

State of Michigan
Gretchen Whitmer, Governor

**Michigan Department of Environment,
Great Lakes, and Energy**



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Drinking Water Revolving Fund Final Amended Intended Use Plan Fiscal Year 2019

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INTRODUCTION

The Michigan Department of Environment, Great Lakes, and Energy (EGLE) 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 EGLE, 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.

EGLE submitted the final fiscal year (FY) 2019 Intended Use Plan/Project Priority List (IUP/PPL) to the Environmental Protection Agency (EPA) in September 2018. At that time, there were 19 projects identified for funding for a total of \$247,510,000. Five projects, totaling \$47.9 million, wished to proceed in FY 2019. 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. Since the final FY 2019 IUP/PPL was submitted, the amendments to Michigan's lead and copper rule as well as the discovery of per- and polyfluoroalkyl substances (PFAS) in drinking water supplies has heightened the need for solutions to drinking water contamination issues. EGLE strives to be responsive to threats to safe drinking water, so a second call for drinking water projects that address contamination was issued in December 2018.

This final amended IUP/PPL describes how EGLE and the Authority will jointly administer a portion of the remaining available DWRF funds for the projects addressing contamination issues during FY 2019. The communities of Bay City, Hamtramck, Kalamazoo and Muskegon submitted projects in response to the second call. These projects are added to the IUP/PPL that was submitted to EPA in September 2018.

The relationship between EGLE, 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 EGLE upon request.

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 citizens 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, this amendment to the FY 2019 IUP helps to support Michigan's DWRF following goals:

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

EGLE will use DWRF and principal forgiveness to assist economically disadvantaged communities in meeting drinking water standards.

Goal: *Fund activities to eliminate exposure to contaminants in drinking water.*

This second call for DWRF projects is focused on assisting communities with addressing contaminants in their drinking water.

Goal: *Secure Michigan's full share of federal funding and effectively use these monies, along with the state contribution to address Michigan's water infrastructure needs.*

This amended IUP identifies additional projects that are able to progress to loan closing consistent with a project milestone schedule for the construction of eligible facilities.

Goal: *Support communities with lead service line replacement projects.*

This second call for DWRF projects was targeted for funding lead service line replacements and to address other contaminants.

ALLOCATION OF FUNDS

The provision of additional subsidy is a requirement of the capitalization grant. The additional subsidy in the form of principal forgiveness will not exceed \$6,431,744 in FY 2019. The principal forgiveness amount will be allocated and provided to projects with disadvantaged community status. 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.

In the FY 2019 IUP submitted to EPA in September 2018, only one disadvantaged community was expected to close on a loan in FY 2019. The city of Detroit was allocated \$4,711,944 in principal forgiveness. This left \$1,719,800, principal forgiveness to be allocated to the three disadvantaged communities on the amended FY 2019. Those communities, Bay City, Hamtramck and Muskegon, will receive 20 percent of the total project cost in principal forgiveness as follows:

Community	Total Project Cost	Principal Forgiveness
Bay City	\$4,920,000	\$984,000
Hamtramck	\$815,000	\$163,000
Muskegon	\$1,490,000	\$298,000

EGLE recognizes that the DWRF could incentivize full-length lead service line replacements by offering principal forgiveness. The communities of Kalamazoo and Rochester (from the September FY19 IUP/PPL) will receive principal forgiveness of 15 percent of the estimated cost of full-length lead service line replacements upon completion of the full-length replacements. This principal forgiveness will assist these communities to achieve full lead service line replacements.

Community	Estimated Full-Length Lead Service Line Replacement Cost	Principal Forgiveness
Kalamazoo	\$1,700,000	\$255,000
Rochester	\$132,000	\$19,800

CRITERIA AND METHOD FOR DISTRIBUTION OF FUNDS – PROJECT LOANS

The final amended DWRF IUP commits loans for qualified projects based on project plans that were submitted by March 15, 2019. Plans were reviewed by EGLE staff to ensure compliance with Section 5405 of Act 451, before being placed on the amended PPL for FY 2019. The DWRF, 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. 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.

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. 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, Michigan’s interest rate is two percent 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.

DISADVANTAGED COMMUNITY STATUS

Disadvantaged community status is determined by EGLE 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 the 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 three communities, the cities of Bay City, Muskegon, and Hamtramck, on the final amended FY 2019 PPL that qualify for disadvantaged community status. The three projects total \$7,225,000.

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

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 DWRF.

Beginning in the 1st quarter of FY 2019, Michigan started drawing capitalization grant funds from the ASAP system. The draw ratio is 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 each month. As project costs are incurred, the request for disbursement of funds will be sent directly to EGLE, 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 DWRF, while funds are electronically wired to a municipal water supplier's bank from a DWRF 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.

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. EGLE has a Quality Management Plan that guides our selection of qualified staff, and that the relevant staff is in place to work on DWRF projects. DWRF 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 the Federal Funding Accountability & Transparency Act (FFATA).

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 21 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 \$221 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 applications 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 rehabilitate 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 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).

