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Attachments

- Attachment 1 – Fiscal Year 2023 DWSRF Project Priority List - Amended
- Attachment 2 – Fiscal Year 2023 DWSRF Disadvantaged Applicants - Amended
- Attachment 3 – Fiscal Year 2023 DWSRF Equivalency Projects - Amended

Water Infrastructure Funding and Financing Section

Michigan's Water Infrastructure Funding and Financing Section (WIFFS) within EGLE assists municipalities in their efforts to protect public health and the environment through the administration of low interest loans and grants and by providing project support and outstanding customer assistance. Information on Michigan's Drinking Water State Revolving Fund can be found at www.Michigan.gov/DWSRF.



Paul McDonald, EGLE CFO



Kelly Green, WIFFS Administrator

DWSRF Overview

The Drinking Water State Revolving Fund (DWSRF) low interest loan program was established via the Safe Drinking Water Act (SDWA) Amendments of 1996. The DWSRF is a program to assist public water systems in financing the costs of replacement and repair of drinking water infrastructure to protect public health and achieve or maintain compliance with the SDWA requirements.

Congress appropriates funding for the DWSRF annually. EPA awards capitalization grants from those Congressional appropriations to each state for their DWSRF based upon an allocation formula determined from the most recent Drinking Water Infrastructure Needs Survey. In accepting the award, States are required to provide a 20 percent match.

The SDWA places an emphasis on preventing contamination rather than a reactive approach. Central to this is the development of state prevention programs including, source water protection, capacity development, and operator training and certification. To fund these programs, the SDWA allows the creation of four set-aside accounts. States may take up to 31% of their annual capitalization grant as set-asides. The remaining balance after taking the set-asides, plus the State's match, is placed into a dedicated revolving loan fund. This fund provides loans to water systems for eligible infrastructure projects. As water systems repay their loan, the repayments and interest flow back into the dedicated fund and can be used to make new loans.

Michigan's DWSRF program has awarded over \$1.5 billion dollars to 370 drinking water projects across the state since 1998. Of that, \$65,534,865 has been awarded as principal forgiveness (PF), or as loan dollars not required to be paid back. PF dollars greatly assist communities with affordability issues. However, they do not revolve back into the program and thereby reduce fund growth. Over the past five years, WIFFS has seen a significant increase in the number of applicants interested in DWSRF as well as the total loan dollars being requested. The figures below illustrate the financing requested over the past five years.

