An aerial photograph of a water treatment facility. In the foreground, a large building with a prominent red, corrugated metal roof is under construction or recently completed. The building has a complex, multi-gabled roof structure. Behind the building, there are several large, cylindrical storage tanks, some of which are light-colored and others are darker. The facility is surrounded by a dirt area with some construction equipment and materials. In the background, there is a dense line of green trees.

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

**Fiscal Year 2019 Annual Report
of the Michigan Drinking Water State
Revolving Fund**

**Prepared by:
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I. INTRODUCTION

The Safe Drinking Water Act (SDWA), 1976 PA 399, amendments of 1996 (P.L.104-182), passed by Congress in 1996 authorized the creation of the Drinking Water State Revolving Fund (DWSRF) via the U.S. Environmental Protection Agency (EPA). The DWSRF provides low-interest loans to qualified water suppliers for the creation, repair, or enhancement of public, privately owned community, and not-for-profit non-community water supplies. The loan repayment period is 20 years, unless an applicant is qualified as 'disadvantaged,' then the loan repayment can extend to 30 years. The Michigan Department of Environment, Great Lakes, and Energy (EGLE) with the assistance of the Michigan Finance Authority (MFA) administers the DWSRF program. The MFA is staffed by the Michigan Department of Treasury with oversight from the State Treasurer.

II. PROGRAM CONTACTS

For financial issues, such as the bond structure, bond documents, audit reports, and other financial matters, contact:

Ms. Deborah Roberts, Executive Director
Michigan Finance Authority
Michigan Department of Treasury
Richard H. Austin Building
430 West Allegan Street
Lansing, Michigan 48922
517-335-0994
TreasMFA@Michigan.gov

For technical reviews of DWSRF projects, permit issuance, and administration of the set-aside programs (i.e., source water protection, wellhead protection, capacity development, and operator certification) authorized by the SDWA, contact:

Mr. Eric Oswald, Division Director
Drinking Water and Environmental Health Division (DWEHD)
Michigan Department of Environment, Great Lakes, and Energy
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Ms. Dana DeBruyn, Manager
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Drinking Water and Environmental Health Division
Michigan Department of Environment, Great Lakes, and Energy
P.O. Box 30817
Lansing, Michigan 48909-8311
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DeBruynD@Michigan.gov

For DWSRF program oversight, loan and project management issues, contact:

Ms. Kelly Green, Administrator
Water Infrastructure Financing Section (WIFS)
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517-284-5433
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III. PROGRAM STRUCTURE

EGLE provides loans to qualified applicants with an investment grade credit rating. Proof of investment grade credit can include a separate credit rating or a credit assessment letter from one of the rating agencies, a pledge of state revenue sharing with sufficient coverage, or credit enhancement. The MFA must approve the investment grade credit before purchasing the debt of the applicant. Michigan law allows for a county or a public authority to issue debt on the behalf of underlying communities. The DWSRF reimburses applicants using federal funds from the capitalization grant and state match.

IV. LONG-TERM GOALS

The Great Lakes surround Michigan and provide its residents with an abundant water supply. The DWSRF program helps to protect and enhance Michigan's water supply and public health. Michigan identified these long-term goals in the Fiscal Year (FY) 2019 Intended Use Plan (IUP):

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

The MFA continues to use a financial advisor to model decisions on fundable range scenarios, interest rates, and other finance related topics (i.e., funding capacity of the fund, investment options). Michigan looks to balance the goals of meeting the capitalization grant requirements (i.e., additional subsidization, Davis Bacon, and American Iron and Steel) and fund as many projects as possible each year while maintaining the DWSRF 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.*

