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# The Loan Arranger

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**Fall/Winter  
2014**

Revolving Loan Section  
Office of Drinking Water and Municipal Assistance  
Michigan Department of Environmental Quality



## **Project Highlight: City of East Lansing**

*by Jaclyn Merchant*

In fiscal year 2015, the city of East Lansing is planning to use SRF funding to install new tertiary filters as well as a new ultraviolet (UV) disinfection system at its Wastewater Treatment Plant (WWTP). The total estimated project cost is \$13,907,000.

The WWTP is located just off of Trowbridge Road and discharges to the Red Cedar River. Treatment processes at the WWTP include grit removal, flow equalization, primary settling, aeration tanks with coarse bubble air diffusers, secondary clarification, chemical disinfection, rapid sand filtration, de-chlorination, and post filtration aeration. The city's collection system was installed in the 1920s and includes both combined (stormwater and sanitary) and separated sanitary sewers.

The tertiary filters currently in use can no longer meet the treatment rate needed for the amount of wastewater flow the WWTP receives. For this reason, the filter media will be replaced with a 42-inch layer of coarse sand media and a 15-inch layer of gravel with an air-wash water system. Increased capacity with this option will greatly minimize, if not eliminate, the current need to bypass the tertiary filters during peak wet weather flows. Replacement of the filter media also allows for the installation of a UV disinfection system. Construction of a UV disinfection system will improve plant safety by eliminating chemical storage and usage. Additionally, UV disinfection will provide improved disinfection system efficiency and reduce the potential for excess chlorine residuals to be discharged into the Red Cedar River.



The Revolving Loan Section and the city of East Lansing are looking forward to working together on this greatly needed project. It is expected that construction will begin this fall.

## Procurement of Architectural and Engineering Services for SRF Projects

On June 10, 2014, President Obama signed into law the Water Resources Reform and Development Act of 2014 (WRRDA). Among its provisions are amendments to the Federal Water Pollution Control Act (FWPCA), which includes the administration of the Clean Water State Revolving Fund program. This document specifically discusses the requirements of Section 602(b)(14) of FWPCA, which states:

*(14) a contract to be carried out using funds directly made available by a capitalization grant under this title for program management, construction management, feasibility studies, preliminary engineering, design, engineering, surveying, mapping, or architectural related services shall be negotiated in the same manner as a contract for architectural and engineering services is negotiated under chapter 11 of title 40, United States Code, or an equivalent State qualifications-based requirement (as determined by the Governor of the State).*

Per Section 602(b)(14), beginning October 1, 2014, any contracts not already executed must now publicly announce all requirements for architectural and engineering services and negotiate contracts for those services using a Qualifications-Based Selection (QBS) process. This is in place for all SRF projects receiving assistance in fiscal year 2015 (FY15) and beyond. Due to a very short implementation timeframe, our office intends to use an equivalency threshold for FY15; meaning nothing further is required from you at this time. If you or your clients are planning to apply for future SRF funding, please familiarize yourself with this new federal requirement.

The goal of the QBS process is to find the best qualified firm or individual to perform architecture or design work based on demonstrated competence and qualification for the services required at a fair and reasonable price. The process involves two steps: selection of an engineering consultant firm and negotiation of the contract. The following steps must be followed in order to comply with the QBS process.

### **Selecting an Architectural/Engineering Design Firm**

1. The applicant issues a request for qualifications based on a scope of work.
2. Statements of qualifications that are based on established, publicly available criteria are evaluated.
3. The statements of qualifications are evaluated, and a short-list of qualified firms to be interviewed is determined.
4. Interviews are conducted **with no fewer than three firms**, and the firms are ranked according to qualifications.

### **Negotiating a Contract**

5. The applicant selects the most qualified (highest-ranked) firm and negotiations begin.
6. If the proposal fee is acceptable (contract pricing is determined to be fair and reasonable based on the scope, complexity, professional nature, and estimated value of services), the contract is awarded.
7. If an agreement cannot be reached with the top-ranked firm, those negotiations are ended and negotiations begin with the next-most-qualified firm.

Please note, this new legislation pertains **only to SRF-funded projects**. If you have further questions, please contact your SRF project manager or the Revolving Loan Section at 517-284-5433.

**Deadlines for Submission of  
Project Plans for the Fiscal Year 2016 Project Priority Lists:**  
**Drinking Water Revolving Fund** – Project Plans must be received in our office by close of business  
OR postmarked no later than **May 1, 2015**.  
**State Revolving Fund/Strategic Water Quality Initiatives Fund**– Project Plans must be received  
OR postmarked no later than **July 1, 2015**.