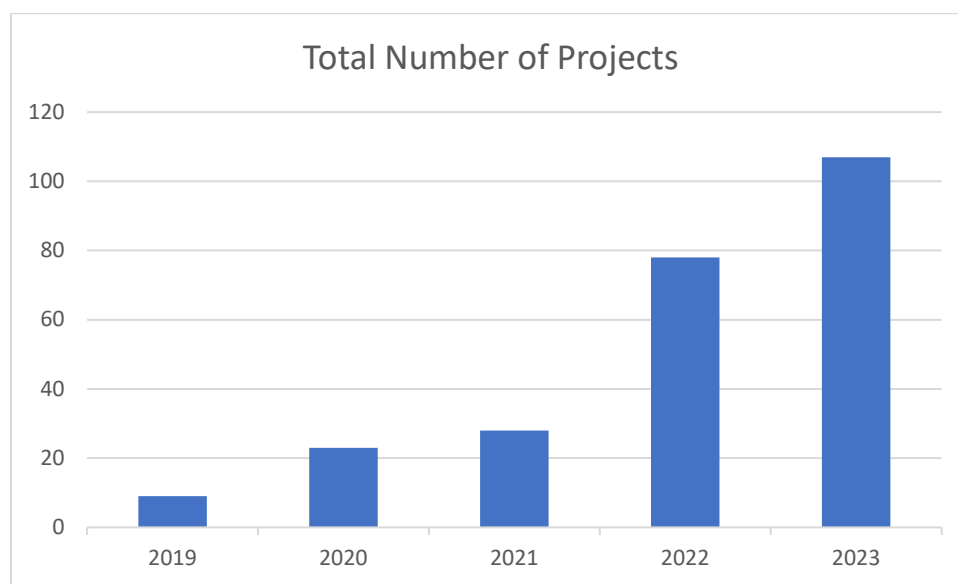


Figure 1 Total Applicants Over Past Five Years

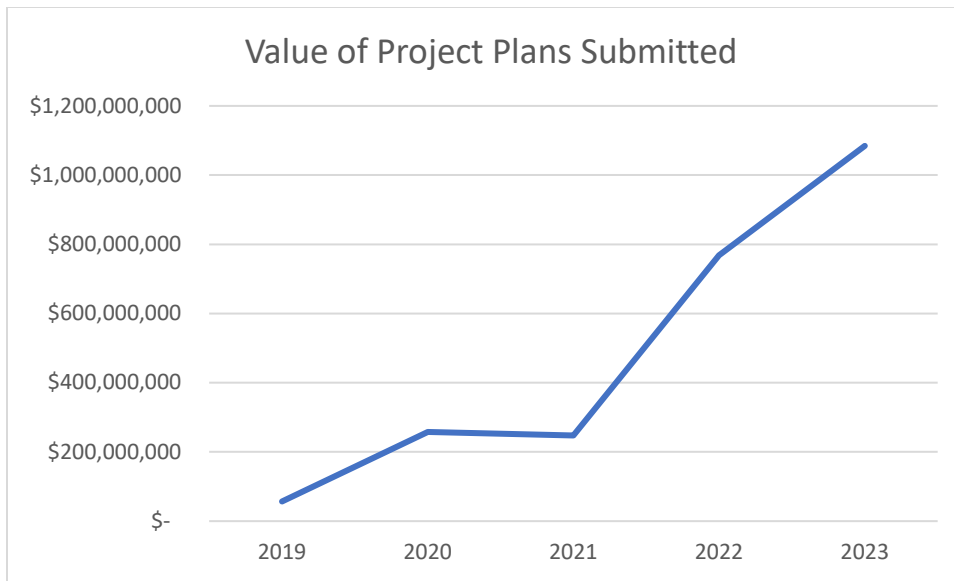


Figure 2 Value of Project Plans Over Last Five Years

As required by the SDWA, Michigan, prepares this Intended Use Plan (IUP) to identify the DWSRF loan projects that will utilize the funds available in a given fiscal year (FY) as well as the set-asides. This IUP includes the project priority list for FY2023 projects. The capitalization grant used for Michigan’s FY2023 projects are from EPA’s FY2022 budget, or any prior capitalization grants that may still be open. As a result of federal appropriations to Michigan, EGLE’s capitalization grant for FY2023 projects is \$17,202,000.

Understanding there are approximately 1,400 community water systems in Michigan, many with capital needs, and as applications began to trend upwards, EGLE made a concerted effort to improve the program. WIFFS undertook a lean process improvements approach to the DWSRF and the companion, Clean Water State Revolving Fund (CWSRF), to increase community participation and better understand what barriers existed for applicants. In June of 2022, after collaboration with stakeholder groups, PA 132 of 2022 was signed by the Governor. This legislation will amend the DWSRF scoring criteria, disadvantaged community criteria, application process, and a handful of other items which will align the DWSRF program with today’s infrastructure needs and digital work. These changes are currently going through a public participation process and will take effect beginning with FY2024 projects.

The work of WIFFS staff to assist applicants through the financing and environmental review process while assuring state and federal laws are met is an invaluable resource to Michigan’s residents. The DWSRF program continues to contribute to the protection of public health across the state.

New In FY2023

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 nations drinking water and wastewater systems. A sizeable portion of the BIL dollars will flow through the DWSRF beginning with FY2023 projects.

The BIL provides three new federal grants to Michigan through the DWSRF: the DWSRF Supplemental Grant, the DWSRF Emerging Contaminants Grant, and the DWSRF Lead Service Line Replacement Grant. These grants will be awarded to states annually over the next five years. Table 1 below illustrates Michigan’s allocation of BIL for FY2023 projects. WIFFS has two years to allocate funds once they have been applied for from EPA. BIL language requires each grant allocation provide additional subsidization as follows:

- DWSRF Supplemental: 49 percent additional subsidization.
- DWSRF Emerging Contaminants: 100 percent (minimum 25 percent of funds must go towards disadvantaged communities or public water systems serving fewer than 25,000 people) additional subsidization.
- Lead Service Line Replacement: 49 percent additional subsidization.

Additional subsidization will be awarded to applicants in the form of loan principal forgiveness as illustrated on Attachment 1.

EGLE has applied for 100 percent of the available BIL dollars from EPA for this fiscal year. It is anticipated that EPA will award the BIL Emerging Contaminant and BIL Lead Service Line Replacement grants conditionally as Michigan does not currently have enough projects on the FY2023 priority list. Any BIL dollars remaining at the conclusion of FY2023 will be carried forward and allocated to projects in FY2024. These carry over dollars will be allocated prior to any FY2024 allotments.

