

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

**Fiscal Year 2021 Annual Report
Drinking Water State Revolving Fund**

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DWSRF Financed Projects for FY 2021

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,' in which case the loan repayment period can extend up 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, 2020, to September 30, 2021, highlighting the activities of Michigan's DWSRF program.

II. 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 and state funds from the capitalization grant and state match.

III. 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) 2021 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 and finance as many projects as possible each year while maintaining the DWSRF in perpetuity.

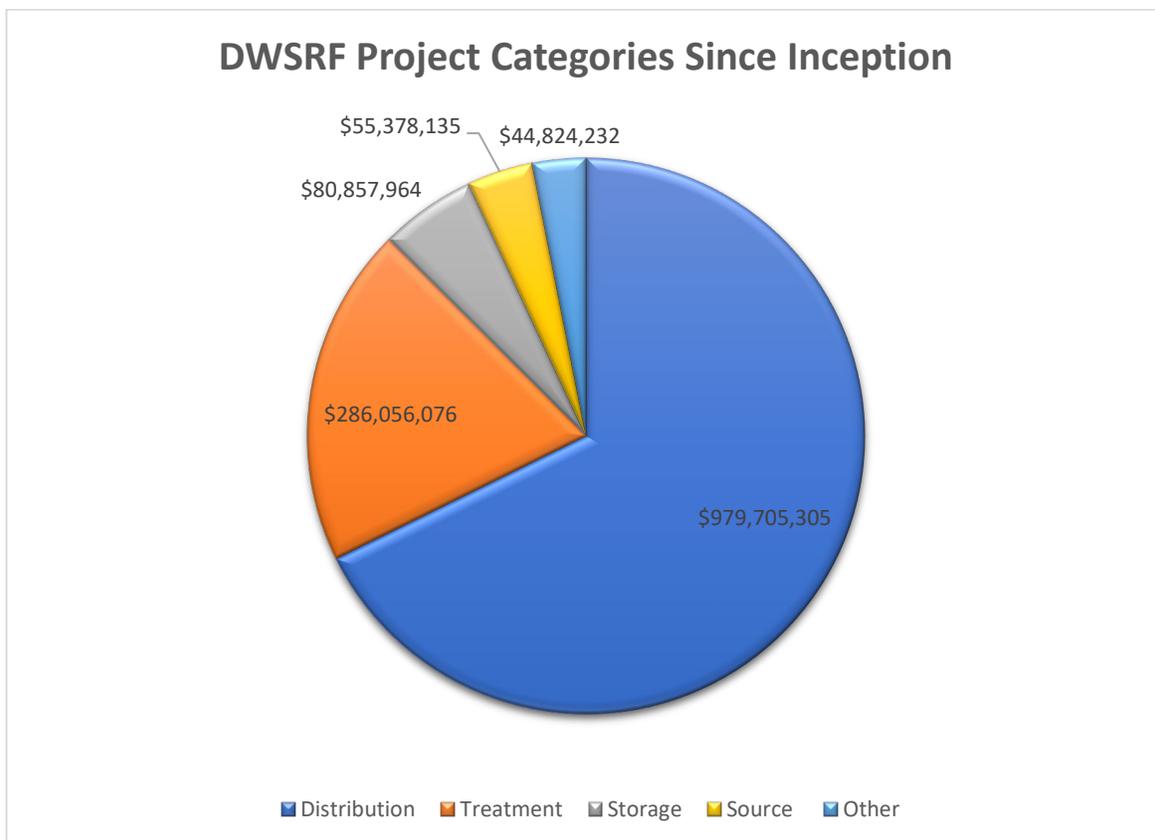
Goal: *To continue effective partnerships with other federal and state financing sources to promote efficiency in environmental review procedures and coordination of funding.*

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, and the Michigan Department of Health and Human Services, to finance qualifying projects. Environmental reviews are coordinated to the extent possible to assist applicants and meet 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. Since 1997, 339 DWSRF loans, totaling \$1,446,821,712 have been made to Michigan water suppliers. The following chart displays the types of projects financed by the DWSRF since inception.



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

Demand for the DWSRF slowed for a few years but has significantly picked up in the last few years likely because of Michigan's revised lead and copper rule. WIFS staff continue to increase marketing efforts of the DWSRF by 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 2021, WIFS increased the number of DWSRF project team members. These new staff are located in EGLE district offices around the state rather than exclusively located Lansing. This approach will increase direct outreach with applicants as staff will now be located closer to communities and can create and maintain a 'neighborly' relationship as well as create a working knowledge of community system needs.

IV. SHORT-TERM GOALS

Short-term goals in FY 2021 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 financed projects identified on the FY 2021 Project Priority List (PPL) that were able to complete the application process for the funds available.

