

A photograph of a water treatment facility with large circular tanks and metal railings. The tanks are made of brick and have metal walkways on top. In the background, there are trees and a clear sky.

The Michigan Department of Environment, Great Lakes, and Energy

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Fiscal Year 2019 Annual Report of Michigan's Clean Water State Revolving Fund and Strategic Water Quality Initiatives Fund

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I. INTRODUCTION

This Fiscal Year (FY) 2019 Annual Report is submitted to the United States Environmental Protection Agency (EPA) in compliance with Sec. 602(b)(10) and Sec. 606(d) of the federal Water Pollution Control Act, P.L. 92-500, as amended. It covers the period from October 1, 2018, to September 30, 2019, highlighting the activities of Michigan's Clean Water State Revolving Fund (CWSRF).

The Michigan Department of Environment, Great Lakes, and Energy (EGLE), formerly the Michigan Department of Environmental Quality (DEQ), is the lead agency for management of the CWSRF. The Water Infrastructure Financing Section (WIFS) of the Finance Division (FD), formerly Revolving Loan Section (RLS) continues to serve as EGLE's program administrators for the CWSRF.

EGLE and the Michigan Financial Authority (MFA) jointly administer the CWSRF under the authority of Part 53, Clean Water Assistance, of the Natural Resources and Environmental Protection Act, 1994 PA 451, as amended (NREPA), and 1985 PA 227, the Shared Credit Ratings Act, as amended. The state also conducts its CWSRF in a manner consistent with requirements established in the federal Water Pollution Control Act (P.L. 92-500, as amended).

EGLE and the MFA offer this public report to detail the activities undertaken to reach the objectives set forth in the Final fiscal year (FY) 2019 Intended Use Plan (IUP). This annual report is submitted to the EPA and is available on the Internet, at <http://www.Michigan.gov/CleanWaterRevolvingFund>.

During FY 2019, Michigan applied for and was granted the 2018 federal capitalization grant from EPA in the amount of \$69,014,000. As required, Michigan provided a 20-percent state match of \$13,802,800 provided from proceeds from the sale of a state match revenue bond provided the match. In addition to the federal and state capital contributions, the CWSRF is also capitalized with principal and interest payments from earlier loans, account earnings, state match bonds, and released funds from debt service reserve accounts.

The CWSRF continues to operate under a cash flow leveraging model.

II. PROGRAM SUMMARY

CWSRF loan commitments made during FY 2019 were awarded with an interest rate of 2 percent for a 20-year loan and 2.25 percent for a 30-year loan. Repayments are amortized with level debt service for 20 or 30 years depending on loan terms. All commitments were made to qualified Section 212 and Section 319 projects.

Projects for qualified Section 212 uses were selected from the FY 2019 CWSRF Project Priority List (PPL) administered under provisions set forth in Part 53 of the NREPA, and its accompanying administrative rules. There were two Section 319 projects funded in FY 2019. Section 319 projects are selected from the FY 2019 Nonpoint Source PPL.

III. GOALS AND ACCOMPLISHMENTS

A. Short-Term Goals and Accomplishments

Michigan's IUP described short-term goals to be implemented during FY 2019. They were:

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

Michigan applied for and was awarded its total 2018 capitalization grant allocation amount. EGLE financed all projects identified on the FY 2019 PPLs that were able to complete the application process. The fundable range amount was \$167 million, as noted in the IUP.

The following projects noted on the PPL did not proceed with CWSRF funding in FY 2019:

- 5647-02 City of St. Joseph
- 5602-02 City of South Haven (5603-03 proceeded instead)
- 5655-02 Great Lakes Water Authority
- 5659-03 Macomb Interceptor Drain Drainage District
- 5673-01 Great Lakes Water Authority
- 5645-01 Village of Armada
- 5662-01 County of Monroe, on behalf of Bedford Township
(combined with 5652-02)
- 5671-01 Village of Carleton
- 5506-04 Malletts Creek Drain Drainage District

EGLE committed \$102,350,000 to ten CWSRF projects (including two nonpoint source projects), bringing total commitments made from inception of the CWSRF program to \$4,953,990,000 for 601 projects. Attachment 1 shows the projects financed in FY 2019.