The BIL also allows the use of up to 31% of the grants as set-asides. The categories of set-asides are aligned with the traditional DWSRF grant, are tracked on a per grant basis, and must be used to address needs in the category they are taken. For example, set asides taken from the Emerging Contaminant grant must be used to address eligible emerging contaminant activities. EGLE is banking \$16,320,437 of BIL set asides to be used at a later date. EGLE anticipates these set-aside dollars will be used for administering the funds as well as assisting communities that lack the capacity to apply for DWSRF and/or manage projects such as in the pre-planning and pre-construction phases. Additional information on use of BIL set asides will be available in the future once programs are developed.

Table 1 BIL Allocation

Appropriation	Grant Allocation	Amount of Additional Subsidization	Amount Banked as Set-Aside
DWSRF Supplemental	\$44,168,000	\$21,642,320	\$0
DWSRF Emerging Contaminants	\$18,546,000	\$18,546,000	\$5,749,260
DWSRF Lead Service Line Replacement	\$69,593,000	\$34,100,570	\$10,571,177
Total	\$132,307,000	\$74,288,890	\$16,320,437

Emerging Contaminates

The BIL emerging contaminants funds must be used for eligible DWSRF projects with the primary purpose to address emerging contaminants in drinking water. The funds must focus on projects addressing perfluoroalkyl and polyfluoroalkyl (PFAS) substances or any contaminant on [EPA's Contaminate Candidate Lists](#). Additionally, grant funds under this category are not subject to state matching requirements of the SDWA. As previously discussed, 100 percent of the Emerging Contaminant Grant must be provided as additional subsidization to applicants. EGLE has two applicants that qualify for emerging contaminant funds, Independence Township and Bedford Charter Township totaling \$10,285,000 in estimated project costs in FY23.

Lead Service Line Replacement

The BIL lead service line replacement funds must be used for lead service line replacement projects only and their associated activities directly connected to the identification, planning, design, and replacement of lead service lines. Projects must be DWSRF eligible and full replacement of a lead line must occur in accordance with [Michigan's Lead and Copper Rule](#).

EPA grant funds under this BIL appropriation are not subject to state match requirements. In addition, BIL requires states to provide 49% of the grant as additional subsidization to applicants that meet the state's disadvantaged community criteria. Michigan is applying these funds to lead service line replacement projects as principal forgiveness as illustrated on Attachment 1.

Build America, Buy America (BABA) Act

On November 15, 2021, the Infrastructure Investment and Jobs Act (IIJA), Pub. L. No. 117-58, which includes the Build America, Buy America Act (BABA). Pub. L. No. 117-58, §§ 70901-52, was signed into law strengthening Made in America Laws. The law requires that no later than May 14, 2022, 180 days after the enactment of the IIJA, the head of each covered Federal agency shall ensure that "none of the funds made available for a Federal financial assistance program for infrastructure, including each deficient program, may be obligated for a project unless all of the iron, steel, manufactured products, and construction materials used in the project are produced in the United States." This expands domestic sourcing requirements to include all steel, iron, manufactured products, non-ferrous metals, plastic, and polymer-based products (including polyvinylchloride, composite building materials, and polymers used in fiber optic cables), glass (including optic glass), lumber, and drywall used in infrastructure projects for federal financial assistance programs must be produced in the United States. The Made in America Office at the Office of Management and Budget (OMB) has developed initial overarching implementation guidance: <https://www.whitehouse.gov/wp-content/uploads/2022/04/M-22-11.pdf>. Additional information from EPA and the waiver process is posted to their [BABA website](#).

American Rescue Plan (ARP) Water State Revolving Funds

Michigan Public Act 53 of 2022 was signed into law effective March 30, 2022. Section 308 of that law includes language allocating funds for drinking water improvements. These ARP dollars will work in tandem with DWSRF and operate as a grant. No more than \$20 million can be awarded per project, 25% of the total funds allocated must be awarded to communities with a population of less than 10,000, and no less than 25% of funds must be awarded to communities undertaking a lead service line replacement project. A total of \$604,650,000 is to be awarded for drinking water improvement projects over FYs 2023 and 2024. Michigan is targeting \$248,181,377 of total ARP dollars be awarded to projects in FY2023 as illustrated on Attachment 1.

