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Fiscal Year 2023 Projects Financed	Attachment 1
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Drinking Water State Revolving Fund – Fiscal Year 2023 Annual Report

I. Introduction

The federal Safe Drinking Water Act (SDWA) requires a report of annual Drinking Water State Revolving Fund (DWSRF) activities. This report, compiled by the Water Infrastructure Funding and Financing Section (WIFFS) of the Department of Environment, Great Lakes, and Energy (EGLE), is submitted for the state fiscal year 2023, October 1, 2022, through September 30, 2023. This annual report is available on EGLE's website at Michigan.gov/DWSRF.

This report describes uses of loan funds and the manner in which WIFFS met the FY2023 Intended Use Plan goals and objectives. A separate report, compiled by EGLE's Drinking Water and Environmental Health Division, contains details on the DWSRF Set-Asides.

EGLE and the Michigan Finance Authority (MFA) jointly administer the DWSRF under the authority of Part 54, Safe Drinking Water Assistance, of the Natural Resources and Environmental Protection Act, 1994 PA 451, as amended, and the Shared Credit Ratings Act, 1985 PA 227, as amended. EGLE operates as the lead agency for management of the DWSRF with WIFFS serving as EGLE's program administrator.

II. Executive Summary

Since 1999, Michigan's DWSRF program has issued over \$1.8 billion to local municipalities undertaking drinking water infrastructure projects throughout the state. This financial assistance has protected public health, yet much work and financial assistance is still needed.

The DWSRF plays a crucial role in meeting needs by providing secure, low interest financing annually. In fiscal year 2023, Michigan's DWSRF committed over \$212 million in loans and forgiveness dollars to 42 projects. \$65M out of the \$212 million was awarded as principal forgiveness. An additional \$229 million of American Rescue Plan dollars was awarded as grant funds bringing the total of assistance through DWSRF program to \$441,625,206.

III. Project Activity

In 2023, WIFFS executed milestone schedules and completed environmental reviews with all applicants that received DWSRF assistance. Forty-two binding commitments were made totaling, \$441,625,206. Interest rates for projects were set at 1.875 percent for 20-year loan terms, 2.125 percent for 30-year loan terms, 1.875 percent for 30-year disadvantaged community loan terms, and 1.875 percent for 40-yr disadvantaged community loan terms. Thirty-one projects, or 74 percent of projects receiving DWSRF assistance qualified as

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disadvantaged under Michigan’s definition.

The following table indicates the proposed amounts indicated for award on the fiscal year 2023 Intended Use Plan (IUP) compared to the final amounts actually awarded in 2023. Differences are due to projects not being ready to proceed and/or the need to reduce scope and overall project costs to meet bond ceiling requirements, or other local financing issues. Where applicable, dollars not awarded in fiscal year 2023 were carried over to the fiscal year 2024 IUP.

Table 1. Funds Awarded

Allocation	IUP Amount	Final Awarded Amount
ARP Grant	\$248,181,377	\$229,258,262
DWSRF Loan	\$108,000,000	\$107,846,488
DWSRF Loan Forgiveness	\$14,031,051	\$13,967,001
BIL Supplemental Loan	\$ 22,525,680	\$22,525,680
BIL Supplemental Loan Forgiveness	\$21,642,320	\$21,642,320
BIL Emerging Contaminants Loan Forgiveness	\$10,285,000	\$9,755,000
BIL LSLR Loan	\$20,285,434	\$16,919,482
BIL LSLR Loan Forgiveness	\$19,489,927	\$16,255,973
WIFTA	\$3,455,000	\$3,455,000
Total	\$467,895,789	\$441,625,206

Traditional Capitalization Grant

EGLE was granted the 2022 federal capitalization grant from EPA in the amount of \$27,004,000, 31-percent of this grant (\$8,371,240) was allocated towards Set-aside activities, with the remaining amount plus the state match being allocated to applicants as loan dollars.

Water Infrastructure Transfer Act

Additionally, in fiscal year 2022, under the federal Water Infrastructure Transfer Act (WIFTA), the state transferred funds from the Clean Water State Revolving Fund into DWSRF to assist disadvantaged communities undertaking lead service line removal projects. The majority of the WIFTA dollars were allocated to projects in 2022, however, \$3,455,000 of funds in this program were leftover, and therefore allocated to a project on the fiscal year 2023 project priority list.

