SEGMENTS							
1	7440-01	East Lansing	Ingham Co	79,585	700	08/09/2019	\$745,000
2	7425-01	City of Fraser	Macomb County	14,084	540	02/28/2019	\$4,925,000
3	7437-01	City of St. Joseph	Berrien County	33,000	465	Future	\$35,565,000
4	7418-01	City of Muskegon Heights	Muskegon County	10,800	465	Future	\$5,735,000
5	7427-01	City of St. Joseph	Berrien County	33,000	465	08/23/2018	\$13,055,000
6	7436-01	City of St. Joseph	Berrien County	33,000	465	Future	\$1,645,000
7	7428-01	City of Highland Park	Wayne County	10,441	440	08/23/2018	\$4,080,000
8	7426-01	City of Rochester	Oakland County	13,660	415	02/28/2019	\$5,950,000
9	7431-01	Village of Lake Orion	Oakland County	3,032	395	Future	\$1,500,000
10	7432-01	Village of Lake Orion	Oakland County	3,032	395	Future	\$1,500,000
11	7445-01	GLWA	Wayne County	3,900,000	375	08/09/2019	\$133,725,000
12	7447-01	GLWA/DWSD	Detroit/Wayne County	714,000	375	02/28/2019	\$15,985,000
13	7446-01	GLWA	Wayne County	1,700,000	375	05/17/2019	\$7,250,000
14	7434-01	City of Dearborn	Wayne County	100,000	325	Future	\$8,000,000
15	7433-01	City of Dearborn	Wayne County	100,000	325	Future	\$4,500,000
16	7435-01	City of Dearborn	Wayne County	100,000	325	Future	\$3,500,000
Total 16 Projects							\$247,660,000



Department of Environmental Quality

Drinking Water Revolving Loan Fund PPL Scoring

Category Description	Points	7418-01	7425-01	7426-01	7431-01	7432-01	7433-01	7434-01	7435-01	7436-01	7437-01	7440-01	7445-01	7446-01	7447-01	
		150	150	150	150	150	150	150	150	150	150	150	400	150	150	150
Drinking Water System Compliance Total	450 (max)															
Acute Viol. of DW Standards, Health Advisory Levels, SWTT, Disease	250															
Non-Acute Viol. of DW Standards, Health Advisory Levels, SWTT, Disease	200															
Facility Upgrade to Maintain Compliance	150															
Aesthetic Upgrades to Maintain Compliance	25															
Infrastructure Improvements/Upgrades - Total	350 (max)															
Source/Treatment with Connecting Mains	125 (max)	125	250	125	125	125	0	0	0	125	175	100	250	75	75	25
Meet Minimum Capacity	100															
Reliability	75															
Other Upgrades	25															
Enforcement Action	25															
Source Water Protection	50															
Transmission/Distribution Mains	125 (max)	0	125	125	125	125	25	25	25	25	25	75	75	0	0	25
Meet Minimum Capacity	100															
Reliability	75															
Other Upgrades	25															
Enforcement Action	25															
Storage Facilities/Pumping Stations	125 (max)	0	125	0	0	0	0	0	0	25	25	75	0	0	0	0
Meet Minimum Capacity	100															
Reliability	75															
Other Upgrades	25															
Enforcement Action	25															
Population - Total	50 (max)	40	40	40	20	20	50	50	50	40	40	50	50	50	50	50
0 - 500	10															
501 - 3,300	20															
3,301 - 10,000	30															
10,001 - 50,000	40															
> 50,000	50															
Disadvantaged Community - Total	50 (max)	50	0	0	0	0	0	0	0	0	0	0	0	0	0	50
Granted	50															
Consolidation - Total	100 (max)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Achieve Compliance	100															
Correct Deficiencies	60															
Other	40															
Comp. Wellhead/Source Water Protect Plans - Total	100 (max)	100	100	100	100	100	100	100	100	100	100	0	100	100	100	100
Granted	100															
Total Priority Points Assigned	1000 (max)	465	540	415	395	395	325	325	325	465	465	700	375	375	375	375

Fiscal Year: 2019

Monday, July 16, 2018 3:45 PM

**Michigan Drinking Water Revolving Fund
Estimated Category Costs for FY 2019 Final Project Priority List (PPL)**

Project #	Transmission/Distribution	Treatment	Storage	Source	Other	Total
7418-01	\$3,794,751				\$1,940,249	\$5,735,000
7425-01			\$4,925,000			\$4,925,000
7426-01	\$5,950,000					\$5,950,000
7427-01	\$332,000	\$12,723,000				\$13,055,000
7428-01	\$4,080,000					\$4,080,000
7431-01	\$1,500,000					\$1,500,000
7432-01	\$1,500,000					\$1,500,000
7433-01	\$4,500,000					\$4,500,000
7434-01	\$8,000,000					\$8,000,000
7435-01	\$3,500,000					\$3,500,000
7436-01	\$1,645,000					\$1,645,000
7437-01	\$27,534,194	\$8,030,806				\$35,565,000
7440-01		\$745,000				\$745,000
7445-01	\$133,725,000					\$133,725,000
7446-01		\$7,250,000				\$7,250,000
7447-01	\$15,985,000					\$15,985,000
	\$212,045,945	\$28,748,806	\$4,925,000	\$0	\$1,940,249	\$247,660,000

Number of projects

13

4

1

1