Michigan's DWSRF Program

Multi Step Application Process

The purpose of the multiple step application process is to first determine if the borrower qualifies to receive funding under the DWSRF program and assess the eligibility of the proposed projects. This process operates to assist applicants through any significant hurdles that may exist in securing permits, environmental clearances, and understanding DWSRF laws and policies. The first step in the process is to submit to EGLE an Intent to Apply (ITA) form found on www.Michigan.gov/DWSRF. This ITA process allows for better tracking of applicant needs and better processing and outreach by staff. Additionally, it allows for earlier coordination with the Michigan Finance Authority (MFA) which operates as EGLE's DWSRF partner in managing fund dollars. The MFA requires a municipal obligation (bond note or evidence of debt issued) under the Shared Credit Rating Act. The MFA then purchases the applicant's local bond to effectuate the DWSRF loan.

Priority Ranking System

New state DWSRF legislation was enacted and the prioritization ranking system will be changing after going through a public participation process this summer. Projects in FY23 have been scored and prioritized utilizing the scoring system that was defined in Part 54 of Act 451 of 1994. This system combines several areas of importance to rank projects annually on the project priority list: drinking water system compliance, reliability, enforcement action, population, source water protection, and disadvantaged community status. Projects are scored and prioritized by EGLE's Drinking Water and Environmental Health Division. Attachment 1 illustrates project's assigned points.

The FY2023 Project Priority List (PPL) illustrated in Attachment 1 includes the following items:

- Rank
- Project number
- Applicant name
- Project location (county or city if applicant is a county)
- Project description
- Population
- Total points
- Estimated project cost
- Disadvantaged status
- Small system status
- MAHI
- Type of assistance
- Total percent of project to be awarded as forgiveness or grant

The PPL may be updated as changes occur such as projects dropping or shifting funding years. Applicants should not expect to increase their loan amounts or grant/forgiveness amounts if actual project costs come in higher than estimated. EGLE understands the tough economic variables occurring and will make every attempt possible to finance projects allowing flexibility in timing and cost overruns. There may be instances where loan dollars can exceed the PPL

estimates however, EGGLE reserves the right to lock loan, grant, and forgiveness amounts into what is illustrated on the Final PPL due to limited resources.

Project inclusion on the PPL indicates an applicant has submitted a final project plan with an estimated dollar amount that was scored and ranked by EGGLE. There is no actual or implied guarantee that being listed on the PPL will constitute a commitment of financial assistance from the DWSRF or ARP. All program requirements must be satisfied, and applicable permits issued before a binding commitment can be offered and a loan closed.

For inclusion on the FY2023 PPL, final ITA forms were due to EGGLE by January 31, 2022, with final project plans due by July 1, 2022. The ITA form includes project information such as overview of project type, estimated costs, and estimated date of construction.

Engineering Review

Projects that are considered for funding undergo programmatic and technical review of planning and design documents such as engineering reports and plans and specifications to ensure they follow state and federal regulations. Project alternatives are reviewed including the cost and effectiveness of feasible options including operation and maintenance costs.

Environmental Review

An Environmental review is required for all DWSRF treatment works projects. EGGLE WIFFS staff review every project for impacts to various water, land, and flora/fauna species. A Finding of No Significant Impact should be determined on all DWSRF projects prior to any construction activities taking place. Should a FNSI not be able to be issued, the Department may undertake further review through issuance of an Environmental Impact Statement. If project work is added or changed during the project due to unforeseen conditions and was not included as part of the original project scope additional environmental reviews may be required.

Loan Issuance

An approvable loan application must include:

- Complete DWSRF application including Parts I-III.
- Detailed project description, cost breakdown, and schedule.
- Financial documentation demonstrating ability to repay the loan.
- Any necessary executed intermunicipal service agreements.
- An approved project plan.
- Set of approved plans and specifications including construction permit(s) if required.
- Resolution from the applicant designating a project representative and approving the project scope.
- A fiscal sustainability plan.

A project notice to proceed must be issued within 60 days of loan closing unless an extension request has been approved by WIFFS. Project construction activities should be complete within three years of loan award with project initiation occurring unless otherwise approved by WIFFS.

Construction Monitoring

Projects are required to be built according to the approved plans and specifications and that they adhere to any covenants in their loan agreement including American Iron and Steel (AIS), Davis Bacon, and where applicable Build America, Buy America (BABA) compliance.

