



**The Michigan Department  
of Environment, Great Lakes, and Energy**  
Liesl Eichler Clark, Director

**Fiscal Year 2020 Annual Report  
of the Michigan Drinking Water State  
Revolving Fund**

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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 or 30 years, unless an applicant is qualified as 'disadvantaged,' then the loan repayment can extend to 40 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.

This report covers the period from October 1, 2019 to September 30, 2020, highlighting the activities of Michigan's DWSRF program.

## **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  
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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  
P.O. Box 30817  
Lansing, Michigan 48909-8311  
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OswaldE1@Michigan.gov

Ms. Dana DeBruyn, Manager  
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Michigan Department of Environment, Great Lakes, and Energy  
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For DWSRF program oversight, loan, and project management issues, contact:

Ms. Kelly Green, Administrator  
Water Infrastructure Financing Section (WIFS)  
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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) 2020 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 wage rates, and American iron and steel) and fund as many projects as possible each year while maintaining the DWSRF in perpetuity.

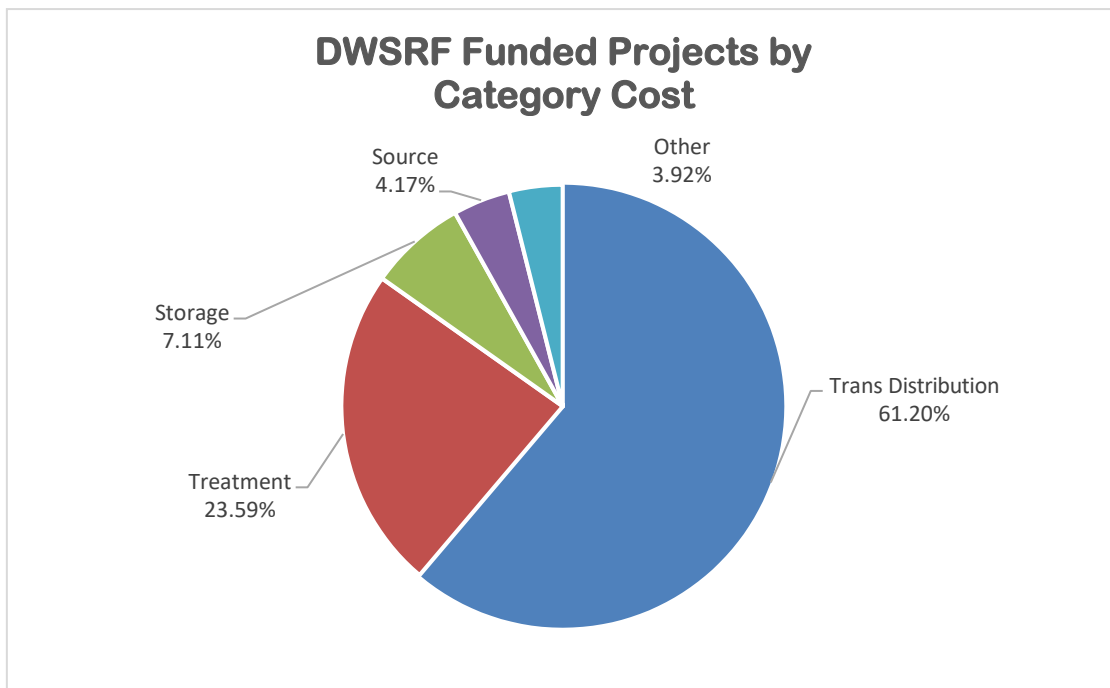
**Goal:** *To continue effective partnerships with other federal and state financing sources to promote efficiency in environmental review procedures and coordination of funding.*

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, 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, public water system supervision 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. Public water supply supervision provides compliance assistance to public water supplies and the operator certification program. 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 2020, 20 loans were made to water suppliers, totaling \$123,470,000. Since 1997, 321 DWSRF loans, totaling \$1,246,401,712, have been made to Michigan water suppliers. Attachment 1 shows the project categories for FY 2020 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 2020.

Population:	Dollar Amount	Projects
Less than 3,500	\$ 3,285,000	2
3,500 to 9,999	\$ 1,530,000	1
10,000 to 99,999	\$ 40,275,000	11
Over 100,000	\$ 78,380,000	6
<b>TOTAL</b>	<b>\$123,470,000</b>	<b>20</b>

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

Demand for the DWSRF slowed for a few years but has picked up again in the last two 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 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 2020 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 2020 capitalization grant. EGLE and MFA funded all projects identified on the FY 2020 Project Priority List (PPL) that were able to complete the application process for the funds available.