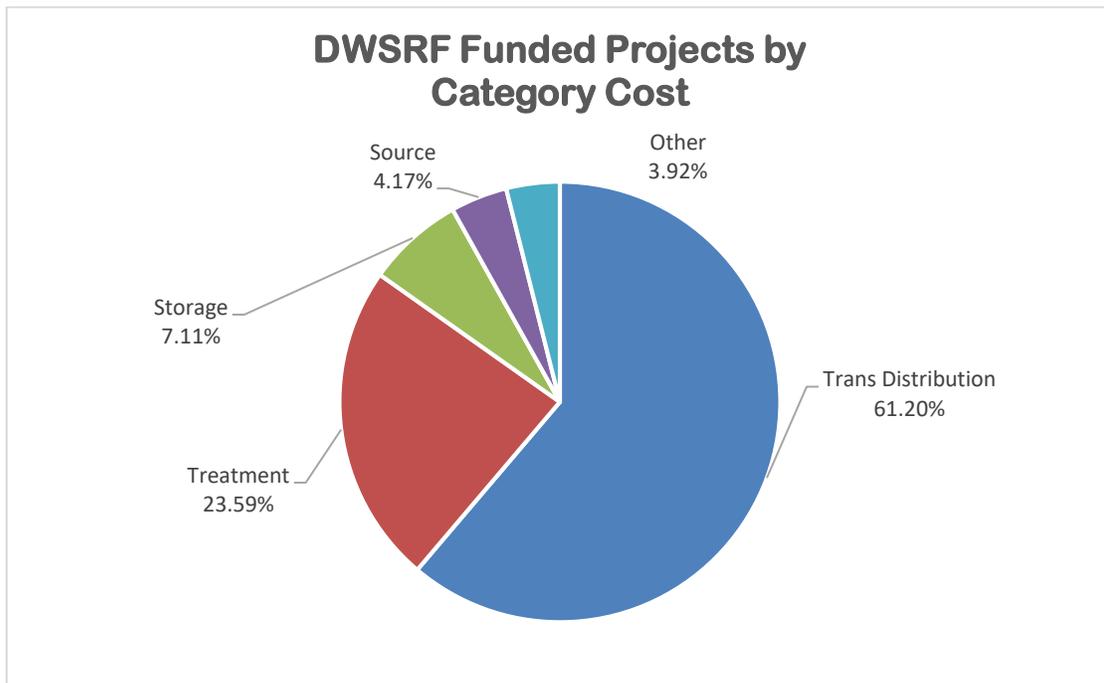
EGLE continues to work together with various federal and state agencies, such as the U.S. Department of Agriculture - Rural Development, Rural Community Assistance Program, the Michigan Department of Transportation (MDOT), the Michigan Department of Health and Human Services, and the Michigan Department of Licensing and Regulatory Affairs, to fund qualifying projects. Environmental reviews are coordinated to the extent possible to assist the applicants and still meet the federal and state environmental requirements.

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.*

EGLE continues to use the DWSRF set-aside funding to protect the public health of Michigan residents. Funding is used to maintain source water assessment, wellhead protection, and source water protection programs; as well as for technical assistance and

capacity development. Source water protection supports programs that prevent contaminants from reaching sources of drinking water. Wellhead protection works to protect the quality of the groundwater. Technical assistance helps small, economically disadvantaged water systems in meeting drinking water standards. Also, the set-aside funds can be used for a capacity development program to develop, implement, and enhance surface water protection.

Michigan is proud of its accomplishments in promoting compliance with all applicable drinking water requirements. The DWSRF provides a source of infrastructure financing that assists communities in protecting public health. In FY 2019, eight loans were made to water suppliers, totaling \$65,215,000. Since 1997, 301 DWSRF loans, totaling \$1,125,585,000, have been made to Michigan water suppliers. Attachment 1 shows the project categories for FY 2019 financed projects. The following is a chart displaying the types of projects financed by the DWSRF since inception.



The DWSRF funds projects of varying population size. The following shows the dollar amount and the number of projects funded by population size in FY 2019.

Population less than 3,500	\$0	0
3,500 to 9,999	\$0	0
10,000 to 99,999	\$8,705,000	4
Over 100,000	<u>\$56,510,000</u>	<u>4</u>
TOTAL	\$65,215,000	8

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

Demand for the DWSRF has slowed in recent years. WIFS staff continues to increase marketing efforts of the DWSRF. We are reaching out to various municipal and technical organizations, including consultant firms, to remind them of the benefits of funding their capital improvement projects with the DWSRF. Marketing efforts have included listserv

notifications, field visits, attendance and presentations at various conferences/expos, and submittal of articles to various state-wide publications.