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Bipartisan Infrastructure Law

On November 15, 2021, the Infrastructure Investment and Jobs Act was signed into law. Referred to as the Bipartisan Infrastructure Law (BIL), it included an appropriation to the EPA to strengthen the nation’s drinking water and wastewater systems. A portion of the BIL dollars were appropriated to the DWSRF beginning with fiscal year 2023 projects.

The BIL provided three new federal grants to Michigan through the DWSRF, the Supplemental DWSRF grant, the Emerging Contaminant (EC) grant, and the Lead Service Line Replacement (LSLR) grant. Table 1 above illustrates the fiscal year 2023 project BIL dollars awarded including the required additional subsidy (principal forgiveness) amounts.

American Rescue Plan Grants

Michigan was awarded federal American Rescue Plan (ARP) program dollars for drinking water infrastructure projects to be awarded as grants in fiscal years 2023 and 2024. In fiscal year 2023, 42 projects were awarded ARP grant dollars at a percentage indicated on Attachment 1 based on their level of disadvantaged status. A total of \$229,258,262 of ARP dollars flowed through the DWSRF program.

IV. Short Term Goals

The fiscal year 2023 Intended Use Plan included six short-term program goals:

- 1. Develop new program procedures and guidance materials related to the new DWSRF state legislation as well as the new federal BIL grants.**

The WIFFS created new guidance related to BIL requirements including the Build America Buy America and signage requirements. This guidance was incorporated into existing DWSRF guidance documents and published on our DWSRF website. Additionally, new BIL language to address federal requirements was added to EGLE’s Order of Approval documents which are incorporated into loan closing documents.

The new DWSRF legislation created new criteria for both scoring projects and qualifying for disadvantaged status (two new tiers known as overburdened and significantly overburdened). The WIFFS staff worked with our drinking water division to create new scoring guidance documents as well as a new [scoring criteria website](#). Additionally, WIFFS created a new online submittal form and website related to the new [affordability criteria](#) for disadvantaged communities. This new scoring and disadvantaged criteria are in place for projects on the fiscal year 2024 project priority list.

- 2. Procure and maintain a new data system for tracking DWSRF projects and**

related state grant programs.

In fiscal year 2023, the WIFFS team worked with Ohio EPA and their data system provider to try to find a new solution for Michigan. Ultimately, it was determined Ohio's system would not fit the needs in Michigan as the functionality did not have the ability to be updated or modified. Therefore, WIFFS took the step of hiring a consultant to review WIFFS' processes and existing technology including documenting process flows and business requirements. The consultant assisted with the language development, a request for proposals (RFP) that will ultimately replace the current SRF data system. The RFP was posted for vendor response on April 26, 2024.

3. Assist applicants listed on the annual PPL in meeting DWSRF requirements to successfully close on a loan.

WIFFS staff provided assistance to over 150 applicants that initially submitted an intent to apply for funds in fiscal year 2023. Ultimately, 110 projects applied for funding and were ranked on the annual project priority list. As needs exceeded funds, WIFFS successfully assisted 42 projects in closing loans.

4. Hire and train new DWSRF program staff.

Four new SRF project managers were hired in fiscal year 2023, increasing the SRF project manager total to 13. The Finance Division organizational chart can be found on [EGLE's website](#). WIFFS has a successful internal training program that has led to all four of these new staff currently having the appropriate level of knowledge to manage simple to moderately complex projects.

5. Apply for all DWSRF federal grants and ensure requirements of the grant terms and conditions are met including Michigan's ARP funds.

Michigan applied for and received all DWSRF capitalization grant funds as well as all BIL funds. All required ARP grant conditions were added to financial agreements as necessary.

6. Assist municipalities in successfully removing lead service lines that have been identified using the Drinking Water Asset Management grant program or other funds allocated towards distribution system material inventories.

The Drinking Water Asset Management (DWAM) grant program is a state grant program that awarded funds for drinking water asset management work including lead service line inventories. There were 22 projects that received a DWAM grant for these planning activities that were then able to capture DWSRF dollars in fiscal year 2023.

V. Additional Subsidization

EGLE’s definition of a disadvantaged community was recently altered through a state legislative process amending state statute. Time was needed however to develop new criteria and processes, therefore projects financed in fiscal year 2023 followed the previous criteria. EGLE did separate disadvantaged communities into two tiers, low and high based on the applicant’s median annual household income. Classification of a disadvantaged community garners additional financial resources such as principal forgiveness and extended loan terms with a reduced interest rate as well as the award of additional priority points for scoring and ranking projects.