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

EGLE staff work closely with community staff to ensure that the Davis-Bacon requirements are met. A Davis-Bacon Act Compliance Certification Form is required to be executed by communities prior to any loan disbursements containing construction costs being reimbursed. Congress directed that projects receiving CWSRF funding after January 17, 2014, comply with American Iron and Steel (AIS) provisions unless the project was provided a waiver from EPA. Our office worked with communities to ensure that the AIS requirements were met.

In FY 2019, principal forgiveness using the 2016, 2017, and 2018 capitalization grants was allocated/distributed to communities determined by EGLE to be disadvantaged, as well as to green projects or components as shown below:

Table 1: FY 2019 CWSRF Loan Principal Forgiveness

Project #	Applicant	Financed Amount	PF on GPR Amount	PF for Disadvantaged Status
5632-01	City of East Lansing	\$51,710,000	\$2,085,742	
5674-01	Grant Township	\$1,800,000		\$1,350,000
5504-08	Huron River Green Infrastructure Drainage District	\$355,000	\$67,000	
5626-01	Millers Creek Ann Arbor Drain Drainage District	\$1,050,000	\$235,000	
5602-03	City of South Haven	\$420,000		\$315,000
5675-01	City of Muskegon	\$11,500,000		\$8,625,000
5611-03	Charter Township of Kinross	\$6,000,000		\$4,500,000
Total		\$72,835,000	\$2,387,742	\$14,790,000

3. *Ensure compliance with the Water Resources Reform and Development Act (WRRDA).*

EGLE has implemented the following:

- a. All CWSRF loans made after October 1, 2015, that included architectural and engineering services followed the qualifications-based selection process when procuring these services.
- b. Loan terms were based on the useful life of the project assets. Loan terms were extended to 30 years if a community was determined to be disadvantaged and the projected useful life of the project is 30 years or greater.
- c. A Fiscal Sustainability Plan Certification was submitted for all loans funded in FY 2019.
- d. All projects noted on the PPL that received a loan in FY 2019 are identified as equivalency projects for EPA reporting purposes.
- e. All communities, absent a waiver, are required to use iron and steel products that are produced in the United States for construction, alterations, maintenance, and repair of treatment works projects on the FY 2019 PPL. Onsite reviews are conducted to ensure compliance with the American Iron and Steel requirements.

B. Long-Term Goals and Accomplishments

Michigan's IUP also included long-term goals to be addressed by the CWSRF. They were:

1. *To provide low-cost financing for wastewater system improvements or upgrades while maintaining the perpetuity of the CWSRF and SWQIF.*

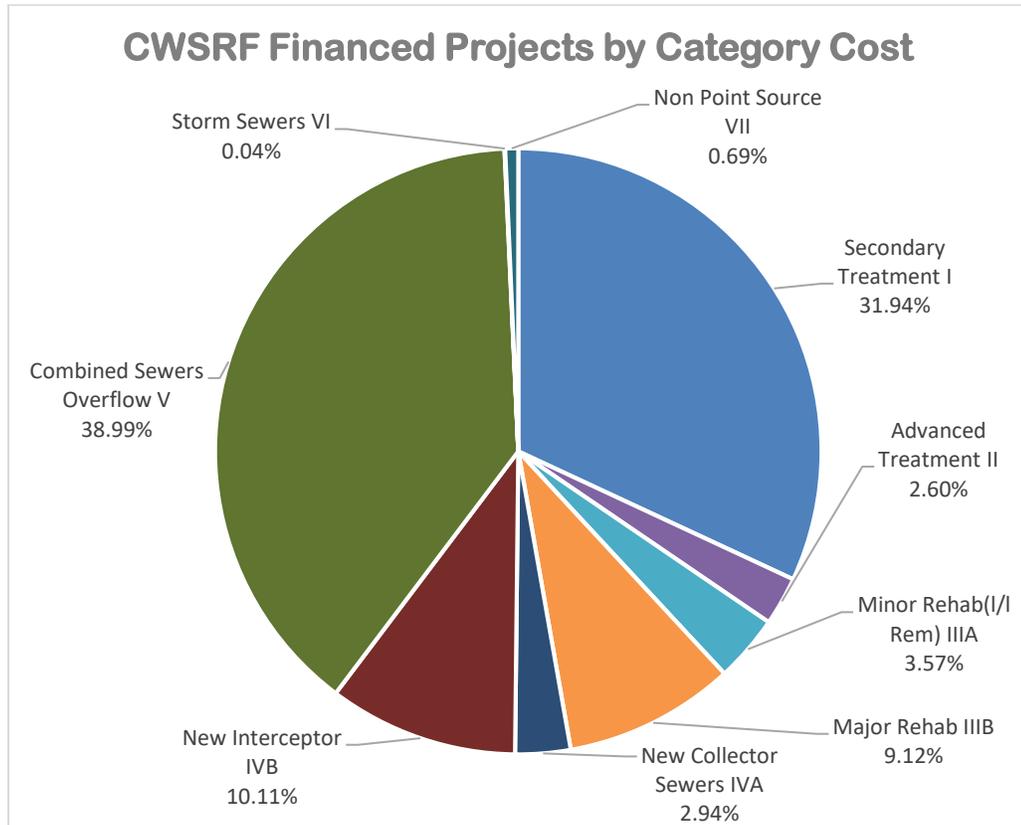
All loans in FY 2019 were provided at 2 percent interest for a 20-year term and 2.25 percent for a 30-year term. Michigan continues to balance the goals of meeting the capitalization grant requirements while maintaining the perpetuity of CWSRF funding.