## Changes in Disadvantaged Status Determinations for SRF and DWRF

by Bob Schneider

On January 2, 2013, Public Act No. 560 amended 1994 PA 451 to incorporate disadvantaged determinations into the SRF program. Until recently, disadvantaged determinations were only available for DWRF applicants.

In addition to disadvantaged determinations for both the DWRF and SRF programs, the multiplier used in calculating disadvantaged status has been reduced from 1.5 percent to 1 percent. The principal reason for extending benefits to a municipality, which meets the disadvantaged community criteria, is to reduce the economic stress on users within the area to be served by a proposed project.

Benefits available to DWRF applicants who qualify as a “disadvantaged community” include:

- Award of 50 additional project priority points [Sec. 5406(d)];
- Possible extension of the loan term up to 30 years, or the useful life of the facilities/components funded, whichever is earlier [Sec. 1452(f) of the federal Safe Drinking Water Act, Title XIV of the Public Health Service Act, 42 U.S.C. 300f et seq.];
- Possible technical assistance to cover project planning costs for communities with a population of 10,000 or less, dependent upon availability of funds and submission of an approvable project plan [Sec. 5404(c)].

The benefit available to SRF applicants who qualify as a “disadvantaged community” is:

- Award of 50 additional project priority points [Sec. 5303(v)].



Unlike the SAW disadvantaged determination criteria, the criteria for SRF and DWRF disadvantaged determination is based entirely on the median annual household income (MAHI) of the applicant.

To assist applicants in assessing whether or not they may qualify as a disadvantaged community, the DEQ has prepared the Disadvantaged Community Guidance and the Disadvantaged Community Status Determination Worksheet. The DEQ, however, is responsible for reviewing the project plan to make a final determination based on the criteria included in the law. The Determination Worksheet is also found in the Project Plan Preparation Guidance and must include sufficient information to document that the applicant meets the disadvantaged criteria.

The DEQ recognizes that the annual user costs identified in the worksheet may change from the planning phase to the bidding phase when actual costs of construction become known. This may result in a supplier achieving designation as a disadvantaged community based on estimates provided in the project plan and later losing the designation if project costs decrease. If this occurs, the supplier may benefit from additional priority points, but will not qualify for additional benefits where applicable. Conversely, if the estimates used in the project plan are less than the actual bid costs, the DEQ may determine that the municipality qualifies for disadvantaged community status once the final costs are known.

## DO YOU KNOW WHERE MICHIGAN'S 10 MOST HAUNTED PLACES ARE?

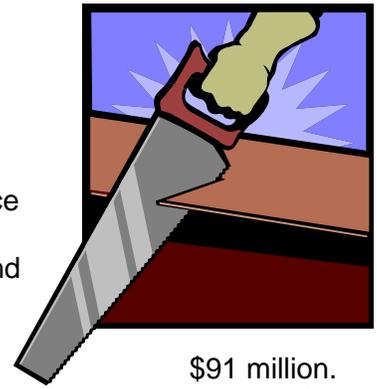
'Tis the Season....Have a Happy Halloween!

### The Traverse City State Hospital

Constructed in 1885 and closed over 100 years later, the Traverse City State Hospital is perhaps the most eerie place in Grand Traverse County. Originally, an asylum for the mentally unstable, during its active years the hospital also housed those afflicted with tuberculosis, typhoid, diphtheria, and polio. Although the Gothic-style buildings have undergone renovations since 2000, a visit to the grounds conjures up the ominous and oppressive feelings of its past. Underground tunnels and caged balconies add to the spooky visual stimuli and, located on the trails behind the buildings, there is said to be a portal to Hell under “The Hippy Tree.” As well as documented paranormal investigations, the State Hospital has several books dedicated to its disturbing history.



**A Second “Cut of the SAW”:  
Announcing the Latest Round of Grant Awards**  
*by Jonathan Berman*



The Michigan Department of Environmental Quality (DEQ) is proud to announce further progress toward funding the complete list of 579 Stormwater, Asset Management, and Wastewater (SAW) grant applicants. Specifically, the second round of SAW grant funding has now officially been awarded and this very latest “cut of the SAW” resulted in the allocation of SAW grant funding to 115 municipalities throughout the state for a combined total dollar amount of over \$91 million. These communities may now be reimbursed for DEQ-approved expenses designed to help them plan for their sewer system maintenance needs through the development of asset management plans for wastewater and stormwater, stormwater management planning, and wastewater and stormwater project planning and design. This most recent achievement now brings the total number of SAW grant applicants to be awarded funding to 207 and the total dollar amount of SAW grant funding awarded to approximately \$170 million.