The fundable range amount was \$258 million, as noted in the IUP. A total of 20 DWSRF projects were issued loans, for a total of \$123,470,000. Four projects declined funding at various times during the year for numerous reasons: village of Lake Orion 7430-01, Charter Township of White Lake 7479-01, city of Marquette 7481-01, and city of Rochester 7426-01. Attachment 1 shows the projects financed in FY 2020. All projects receiving DWSRF funds in FY 2020 issued a Notice to Proceed within 60 days of the loan closing. EGLE applied the federal crosscutters to every project financed during the fiscal year.

**Goal:** *Ensure that the additional requirements of the 2019 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 2020.

Congress mandated that at least 20 percent (\$5,402,200) of the 2019 capitalization grant be provided as additional subsidy to borrowers. EGLE provided the additional subsidy as principal forgiveness. An additional six percent to 35 percent must be provided to disadvantaged communities as principal forgiveness. EGLE provided 15 percent of this additional subsidy to disadvantaged communities.

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 2020 DWSRF Loan Principal Forgiveness (PF)**

<b>Disadvantaged Community FY 2020 Loans</b>			
<b>Project #</b>	<b>Applicant</b>	<b>Financed Amount</b>	<b>Principal Forgiveness</b>
7460-01 and 7483-01	Great Lakes Water Authority (on behalf of city of Detroit Water and Sewerage Department)	\$35,925,000	\$3,233,250
7466-01	City of Muskegon	\$4,225,000	\$380,250
7464-01	City of Benton Harbor	\$6,000,000	\$540,000
7473-01 and 7473-02	City of Highland Park	\$4,575,000	\$411,750
7463-01	City of South Haven	\$1,210,000	\$108,900
	<b>Total Disadvantaged</b>	<b>\$51,935,000</b>	<b>\$4,674,150</b>
<b>Lead Service Line Replacement FY 2020 Loans</b>			
<b>Project #</b>	<b>Applicant</b>	<b>Financed Amount</b>	<b>Principal Forgiveness</b>
7482-01	City of Kalamazoo	\$21,095,000	\$1,253,781
7436-01	City of St. Joseph	\$1,395,000	\$179,854
7465-01	Village of White Pigeon	\$1,880,000	\$18,500
	<b>Total Lead Service Line Replacement</b>	<b>\$24,370,000</b>	<b>\$1,290,266</b>
	<b>FY2020 Total</b>	<b>\$76,305,000</b>	<b>\$5,964,416</b>

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 2020 Annual Reports for both programs will be submitted to EPA.

**Goal:** *Fund more projects, assist communities in completing full-length lead service line replacement projects.*

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 WIIN budget was revised in December 2019 to \$77,346,712 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 Meter 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 2020 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 DWRF 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 to 2020	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 DWRF in FY 2020, less four percent for administration and drinking water program set-asides:



2019 Capitalization Grant funds for loans (total grant is \$27,011,000)	\$18,637,590
2019 State Match (general funds)	5,000,000
Carry forward Match	<u>402,200</u>
<b>TOTAL</b>	<b>\$24,039,790</b>

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 2020, EGLE and the MFA processed \$45,900,856 in loan disbursements (not including WIIN). Administrative costs for EGLE and the MFA in FY 2020 totaled \$832,199 in disbursement requests. Non-administrative set-aside requests totaled \$7,446,680 (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. For the FY 2019 capitalization grant, the ratio was 83.33/16.67, but state funds were completely expended before requesting reimbursement for any federal funds.

## 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 DWRF 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](http://www.michigan.gov/treasury/0,1607,7-121-1753_37601_37659---,00.html).
- C. In order to meet federal initiatives, the state of Michigan agreed to annual fair-share objectives of ten percent for Minority Business (MBE) and 7.5 percent for Women's Business Enterprises (WBE). In its attempt to meet these objectives, the state advised all potential applicants for DWSRF 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. Per RAIN-2019-G13 (Recipient/Applicant Information Notice), effective October 1, 2019, EPA does not require the use of fair share objectives, and given the burden placed on EPA and recipients in negotiating the fair share objectives, EPA is no longer requiring recipients to negotiate fair share objectives at this time. Although fair share objectives have been temporarily suspended, EGLE has not changed their MBE/WBE process, in anticipation of further guidance from EPA.

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

The MBE/WBE figures were reported by EGLE as part of the state's required submission for FY 2020.