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

The CWSRF is a major incentive for local municipalities to cooperate and voluntarily seek to achieve compliance with state and federal laws and water quality standards. EGLE maintains a core belief that achievement of pollution prevention is far more effective if potential projects are examined to ensure compliance with water quality standards. To protect the viability of the CWSRF, projects also need to demonstrate that the chosen solution for the water quality issue is the most cost effective.

In past years, Michigan's CWSRF program has provided substantial assistance in funding combined sewer overflow (CSO) abatement efforts. The state has funded sizable projects in the cities of Dearborn, Detroit, Grand Rapids, Lansing, Port Huron, and Saginaw. There was one project financed in FY 2019 related to CSO efforts, to the city of East Lansing. Over the life of the CWSRF, approximately 40 percent of all money loaned has been used for correction of CSO problems. However, there is still much work to finish, and the CWSRF will continue to fund necessary CSO projects as they arise.

Attachment 1 shows the project categories for FY 2019 financed projects. The following is a chart displaying the types of projects financed by the CWSRF since inception.



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

WIFS staff, as well as district staff of the Water Resources Division (WRD), continually meet with local governmental officials to discuss water quality problems and potential solutions. Special efforts are expended to work with small, often rural, communities who face wastewater problems to resolve what will likely involve capital expenditures. By involving staff of the Rural Community Assistance Program (RCAP) and staff of the U.S. Department of Agriculture, Rural Development Program, efforts are undertaken to address the unique situations that small communities face.

Michigan’s commitment to small communities remains important. Of the ten CWSRF projects funded this year, three projects representing \$8,220,000 were for communities with a population less than 10,000 (excluding two nonpoint source projects). For FY 2019 loans, the numerical distribution of CWSRF loans is as follows.

Population less than 3,500	\$ 2,220,000	2 loans
3,500 to 9,999	\$ 6,000,000	1 loan
10,000 to 99,999	\$83,225,000	4 loans
<u>Over 100,000</u>	<u>\$9,500,000</u>	<u>1 loan</u>
TOTAL LOANS	\$100,945,000*	8 loans*

* The amounts above exclude the nonpoint source projects totaling \$1,405,000.

4. *Increase awareness and use of the CWSRF program to complete water infrastructure improvement projects.*

EGLE continues to market our funding programs. Staff presented information at various conferences and meetings. Several articles regarding infrastructure financing were prepared by WIFS and shared with industry publications.

Beginning in FY 2019, Michigan implemented an Intent-to-Apply (ITA) Form, which became the first step in the CWSRF application process. Following submittal of the form, WIFS and WRD staff meet with communities to assist them in the process.