Beginning in FY 2019, Michigan implemented an Intent-to-Apply (ITA) form, which became the first step in the DWSRF application process. Following submittal of the form, WIFS and DWEHD staff met with applicants to guide them through the DWSRF process.

V. SHORT-TERM GOALS

Short-term goals in FY 2019 were:

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

Michigan applied for its total allocation amount and was awarded the 2019 capitalization grant. EGLE and MFA funded all projects identified on the FY 2019 PPL that were able to complete the application process for the funds available.

The initial fundable range amount was \$56,855,000 million, as noted in the Amended IUP. Given only four new projects applied, EGLE marketed to local communities a second call for projects. The second call allowed communities undertaking lead service line removal work a second opportunity later in the fiscal year to apply for DWSRF funding. Four communities submitted ITA forms and completed the necessary steps to receive DWSRF loans. Therefore, eight total DWSRF projects were issued loans, for a total of \$65,215,000. Two projects declined funding at various times during the year for numerous reasons: city of Fraser 7425-01 and city of Rochester 7426-01. Attachment 1 shows the projects financed in FY 2019. All projects receiving DWSRF funds in FY 2019 issued a Notice to Proceed within 60 days of the loan closing. EGLE applied the federal crosscutters to every project funded during the fiscal year.

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

Congress directed that projects receiving DWSRF funding after January 17, 2014, comply with the AIS provisions unless the project plans and specifications were approved by the MDEQ prior to January 17, 2014, or the project was provided a waiver. Our office worked with communities to ensure that the AIS requirements were met.

Congress also required all DWSRF projects funded in FY 2016 and beyond to pay their workers the federal Davis-Bacon wage rates for their job classification. The Davis-Bacon requirement was passed on to all communities that received DWSRF funding in FY 2019.

Congress mandated that at least 20 percent (\$5,453,200) of the 2018 capitalization grant be provided as additional subsidy to borrowers. EGLE provided the additional subsidy as principal forgiveness.

The table below details the principal forgiveness that was allocated to communities determined by EGLE to be disadvantaged, as well as those with lead service line replacement (LSLR) work.

Table 1: FY 2019 DWSRF Loan Principal Forgiveness (PF)

Disadvantaged Community FY 2019 Loans			
Project #	Applicant	Financed Amount	Principal Forgiveness
7447-01	Great Lakes Water Authority (on behalf of city of Detroit Water and Sewerage Department)	\$16,500,000	\$4,711,944
7449-01	City of Muskegon	\$2,000,000	\$400,000
7450-01	City of Hamtramck	\$755,000	\$151,000
7448-01	City of Bay City	\$5,000,000	\$1,000,000
	Total Disadvantaged	\$24,255,000	\$6,262,944
Lead Service Line Replacement FY 2019 Loans			
Project #	Applicant	Financed Amount	Principal Forgiveness
7451-01	City of Kalamazoo	\$1,730,000	\$255,000
	Total Lead Service Line Replacement	\$1,730,000	\$255,000
	FY19 Total	\$25,985,000	\$6,517,944

Activities related to the Michigan operator certification and capacity development programs are summarized and reported under separate cover to the regional contact person at EPA. The Operator Certification Annual Report was submitted to Ms. Val Bosscher (EPA). The Annual Capacity Development Report was submitted to Ms. Sahba Rouhani (EPA). The FY 2019 Annual Reports for both programs will be submitted to EPA.

Goal: *Fund more projects, prompt communities to do lead service line replacement projects, and fund activities to eliminate exposure to contaminants in drinking water.*

A second call for projects was solicited in early 2019, which focused on assisting communities with addressing contaminants in their drinking water, including lead service line replacement. The Amended IUP was issued June 3, 2019. Projects to replace lead and galvanized service lines were awarded principal forgiveness, as discussed above.

Assistance was provided for supplies to address contaminants in drinking water, including contaminants of emerging concern such as PFAS, through Michigan’s Drinking Water Contaminant Remediation Grant. Federal set aside funds were utilized by technical staff in the review of these treatment plans.