The fundable range amount was \$275 million, as noted in the IUP. A total of 16 DWSRF projects were issued loans, totaling \$190,710,000. Seven communities listed on the IUP declined or postponed loan closings in FY2021 for multiple reasons. Several applicants indicated they were dropping from the FY2021 list to wait for additional grant funds or a funding source that does not include a loan component. One applicant had difficulty with securing additional debt and postponed their loan closing until 2022, another applicant had challenges with securing additional funding sources and has postponed their project. The following table illustrates the projects that dropped from the FY2021 IUP after the IUP was deemed final.

FY 2021 Projects that Dropped from Intended Use Plan

Project Number	Applicant	Principal Forgiveness Type	Loan Amount on IUP	Principal Forgiveness Amount on IUP
7430-01	Village of Lake Orion	Lead Service	\$ 4,390,000	\$ 21,280
7489-01	Spring Arbor Twp		\$ 1,405,000	
7490-01	City of Highland Park	Disadvantaged	\$ 19,200,000	\$ 1,728,000
7490-01	City of Highland Park	Lead Service		\$ 317,016
7495-01	Charter Twp. of Calumet	Disadvantaged	\$ 450,000	\$ 40,500
7503-01	City of Ironwood	Disadvantaged	\$ 9,725,000	\$ 875,160
7508-01	Village of Kaleva	Disadvantaged	\$ 420,000	\$ 37,800
7508-01	Village of Kaleva	Lead Service		\$ 16,800
7511-01	City of Escanaba	Disadvantaged	\$ 20,000,000	\$ 1,800,000
7511-01	City of Escanaba	Lead Service		\$ 600,000
Total			\$ 55,590,000	\$ 5,436,556

Attachment 1 to this report lists total projects financed in FY 2021. All projects receiving DWSRF funds in FY 2021 issued a Notice to Proceed within 60 days of the loan closing. EGLE applied the federal crosscutters to all projects financed during the fiscal year.

Goal: *Ensure that the additional requirements of the 2020 capitalization grant are met, including those that are imposed on local borrowers.*

Congress directed those projects receiving DWSRF funding after January 17, 2014, comply with the American Iron and Steel 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 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 2021.

Congress mandated that at least 14 percent (\$3,784,060) of the 2020 capitalization grant be provided as additional subsidy to eligible borrowers. An additional six percent to thirty-five percent (\$1,621,740-\$9,460,150) must be provided to disadvantaged communities as principal forgiveness. Given the large number of applicants that dropped off the project priority list and their associated \$5.4 million in principal forgiveness, EGLE did not meet the required forgiveness amounts in FY2021. Unfortunately, the applicants that deferred or postponed in FY2021 did so late in the year after binding commitments to other FY2021 projects had already been issued. Therefore, reallocating the principal forgiveness was not feasible during FY2021 and will be carried over to future years. EGLE closed on loans awarding \$1,726,650 in principal forgiveness to disadvantaged applicants and \$684,725 in principal forgiveness to projects undertaking lead service line removal projects for a total of \$2,411,375.

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

FY 2021 DWSRF Loan Principal Forgiveness

Project Number	Applicant	Principal Forgiveness Type	Principal Forgiveness Amount Awarded
7426-01	City of Rochester	Lead Service	\$5,414
7453-01	City of Livonia	Lead Service	\$7,332
7469-01	City of Howell	Disadvantaged	\$118,800
7469-01	City of Howell	Lead Service	\$4,680
7484-01	Detroit Water and Sewerage Department	Disadvantaged	\$1,156,050
7484-01	Detroit Water and Sewerage Department	Lead Service	\$160,000
7486-01	City of St Joseph	Lead Service	\$14,136
7499-01	City of Ferndale	Lead Service	\$400,000
7504-01	City of Bessemer	Disadvantaged	\$60,300
7504-01	City of Bessemer	Lead Service	\$26,800
7506-01	City of McBain	Disadvantaged	\$38,700
7506-01	City of McBain	Lead Service	\$17,200
7507-01	Benton Charter Township	Disadvantaged	\$352,800
7513-01	City of Menominee	Lead Service	\$49,163
Total			\$2,411,375

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.

Beginning in FY2021, EGLE created a grant program that awards funds to drinking water systems to locate and inventory lead service lines. It is anticipated these applicants will apply for DWSRF assistance in the coming years to remove lead lines discovered under this new Drinking Water Asset Management Grant.

V. FLINT SUPPLEMENTAL IUP ACTIVITIES

At the beginning of September 2021, the City of Flint had requested and received reimbursement of 64% of the \$100,000,000 awarded to them under EPA's federal Water Infrastructure Improvements for the Nation (WIIN) Act. Approximately \$36.4 million remained available for disbursement across all their WIIN approved projects. EGLE and EPA meet with the City monthly to discuss progress and potential hurdles to maximize grant spending.