IV. DETAILS OF ACCOMPLISHMENTS

A. Fund Financial Status

1. **Binding Commitments:** The state's commitments are made in the form of *Orders of Approval*. As previously noted, the CWSRF made eight binding commitments to Section 212 projects and two binding commitments to Section 319 projects during the fiscal year, for a total of \$102,350,000. Total cumulative binding commitments to communities equal \$4,953,990,000 for CWSRF as of September 30, 2019.
2. **Capitalization Grants:** The Michigan CWSRF was awarded the 2019 capitalization grant of \$68,320,000. This amount was matched by the state with \$13,664,000. Loans are supported by this fund, as well as remaining uncommitted balances from earlier awards, investment earnings, and repayments of earlier loans.

3. Disbursements: CWSRF loan disbursements of \$12,595,806 were made during FY 2019. Administrative expenses in FY 2019 were \$2,471,858. During the fiscal year, the cash draw ratio used for federal funds was 83.33 percent and the state match fund was 16.67 percent. Other resources used for disbursements included the cash on hand from direct loans and a bond anticipation note.

Beginning with the 2019 capitalization grant and moving forward, Michigan will switch to a 100% federal cash draw ratio, with the entire amount of the state match expended prior to making an initial draw on the capitalization grant.

4. Audit Report: The audit of MFA's financial records is not complete. The audit should be available in January. When the audit report is complete, it will be posted to the internet at this address: http://www.michigan.gov/treasury/0,1607,7-121-1753_37601_37659---,00.html.
5. Credit Risk of the CWSRF: Michigan undertakes an exhaustive review of each applicant's creditworthiness. This review examines the financial health of the community and its primary commercial and industrial base. The resulting approval of each applicant provides a sound basis for awarding assistance to only those communities possessing the ability to repay the loan.

No assistance is offered to any community that is unable to demonstrate an investment grade credit. If a community cannot demonstrate a minimum investment grade credit, we expect them to seek credit enhancement or finance through another governmental agency (such as the county). This must be done in order to secure their credit position before the *Order of Approval* can be written.

Michigan's CWSRF has never suffered a payment default.

6. Environmental Benefits: Michigan participates in the Clean Water Environmental Benefits Reporting. Currently all projects funded in FY 2019 have been entered into the Environmental Benefits Reporting System.

B. Assistance Activity

Loan assistance through the MFA was awarded to all municipalities that received an *Order of Approval* from EGLE. No other qualified uses of the funds were made other than for project and administrative funding.

C. Provisions of the Operating Agreement/Conditions of the Grant

The state of Michigan agreed to a number of conditions in the Operating and/or Capitalization Grant Agreement. These conditions are described below:

1. Provide State Match: Michigan has historically provided state match funds from a variety of eligible sources, including issuing state match bonds. The MFA administers the match account as part of its overall financial management.

2. **Binding Commitments:** By the act of offering the ten binding commitments during FY 2019, Michigan continues to exceed the requirement for obligation of 120 percent of the federal award amount within one year.

The EPA allows the state to account for the full four percent of the federal capitalization grants to be applied against binding commitments at the time of each grant award. Michigan has chosen to account for actual administrative expenses against binding commitments for programmatic reasons.

3. **Expeditious and Timely Expenditure of Available Funds:** In most instances, a wire transfer occurs within ten days of receipt of a request for reimbursement from the local unit of government. The federal share is provided through the federal Automated Standard Application for Payments. The state funds are drawn simultaneously with the federal funds during this time. The draw method used in Michigan satisfies our state requirements to provide a state match prior to, or at the time of, the federal draw.
4. **Minority and Women's Business Enterprises:** In order to meet federal initiatives, the state of Michigan agreed to annual fair-share objectives of ten percent for Minority Business Enterprise (MBE) and 7.5 percent for Women's Business Enterprise (WBE). In its attempt to meet these objectives, the state advised all potential applicants for CWSRF loans of this commitment. In addition, the state included a reporting requirement as a special condition in all supplemental agreements executed between the loan recipient, EGLE, and the MFA.

As part of the state's continuing effort to meet the MBE/WBE objectives, WIFS presentations are made at the pre-bid meetings to explain the federal requirements to potential contractors, subcontractors, and suppliers. Presentation materials related to the MBE and WBE objectives are discussed as well as the expected actions for contractors working on a CWSRF funded project.