- D. Michigan participates in the Environmental Project and Benefits Reporting (PBR). Currently, all projects funded in FY 2020 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 2020.
- F. All DWSRF projects funded in FY 2020 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 2020**

<b>Project No.</b>	<b>Applicant</b>	<b>Location</b>	<b>Binding Commitment Date</b>	<b>Funded Amount</b>	<b>Loan Term (Yrs)</b>	<b>Interest Rate</b>	<b>Project Category</b>	<b>Project Description</b>
7463-01	South Haven	Van Buren County	11/16/2019	\$1,210,000	20	2.00%	Trans/Distribution I	Replacement of approximately 1,610 lineal feet of water main and an estimated LSLRs
7425-01	Fraser	Macomb County	2/28/2020	\$4,430,000	20	2.00%	Trans/Distribution I	Replacement of Approximately 12,750 lineal feet of water main an installation of three pressure reducing valves.
7436-01	St. Joseph	Berrien County	2/28/2020	\$1,395,000	20	2.00%	Trans/Distribution I	Replacement of approximately 3,650 lineal feet of water main and LSLRs when encountered.
7457-01	Owosso	Shiawassee County	2/28/2020	\$3,220,000	20	2.00%	Trans/Distribution I, Treatment II	Installation of a duplex pump system with VFDs, replacement of high service pump discharge piping at WTP, replacement of approximately 9,078 lineal feet of water main
7472-01	Ann Arbor	Washtenaw County	2/28/2020	\$3,400,000	20	2.00%	Treatment II	Installation of ultraviolet disinfection equipment
7441-01	East Lansing	Ingham County	5/19/2020	\$1,420,000	20	2.00%	Treatment II	Replacement of Water Treatment Plant heating, ventilation, and air conditioning equipment.
7452-01	Livonia	Wayne County	5/19/2020	\$9,160,000	20	2.00%	Trans/Distribution I	Replacement of approximately 40,500 lineal feet of water main
7460-01	GLWA/DWSD	City of Detroit	5/19/2020	\$22,570,000	30	2.00%	Trans/Distribution I	Replacement of approximately 73,570 lineal feet of water main and an estimated 271 LSLR in the city of Detroit
7462-01	Howell	Livingston County	5/19/2020	\$1,530,000	20	2.00%	Treatment II	Replace lime slacker, install carbon dioxide system for pH control, vent & scrubbing system at WTP, install VFDs, update SCADA at Wells 4 & 5
7445-02	GLWA	Wayne County	8/7/2020	\$9,000,000	20	2.00%	Trans/Distribution I	Northeast Transmission Main Phase 2A
7459-01	Charter Twp. Of Port Huron	St. Clair County	8/7/2020	\$4,640,000	20	2.00%	Trans/Distribution I	Replacement of approximately 12,420 lineal feet of water main and replacement/rehabilitation of 57 valves
7461-01	GLWA	Wayne County	8/7/2020	\$8,960,000	20	2.00%	Trans/Distribution I	14 Mile Rd. Transmission Main Loop Phase 1
7464-01	Benton Harbor	Berrien County	8/7/2020	\$6,000,000	40	2.00%	Trans/Distribution I, Storage IIIA	Replacement of approximately 9,750 lineal feet of water main, LSLR, and elevated storage tank improvements

Project No.	Applicant	Location	Binding Commitment Date	Funded Amount	Loan Term (Yrs)	Interest Rate	Project Category	Project Description
7480-01	Spring Arbor Twp.	Jackson County	8/7/2020	\$1,405,000	20	2.00%	Trans/Distribution I	Installation of approximately 9,039 lineal feet of water main
7482-01	Kalamazoo	Kalamazoo County	8/10/2020	\$21,095,000	20	2.00%	Trans/Distribution I	Installation of approximately 44,675 lineal feet of water main, 571 service connections and private well abandonments, and 153 LSLR
7465-01	White Pigeon	St. Joseph County	9/9/2020	\$1,880,000	20	2.00%	Trans/Distribution I	Replacement of approximately 7,500 lineal feet of water main and LSLR when encountered
7466-01	Muskegon	Muskegon County	9/9/2020	\$4,225,000	20	2.00%	Trans/Distribution I	Replacement of approximately 8,957 lineal feet of water main, and an estimated 193 LSLR
7473-01	Highland Park	Wayne County	9/9/2020	\$4,150,000	30	2.00%	Trans/Distribution I	Replacement of approximately 16,756 lineal feet of water main and LSLR when encountered
7473-02	Highland Park	Wayne County	9/9/2020	\$425,000	30	2.00%	Trans/Distribution I	Approximately 110 LSLR
7483-01	GLWA/DWSD	Wayne County	9/9/2020	\$13,355,000	30	2.00%	Trans/Distribution I	Replacement of approximately 35,106 lineal feet of water main and approximately 13,578 lineal feet of LSLR in the city of Detroit
				\$123,470,000				