VI. FLINT SUPPLEMENTAL IUP ACTIVITIES

The city of Flint received \$77,740,825 of WIIN funding in December 2018 for water quality improvement projects. The proposed projects include a Secondary Water Source, Dort Street and Cedar Street Reservoir and Pump Station Improvements, Chemical Feed Building, Northwest Transmission Main, Water Main Replacement, Water Quality Monitoring, and Service Line Replacement Contingency. EGLE provides EPA with quarterly updates regarding the draw of WIIN funds and status of WIIN work by the city of Flint. These updates are also posted to the [Flint Water Website](#).

VII. ESTABLISHMENT OF INTEREST RATES

The DWSRF interest rate is established prior to each new fiscal year. As identified in Part 54, Safe Drinking Water Assistance, of the Natural Resources and Environmental Protection Act, 1994 PA 451, as amended, determination of the interest rate is based on demand, market conditions, program costs, and future needs. Since a portion of the state match in any given fiscal year may be financed with state revenue match bonds, the upcoming year's interest rate must also account for the expense incurred in securing the bonds.

The EGLE Director has determined that the DWSRF will provide similar subsidy rates to both municipal and non-municipal borrowers. The interest rate in FY 2019 was two percent for municipal borrowers. Private borrowers would receive an interest rate subsidy that equates to the same subsidy received by municipal borrowers, although no private water suppliers were on the PPL. The historical interest rates for the DWSRF program are shown below.

<u>Fiscal Year</u>	<u>Interest Rate</u>
1998 to 2003	2.500%
2004 to 2007	2.125%
2008 to 2012	2.500%
2013	2.000%
2014 to 2017	2.500%
2018	2.000%
2019	2.000%

VIII. ADVANTAGES OF THE DWSRF

The DWSRF will provide an on-going source of funding to maintain or improve drinking water quality and public health. All eligible water system costs can be financed using the DWSRF low-interest loan. In addition, the on-site technical assistance, opportunities for source water assessment and protection, Operator Training and Certification Program, and Michigan's programs for sampling drinking water for emerging contaminants of concern provide a blend of direct and indirect aids to local communities across Michigan.

IX. ALLOCATION OF FUNDS

A three-step process is used to allocate funds to eligible projects. First, EGLE and the MFA identify new sources of funds to be added to the revolving fund and the spending limits for the DWSRF within the given fiscal year. Next, a determination of the type and amount of financial assistance necessary for each water supplier is made. Finally, funds are allocated among the projects consistent with amounts available and the project's priority standing. The following identifies the new sources of funds available to the DWSRF in FY 2019, less four percent for administration and drinking water program set-asides:

2018 Capitalization Grant funds for loans (total grant is \$27,266,000)	\$18,813,540
2018 State Match (general funds)	\$ 5,000,000
2018 State Match (state match bonds)	<u>\$ 3,000,000</u>
TOTAL	\$26,813,540

The governor of each state may opt to transfer up to 33 percent of available moneys between the CWSRF and the DWSRF programs. This may occur starting one year after a

state receives its first capitalization grant for project funds. This option was not exercised during the period covered by this annual report.

X. EPA PAYMENT PROCESS

As the federal capitalization grants for the set-aside funds were awarded, the EPA processed payment requests for increases to the state's draw capabilities via the Automated Standard Application for Payments system. In FY 2019, EGLE and the MFA processed \$24,796,058 in loan disbursements (not including WIIN). Administrative costs for EGLE and the MFA in FY 2019 totaled \$749,212 in disbursement requests. Non-administrative set-aside requests totaled \$7,981,518 (not including WIIN). During the fiscal year, the cash draw ratios (federal funds/state match) used for the 2016 and 2018 capitalization grant was 77.53/22.47. For the 2017 capitalization grant the ratio was 80.20/19.80.

XI. ASSURANCES

- A. The final guidelines from the EPA set forth provisions that the state must give certain assurances in order to qualify for capitalization grant funding. These assurances were incorporated into the Operating Agreement signed by the EPA, EGLE (formerly the Michigan Department of Environmental Quality), and the Michigan Municipal Bond Authority (now known as the MFA) on December 9, 1997. Along with federal and state law, the Operating Agreement serves as the framework by which Michigan's DWSRF program operates. EGLE and the MFA have fulfilled the stated assurances throughout the operation of the DWSRF during this fiscal year. The Capacity Development and Operator Certification annual reports will be submitted by the DWEHD, when complete, as required by the Safe Drinking Water Act.
- B. The audit of MFA's financial records is available at this internet address:
http://www.michigan.gov/treasury/0,1607,7-121-1753_37601_37659---,00.html.
- C. Michigan agreed to annual fair share objectives of 10 percent for Minority Business Enterprise (MBE) and 7.5 percent for the Women Business Enterprise (WBE) for FY 2017. Michigan includes a special condition in all supplemental agreements executed between the loan recipient, the MDEQ, and the MFA regarding MBE and WBE requirements. No MBE/WBE procurements were reported so Michigan did not meet its MBE objective, and did not meet the WBE objective for the DWSRF.