The MBE and WBE figures were reported by EGLE as part of the state's required submission for FY 2019.

5. **Other Federal Authorities:** The state of Michigan requires each municipality to comply with all applicable federal cross-cutting authorities and stipulates that the authorized representative so certify in the application. The Application for Assistance sets forth municipal requirements for compliance with federal crosscutters.
6. **State Environmental Review Process:** Of the ten CWSRF projects funded during FY 2019, all projects were reviewed and approved per Michigan's environmental review procedures. It was determined that no Environmental Impact Statements were necessary for any of these projects. Instead, an environmental assessment was prepared and a FNSI was issued for each project.
7. **Consistency with Planning:** Project plans are shared with the appropriate local regional planning agency by the applicant and follow up as necessary is conducted by WIFS staff.

Sections 205(j) and 303(e) of the federal Water Pollution Control Act requirements are administered separately from the CWSRF by various sections of EGLE, Water

Resources Division. State funded grants have been made to several local and regional entities to carry out water quality management planning. Section 303(e) requirements are satisfied via our state permitting process. In order to continue Michigan's delegated permit writing program, the state must comply with Section 303(e).

Prior to receiving the first capitalization grant, this office verified the existence of an approved planning process. The EPA's continued recognition of EGLE's delegation is proof that Michigan's program remains in compliance.

8. **Cash Disbursements:** Disbursement procedures are executed in conjunction with the MFA. EGLE receives requests for disbursements from the local municipalities. Staff reviews the disbursement requests for content and accuracy and then transmits them to the MFA and EGLE Federal Aid staff. The respective offices will process a request to draw on the federal Automated Standard Application for Payments in accordance with 40 CFR 35.3135(b)(1). Once funds are receipted into the CWSRF account, the MFA processes a wire transfer of funds to the borrower.
9. **Administration of the CWSRF:** EGLE has agreed to administer the CWSRF in accordance with capitalization grant applications, the IUP, and the Operating Agreement. In doing so, certain administrative procedures are implicit. The operation of the fund is bound by the following provisions:
 - agreement to accept payments
 - state laws, rules, and procedures
 - state accounting and auditing procedures
 - sub-recipient accounting and auditing procedures
 - use of the Automated Standard Application for Payments
 - repayment
 - annual audit requirements
 - annual report
 - annual review

To the extent of any conflict amongst these documents, EGLE further agrees that the terms of the Capitalization Grant Agreement will prevail.

10. **Automated Payments:** Michigan has agreed to accept payment from the EPA through the Automated Standard Application for Payments system and has abided by the cash draw rules.
11. **Legal Certifications:** The state of Michigan has provided all necessary certifications from the state Attorney General's office, which attest to its ability to implement the CWSRF and bind itself to the terms of the Capitalization Grant Agreement.

V. SIGNIFICANT PROJECT ACCOMPLISHMENTS OF THE SRF

Over the lifetime of the Michigan CWSRF program, the dependence on federal dollars for capital funds has diminished to a point where the dollars capitalized through principal/

interest payments and investment return exceed those dollars received from the EPA Capitalization Grant. This shift from federal funds to SRF generated funds for financing SRF projects is a testament to the philosophy of the revolving fund concept. Michigan, through its efforts to maximize initial funding opportunities, and in turn, loan those funds out, has created a viable revolving fund mechanism.

The following table shows historical interest rate for CWSRF projects.

<u>Fiscal Year</u>	<u>20 Year Interest Rate</u>	<u>30 Year Interest Rate</u>
1990 to 1994	2.000%	2.000%
1995 to 1998	2.250%	2.250%
1999 to 2003	2.500%	2.500%
2004	2.125%	2.125%
2005 to 2007	1.625%	1.625%
2008 to 2012	2.500%	2.500%
2013	2.000%	2.000%
2014 to 2016	2.500%	2.500%
2017	2.500%	2.750%
2018	2.000%	2.250%
2019	2.000%	2.250%

VI. CONCLUSIONS

Michigan’s CWSRF program has matured into a well-run, well received financing program. The state has been able to deliver its available funds in a manner that emphasizes consistency of environmental review, financial capability standards, as well as prompt delivery of reimbursement for project costs.