Municipalities seeking SAW grants applied to the DEQ by December 2, 2013, and approved applications were posted in their funding order per a lottery process in March 2014. No new SAW applications are being accepted by the DEQ as the total dollar amount of the approved SAW applications exceeds the total \$450 million dollars available for the SAW program. In order to fund the SAW grants, the Michigan Department of Treasury will issue general obligation debt as authorized in the Great Lakes Water Quality Bond.

The SAW program was signed into law on January 2, 2013, and operates alongside the established State Revolving Fund and Strategic Water Quality Initiatives Fund loan programs, as well as the winding-down S2 Grant Program, to support water pollution control efforts in Michigan. The latest information on the SAW program, along with a ‘Frequently Asked Questions’ document, is posted as needed on the website, <http://www.michigan.gov/cleanwaterrevolvingfund>, SAW Program Highlights link.

### **Heads Up, Changes are Afoot**

On June 10, 2014, several amendments were made to the Federal Water Pollution Control Act (FWPCA). Currently, our office is reviewing the changes and determining the impact implementing these amendments will have on SRF applicants. One amendment involves a Fiscal Sustainability Plan (FSP). An FSP will be required for publicly owned treatment work projects that involve repair, replacement, or expansion of treatment works for all SRF project plans submitted after October 1, 2014. The cost of developing an FSP is eligible to be included in the SRF loan. Guidance on the FSP process has yet to be drafted by U.S. Environmental Protection Agency or our office. However, the FWPCA states in Section 603(d)(1)(E), *the recipient of a loan shall develop and implement a fiscal sustainability plan that includes:*

- *An inventory of critical assets that are a part of the treatment works*
- *An evaluation of the condition and performance of inventoried assets or asset groupings*
- *A certification that the recipient has evaluated and will be implementing water and energy conservation efforts as part of the plan and*
- *A plan for maintaining, repairing and as necessary, replacing the treatment works and a plan for funding such activities*

Currently, we view an FSP as similar to an asset management plan. If an SRF loan is being considered for fiscal year 2016, then please ensure that your facility has begun an asset management plan that includes the activities described above. Additional information on FSPs will be shared as it become available.

## Mind the GAAP

Another amendment to the FWPCA includes a reference to the generally accepted accounting principles (GAAP). Section 602(b)(9) states

*The state will require as a condition of making a loan or providing other assistance, ... from the fund that the recipient of such assistance will maintain project accounts in accordance with generally accepted government accounting standards, including standards relating to the reporting of infrastructure assets;*

It is assumed that all loan recipients have been complying with GAAP standards and the Governmental Accounting Standards Board (GASB). In 1999, GASB issued Statement No. 34, which includes standards for reporting of infrastructure. GASB Statement No. 34 dealt with methodologies for reporting on and depreciating infrastructure and capital assets. The implementation of the methodologies was expected by June 15, 2003. Consult with your auditor to determine whether you are meeting the accounting requirements.

## REMINDERS TO APPLICANTS

- Clearly Label your Attachments and Appendices to all Submittals: Whether it's a Part I Application (financial attachments), Part II Application (cost supporting documents), Part III Application (bidding data attachments), Project Plan (sections/appendices), User Charge System (with legal documents), Disbursement Request (cost documentation) or any other major submittal, remember to clearly label all attachments and appendices. You may package attachments and appendices separately in a given submittal or tab each one individually within a combined package. Improving the organization of major submittals in this way for easier navigation and readability will result in quicker reviews and even happier reviewers! We thank you in advance for your time and attention to this matter so that we may better assist you in the future.
- SAW Disbursements: To avoid delays in receiving funds, make sure bank information is complete and accurate on the disbursement requests. Please review the following on each SAW disbursement request:
  - 1) Grantee EIN is nine digits.
  - 2) Sections G & H are completed; the special instructions area is optional.
  - 3) ABA # is nine digits
  - 4) There is information in the Account # field.
- Compliance with American Iron and Steel requirements must be made for all SRF and DWRF projects funded in FY 2015.
- The interest rate for DWRF, SRF, SWQIF, and SAW loans closing in fiscal year 2015 is 2.5 percent.
- The discount rate is not currently available for fiscal year 2015 project planning. After the new rate has been set by the Environmental Protection Agency, it will be posted on our website. This rate is to be used for project planning that begins on or after October 1, 2014, for preparation of the cost-effectiveness analysis. Remember, this is NOT a rate that should be used to calculate debt retirement needs, but rather is used in cost-effectiveness analyses to "bring" future expenditures back into today's dollars for total present worth or equivalent annual cost comparisons.



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If you know someone, who would like to be added to **THE LOAN ARRANGER** mailing list, has an address change, or would like to receive **THE LOAN ARRANGER** electronically, please e-mail a request to the editor, Ms. Carla Winegar, at [WinegarC@michigan.gov](mailto:WinegarC@michigan.gov).

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