VI. 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 2021 was 1.875 percent for 20-year and 40-year loan terms with a rate of 2.125% for a 30-year term.

VII. 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.

VIII. ALLOCATION OF FUNDS

A three-step process is used to allocate funds to eligible projects. First, EGLE and MFA identify new sources of funds to be added to the revolving fund and determine 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 2021, less four percent for administration and drinking water program set-asides:

2020 Capitalization Grant funds for loans (total grant is \$27,029,000)	\$15,620,666
2020 State Match (general funds)	\$5,000,000
Carry forward Match	\$405,800
TOTAL	\$21,026,466

The governor of each state may opt to transfer up to 33 percent of available moneys between the CWSRF and the DWSRF programs to assist with program operations or project funding needs. 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.

IX. 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 2021, EGLE and the MFA processed \$90,284,018 in loan disbursements (not including WIIN).

Administrative costs for EGLE and the MFA in FY 2021 totaled \$938,827 in disbursement requests. Non-administrative set-aside requests totaled \$7,579,404 (not including WIIN).

During the fiscal year, the cash draw ratios (federal funds/state match) used for the FY 2020 capitalization grant were 83.33/16.67. State funds were completely expended before requesting reimbursement for any federal funds.

X. ASSURANCES

- A. The final guidelines from the EPA set forth provisions that the state must give certain assurances 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. 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 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.

- D. All projects financed in FY 2021 have been entered into EPA's new database system EPA Gateway.
- 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 2021.
- F. All DWSRF projects funded in FY 2021 meet the federal crosscutter requirements, the state environmental review process, and satisfy the EPA equivalency requirement.

XI. 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.

XII. 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
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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
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Attachment 1: EGLE Drinking Water State Revolving Fund Financed Projects FY 2021

Project No.	Applicant	Binding Commitment Date	Financed Amount	Loan Term (Years)	Interest Rate	Project Category	Project Description
7426-01	City of Rochester	11/16/2020	\$6,790,000	20	1.875%	Trans/Distribution I	Replacement of watermain and lead service lines if encountered
7469-01	City of Howell	2/26/2021	\$1,320,000	20	1.875%	Trans/Distribution I	Replacement of watermain and lead service lines if encountered
7486-01	St. Joseph	2/26/2021	\$2,200,000	20	2.00%	Trans/Distribution I	Replacement of approximately 3,650 lineal feet of water main and LSLRs when encountered
7499-01	City of Ferndale	2/26/2021	\$10,000,000	20	1.875%	Trans/Distribution I	Replacement of approximately 1,200 lead service lines and 2,500 service line material verifications
7510-01	City of Cadillac	3/03/2021	\$9,795,000	30	2.125%	Trans/Distribution I, Source IVA	New well field and associated distribution infrastructure
7445-04	Great Lakes Water Authority (GLWA)	5/28/2021	\$11,940,000	20	1.875%	Trans/Distribution	Rehabilitation of transmission system in city of Detroit
7453-01	City of Livonia	5/17/2021	\$5,345,000	20	1.875%	Trans/Distribution I	Replacement of watermain and associated lead service lines if encountered
7496-01	Oscoda Charter Township	5/17/2021	\$1,485,000	20	1.875%	Trans/Distribution I	Installation of watermain and water services to residents with private wells with PFAS contamination
7504-01	City of Bessemer	5/17/2021	\$670,000	20	2.00%	Trans/Distribution I	Replacement of lead service lines in conjunction with a USDA-RD funded project
7507-01	Benton Charter Township	6/17/2021	\$3,920,000	40	1.875%	Trans/Distribution I	Replacement of watermain
7442-01	East Lansing Meridian Water and Sewer Authority	8/2/2021	\$7,465,000	20	1.875%	Treatment II	Addition of filter tanks and associated work at the WTP
7461-02	Great Lakes Water Authority	8/9/2021	\$104,725,000	20	1.875%	Trans/Distribution I	Installation of transmission main for looping
7479-01	Charter Township of White Lake	8/6/2021	\$8,280,000	20	1.875%	Trans/Distribution I, Treatment II	Improvements at WTP and water main extension
7484-01	GLWA on behalf of Detroit Water and Sewerage Department	8/6/2021	\$12,845,000	20	1.875%	Trans/Distribution I	Replacement and lining of water main and replacement of approximately 655 lead service lines
7506-01	City of McBain	8/6/2021	\$430,000	40	1.875%	Trans/Distribution I	Lead service line replacement in conjunction with USDA-RD funded project
7513-01	City of Menominee	9/9/2021	\$3,500,000	30	2.125%	Trans/Distribution I	Replacement of watermain and approximately 225 lead service lines.
Total financed for 16 projects:			\$190,710,000				