EGLE has continued to effectively manage the CWSRF program for water pollution control. EGLE remains committed to customer service, and through shared experiences and customer feedback, revisions and improvements to the CWSRF program are implemented on a periodic basis. In FY 2019, EGLE moved the administration of the CWSRF into the newly created Water Infrastructure Financing Section of the Finance Division. The development of the new division illustrates EGLE’s dedication to the protection of public health and the environment through local water infrastructure improvement projects. EGLE looks forward to the ongoing evolution of the CWSRF to better serve communities throughout Michigan.

Attachment 1: CWSRF Financed Projects FY 2019

<u>Project #</u>	<u>Applicant Name</u>	<u>Location</u>	<u>Binding Commitment Date</u>	<u>Funded Amount</u>	<u>Principal Forgiveness</u>	<u>Loan Term (Years)</u>	<u>Interest Rate</u>	<u>Project Category(s)*</u>	<u>Project Description</u>
5632-01	City of East Lansing	Ingham County	2/28/2019	\$51,710,000	\$2,085,742	20	2.00%	I (secondary treatment), IVB (new interceptor), V (CSO)	Replacement of combined sewers/construction of new Combined Sewer Overflow return line, an inverted siphon under the Red Cedar River, and a pump station. In addition, upgrades at the Water Resource Recovery Facility.
5652-02	County of Monroe (on behalf of Bedford Township)	Monroe County	2/28/2019	\$10,175,000		20	2.00%	I (secondary treatment), IIIA (minor rehab)	This is the second loan of a two segment project for upgrades to the Bedford Township Wastewater Treatment Plant and three pump stations, as well as rehabilitation of sanitary sewer and manholes to repair structural deficiencies and remove infiltration and inflow from the system.
5672-01	City of Lansing	Ingham County	5/17/2019	\$9,840,000		20	2.00%	IIIB (major rehab)	Rehabilitation of sections of the Central Interceptor and Sycamore-Lindbergh Interceptor, as well as manhole, siphon and junction chamber rehabilitation and replacement and existing manhole abandonment to prevent Sanitary Sewer Overflows, basement backups, and rehabilitate structurally deficient sanitary sewer.
5674-01	Grant Township	Keweenaw County	5/17/2019	\$1,800,000	\$1,350,000	30	2.25%	I (secondary treatment)	New primary and secondary lagoon liners, as well as work at the WWTP
5504-08	Huron River Green Infrastructure Drainage District	Washtenaw County	8/9/2019	\$355,000	\$67,000	20	2.00%	VII (non point source)	Plant approximately 1,122 trees along streets in the public rights-of-way to reduce stormwater runoff and sediment and phosphorus inputs to the Huron River
5602-03	City of South Haven	Van Buren County	8/9/2019	\$420,000	\$315,000	20	2.00%	IIIA (minor rehab)	Accompanied in FY 2020 by DWSRF No. 7463-01 to provide coordinated financing for improvements to structurally deficient sanitary sewers and water mains as part of a larger redevelopment and streetscape improvements project along several blocks of Center Street in downtown South Haven
5626-01	Millers Creek Ann Arbor Drain Drainage District	Washtenaw County	8/9/2019	\$1,050,000	\$235,000	20	2.00%	VII (non point source)	Modify the Pepper Pike stream in Millers Creek to help protect water quality in the Huron River by reducing downstream sediment loading and nonpoint source pollution
5675-01	City of Muskegon	Muskegon County	8/9/2019	\$11,500,000	\$8,625,000	20	2.00%	IIIB (major rehab)	Sewer repairs to maintain structural integrity of the collection system
5676-01	Ypsilanti Community Utilities Authority	Washtenaw County	8/9/2019	\$9,500,000		20	2.00%	II (advanced treatment)	The loan consists of two projects, the first for demolition and replacement of the West Tertiary Filter units, while the second involves repairs and improvements to the incinerator
5611-03	Charter Township of Kinross	Chippewa County	8/21/2019	\$6,000,000	\$4,500,000	20	2.00%	II (advanced treatment)	Food waste handling building at the township's WWTP
TOTAL				\$102,350,000	\$17,177,742				