PUBLIC REVIEW AND COMMENT

This amended final IUP/PPL was posted on the DWRF webpage for a two week public comment period. No comments were received. The final amended FY19 IUP/PPL will be posted on the DWRF webpage. Questions about the final amended DWRF FY 2019 IUP/PPL may be directed to:

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Department of Environment, Great Lakes, and Energy

Amended FY 2019 PPL

DWRF

Rank	Project #	Project Name, Location and Description	Population	Total Points	Binding Com Date	Binding Com Amount
PROJECTS WITH PRIOR YEAR SEGMENTS						
1	7445-99	GLWA Wayne County	Transmission Main	3,900,000	375	Future \$115,725,000
PROJECTS WITHOUT PRIOR YEAR SEGMENTS						
2	7425-01	City of Fraser Macomb County	Ground level storage tank, PRVs,	14,084	540	Future \$4,925,000
* 3	7449-01	City of Muskegon Muskegon County	WM repl lead serv line replac	38,500	515	08/09/2019 \$1,490,000
4	7444-01	East Lansing Ingham County	new strg resv, puchase new wells	79,585	500	Future \$3,850,000
5	7437-01	City of St. Joseph Berrien County	WTP improvement, watermain repla	33,000	465	Future \$35,565,000
6	7418-01	City of Muskegon Heights Muskegon County	Watermain & meter replacement	10,800	465	Future \$5,735,000
7	7436-01	City of St. Joseph Berrien County	Watermain replacement	33,000	465	Future \$1,645,000
8	7443-01	East Lansing Ingham County	water main ext, filt bkwdsh sys	79,585	425	Future \$9,100,000
9	7426-01	City of Rochester Oakland County	Watermain replacement & transm	13,660	415	08/09/2019 \$5,950,000
10	7442-01	East Lansing Ingham County	WTP filt add & controls	79,585	400	Future \$2,900,000
11	7441-01	East Lansing Ingham County	HVAC upgrd	79,585	400	Future \$1,135,000
* 12	7451-01	City of Kalamazoo Kalamazoo County	lead serv line replac	144,500	400	08/09/2019 \$1,700,000
13	7431-01	Village of Lake Orion Oakland County	Watermain replacement ph 4 East	3,032	395	Future \$1,500,000
14	7432-01	Village of Lake Orion Oakland County	Watermain replacement ph 4 East	3,032	395	Future \$1,500,000
15	7447-01	GLWA/DWSD Detroit/Wayne County	watermain repl	714,000	375	02/28/2019 \$15,985,000
16	7445-01	GLWA Wayne County	Transmission Main	3,900,000	375	08/09/2019 \$18,000,000
17	7446-01	GLWA Wayne County	Lk Huron WTP Improv	1,700,000	375	05/17/2019 \$7,250,000
* 18	7448-01	City of Bay City Bay County	WM replc lead serv line replc	34,932	365	08/09/2019 \$4,920,000
* 19	7450-01	City of Hamtramck Wayne County	Lead serv line replac	22,777	365	08/09/2019 \$815,000
20	7434-01	City of Dearborn Wayne County	Watermain replacement Area 1 20	100,000	325	Future \$8,000,000
21	7433-01	City of Dearborn Wayne County	Watermain replacement area 1	100,000	325	Future \$4,500,000
22	7435-01	City of Dearborn Wayne County	Watermain replacement area 2	100,000	325	Future \$3,500,000
23	7440-01	East Lansing Ingham Co	HVAC/Heating upgrades	79,585	325	05/17/2019 \$745,000
Total 23 Projects						\$256,435,000

* Second Call DWRF Projects



Department of Environment, Great Lakes, and Energy

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	7441-01	7442-01	7443-01	7444-01
Drinking Water System Compliance Total	450 (max)	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150
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)	125	250	125	125	125	25	25	25	175	175	25	100	100	125	200
Source/Treatment with Connecting Mains	125 (max)	125	0	0	0	0	0	0	0	125	125	25	100	100	125	100
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	0	0	0	0	0
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	0	0	0	0	100
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	0
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	100	100	100	100	100
Granted	100	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■
Total Priority Points Assigned	1000 (max)	465	540	415	395	395	325	325	325	465	465	325	400	400	425	500

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Department of Environmental Quality

Drinking Water Revolving Loan Fund PPL Scoring

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Category Description	Points	7445-01	7445-99	7446-01	7447-01	7448-01	7449-01	7450-01	7451-01
Drinking Water System Compliance Total	450 (max)	150	150	150	150	150	150	150	350
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)	75	75	75	25	25	175	25	0
Source/Treatment with Connecting Mains	125 (max)	0	0	75	0	25	25	0	0
Meet Minimum Capacity	100								
Reliability	75			■					
Other Upgrades	25					■	■		
Enforcement Action	25								
Source Water Protection	50								
Transmission/Distribution Mains	125 (max)	75	75	0	25	0	125	25	0
Meet Minimum Capacity	100						■		
Reliability	75	■	■						
Other Upgrades	25				■		■	■	
Enforcement Action	25								
Storage Facilities/Pumping Stations	125 (max)	0	0	0	0	0	25	0	0
Meet Minimum Capacity	100								
Reliability	75								
Other Upgrades	25						■		
Enforcement Action	25								
Population - Total	50 (max)	50	50	50	50	40	40	40	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)	0	0	0	50	50	50	50	0
Granted	50				■	■	■	■	
Consolidation - Total	100 (max)	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	0
Granted	100	■	■	■	■	■	■	■	
Total Priority Points Assigned	1000 (max)	375	375	375	375	365	515	365	400

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* Second Call DWRP Projects