As part of the state's continuing effort to meet the MBE/WBE objectives, 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 DWSRF funded project.

- D. Michigan participates in the Environmental Project and Benefits Reporting (PBR). Currently, all projects funded in FY 2019 have been entered into the EPA PBR System.
- E. All project managers in the WIFS perform work in the DWSRF and the CWSRF. There was no impact on the technical competency of WIFS staff to operate the DWSRF program during FY 2019.
- F. All DWSRF projects funded in FY 2019 meet the federal crosscutter requirements, the state environmental review process, and satisfy the EPA equivalency requirement.

XII. SUMMARY

Michigan will continue to assist communities in providing safe drinking water as it promotes the DWSRF program and works with applicants to successfully finance projects.

Attachment 1: DWSRF Financed Projects FY 2019

<u>Project #</u>	<u>Applicant Name</u>	<u>Location</u>	<u>Binding Commitment Date</u>	<u>Funded Amount</u>	<u>Project Description</u>	<u>Project Category(s)</u>	<u>Loan Term (Years)</u>	<u>Interest Rate</u>	<u>Lead Service Line Replacement</u>	<u>for Disadvantaged Community</u>
7440-01	East Lansing Meridian Water and Sewer Authority	Ingham County	5/17/2019	\$950,000.00	Replacement of the water treatment plant heating, ventilation, and air conditioning equipment	II	20	2.00%		
7446-01	Great Lakes Water Authority	Wayne County	5/17/2019	\$8,330,000.00	Improvements to the raw sludge clarifiers and raw sludge pumping system at the Lake Huron Water Treatment Plant in St. Clair County	II	20	2.00%		
7445-01	Great Lakes Water Authority	Wayne County	8/9/2019	\$29,950,000.00	This Phase 1 of a multi-phase construction project involves construction of a new flow-control facility (FCF) at the Northeast Water Treatment Plant (WTP) located in the city of Detroit. Future phases of the overall water transmission main project may seek one or more additional loans through the DWSRF program.	I	20	2.00%		
7447-01	Great Lakes Water Authority (on behalf of city of Detroit Water and Sewerage Department)	Wayne County	8/9/2019	\$16,500,000.00	Replacement of approximately 20,000 lineal feet of deteriorated water main, including an estimated 232 full length lead service line replacements, within the jurisdiction of the City of Detroit, as well as replacement of 25,000 lineal feet of deteriorated water main, including an estimated 55 full length lead service line replacements, along a segment of Grand River Avenue within the jurisdiction of the Michigan Department of Transportation (MDOT).	I	30	2.00%		\$4,711,944.00
7449-01	City of Muskegon	Muskegon County	8/9/2019	\$2,000,000.00	Watermain and lead service line replacements	I	20	2.00%		\$400,000.00
7450-01	City of Hamtramck	Wayne County	8/9/2019	\$755,000.00	Replacement of up to 211 lead and galvanized service lines located on private property in three locations within the city	I	20	2.00%		\$151,000.00
7451-01	City of Kalamazoo	Kalamazoo County	8/9/2019	\$1,730,000.00	Replacement of approximately 285 lead service lines in the city of Parchment with copper service lines	V	20	2.00%	\$255,000.00	
7448-01	City of Bay City	Bay County	9/5/2019	\$5,000,000.00	Watermain and lead service line replacements	I	20	2.00%		\$1,000,000.00
Second Call DWSRF Projects				\$65,215,000.00					\$255,000.00	\$6,262,944.00

¹City of Fraser 7425-01 & City of Rochester 7426-01 were identified on the IUP but did not proceed in FY 2019