WIFFS awards all additional subsidy as principal forgiveness. The table below illustrates the total additional subsidy awarded as principal forgiveness (PF) by category.

Table 2. Additional Subsidy Awarded

Traditional DWSRF PF	BIL Supplemental PF	BIL EC PF	BIL LSLR PF
\$13,967,001	\$21,642,320	\$9,755,000	\$16,255,973

Attachment 1 illustrates those communities that qualified for disadvantaged status in fiscal year 2023.

VI. Water Infrastructure Funds Transfer Act

WIFTA was awarded in fiscal year 2022 to disadvantaged communities undertaking lead service line removal projects at 100% forgiveness for construction costs. Michigan was able to transfer \$102,175,063 of funds from CWSRF into DWSRF for this program. In fiscal year 2022, \$98,720,063 was awarded to projects, \$3,455,000 was carried over to fiscal year 2023 and awarded to the City of Kalamazoo for lead service line replacement.

VII. NEPA Review and Equivalency

All projects awarded DWSRF dollars were subject to an environmental review by WIFFS consistent with Michigan’s National Environmental Policy Act (NEPA) – like State Environmental review process as described in Part 54, Safe Drinking Water Assistance, of the Natural Resources and Environmental Protection Act, 1994 PA 451 as amended. Findings of no Significant Impact, or Categorical Exclusions were issued for all projects awarded funds.

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Michigan applied equivalency for DWSRF projects in fiscal year 2023 for the capitalization grant and all BIL grants. Equivalency projects must meet the EPA’s equivalency requirements including compliance with all federal cross cutters. Projects illustrated in green on Attachment 1 were used to meet equivalency.

VIII. Sources and Uses of Funds

Sources of Funds as of 9/30/23 - Data provided by Michigan Finance Authority

Source	Amount
Federal cap grants (FY22+BIL EC+BIL Sup+BIL LSLR)	\$ 137,739,279.00
State match (FY22+BIL Sup)	6,670,200.00
DWSRF Bond Proceeds	58,437,328.00
Principal Repayments	38,405,619.01
Interest Repayments	11,689,971.55
Investment Earnings	26,474,417.51
Other Sources	134,293,157.50
Total Sources	413,709,972.57

Uses of Funds for FY2023 Expenses	Amount
Loan Assistance Disbursed	\$ 197,459,153.00
Leveraged Bond Debt Service	\$ 6,736,313.31
State Match Bond Debt Service	\$ -
Administrative Expenses	\$ 239,711.48
Other Uses	
Total	\$ 204,435,177.79

IX. DWSRF Accomplishments and Looking Forward

Clean, safe drinking water is vital to the protection of public health across the state. Michigan is fortunate to have an abundance of freshwater resources, however, treatment and distribution of safe drinking water is costly, and the state has numerous challenges with cities that have oversized infrastructure that is surpassing its useful life. Additionally, there are new challenges such as residential areas that are impacted or contaminated with PFAS. These issues are front and center of why the DWSRF is so important to the 7.4 million Michigan residents that receive their drinking water from a community water supply.

DWSRF project highlights in fiscal year 2023 included the award of \$229.3 million dollars of ARP grant funds. The ability to leverage these dollars in addition to the BIL LSLR and EC funds, with traditional DWSRF projects significantly increased the volume of projects we could reach on the project priority list. An additional 27 projects were awarded funding assistance due to the ARP and BIL funds. WIFFS continues to promote an interactive online project [dashboard](#) illustrating loans and funds awarded through DWSRF and the companion CWSRF. The dashboard is updated quarterly, allowing users to sort data through filters such as fiscal year, applicant, and program type.

During this fiscal year WIFFS moved to a completely online Intent to Apply (ITA) submittal process. This electronic process allows applicants to complete an online ITA form that is immediately uploaded to the WIFFS team. In addition, applicants can now also complete their disadvantaged status determination via an [online survey](#) that immediately calculates whether they qualify as overburdened or significantly overburdened. These processes saves both applicants and EGLE staff time and resources. WIFFS has held multiple webinars and workshops to assist applicants and their consultants with the new procedures.

Michigan's SRF team continues to search for new and innovative solutions to removing barriers and solving challenges related to financing and funding water infrastructure projects. WIFFS is in constant communication with applicants and their consultants providing both technical and administrative assistance to successfully award funds to improve water infrastructure and drinking water quality across the state.