Any changes from the original design need to be reviewed via Change Order or Amendment. Once approved, the project budget is revised to reflect the change when applicable.

Program Marketing and Outreach

WIFFS has increased the presence of staff around the state. WIFFS now has subject matter experts housed in nearly all EGLE's district/field offices and is working on hiring additional staff to ultimately fill every district location with at least one SRF team member. WIFFS presents at virtual and in person events in collaboration with Michigan chapters and regional water organizations. Social media, website development, and email blasts also serve to market the DWSRF program. In addition, EGLE meets with the regional Environmental Finance Center, US Department of Agriculture – Rural Development, Rural Community Assistance Program, American Council of Engineering Companies, and numerous other local stakeholder Non-Governmental Organizations to collaborate funding sources and message program updates.

Long-Term Program Goals

The DWSRF program operates as a public and environmental health protection program and in such maintains long-term goals to ensure the State is meeting the Safe Drinking Water Act and EGLE's mission to protect and maintain safe drinking water. DWSRF long-term goals include:

- Maintain the fiscal integrity of the fund to ensure it remains viable and self-perpetuating including harmonizing additional subsidization funds and revolving loan funds to safeguard the DWSRF fund. When additional subsidization and/or set-aside dollars increase, dollars revolving back into the fund are reduced thereby limiting fund growth
- Maintain and refine procedures to prevent fraud and ensure a system of checks and balances
- Maintain and develop relationships with other funding and financing agencies and water quality organizations to ensure resources are directed in a holistic approach
- Target outreach to communities that have never utilized the DWSRF
- Maintain and develop relationships with long-term borrowers and other funding and financing agencies and organizations to ensure resources are distributed in a holistic and efficient manner
- Continue to work collaboratively with our Drinking Water and Environmental Health Division partners to identify drinking water infrastructure priorities across the state

Short-Term Program Goals

The DWSRF upholds short-term goals to continually improve and evolve the program to better meet water quality needs around the state. DWSRF short-term goals include:

- Develop new program procedures and guidance materials related to the new DWSRF state legislation as well as the new federal BIL grants.
- Procure and maintain a new data system for tracking DWSRF projects and related state grant programs
- Assist applicants listed on the annual PPL in meeting DWSRF requirements to successfully close on a loan
- Hire and train new DWSRF program staff
- Apply for all DWSRF federal grants and ensure requirements of the grant terms and conditions are met including Michigan's ARP funds
- 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

Programmatic Requirements

Disadvantaged Community

EPA defines a disadvantaged community in DWSRF as the entire service area of a public water system that meets affordability criteria established by the State. Disadvantaged communities may be afforded additional subsidization or extended loan terms.

Michigan's affordability criteria, referred to as a disadvantaged community determination, was defined in the state DWSRF law. The new DWSRF legislation was enacted earlier this year and requires EGLE to undergo a public participation process in developing new criteria, now being referred to in Michigan as Overburdened and Significantly Overburdened. Because the public participation process is currently underway and new criteria have not been finalized, projects on the FY 2023 PPL will follow the previous disadvantaged community determination process. The previous definition is as follows:

Disadvantaged community means all of the following conditions are met:

1. Users within the area served by a proposed project are directly assessed for the costs of construction.
2. The median annual household income of the area served by a proposed project does not exceed 120% of the statewide median annual household income (MAHI) for Michigan.
3. The municipality demonstrates at least 1 of the following:
 - a. More than 50% of the area served by the proposed project is identified as a poverty area by the US bureau of the census.
 - b. The median annual household income of the area served by a proposed public water supply project is less than the most recently published federal poverty guidelines for a family of 4 in the 48 contiguous United States. In determining the MAHI of the area served under this the municipality shall utilize the most recently published statistics from the US

bureau of the census, updated to reflect current dollars for the community which most closely approximates the area being served.

- c. The MAHI of the area served by a proposed project is less than the most recently published statewide MAHI for the state and annual user costs for water supply exceed 1% of the median annual household income of the area served by the project.
- d. The MAHI of the area served by the project is not greater than 120% of the statewide MAHI for this state and annual user costs do not exceed 3% of the MAHI of the area served by the project.

Attachment 2 includes those projects that have been identified as disadvantaged for the FY2023 financing cycle.

Additional Subsidization

Two distinct and additive subsidy authorities are included in the traditional capitalization grant for Michigan’s FY2023 projects. Under the congressional additional subsidy authority, states must provide 14 percent (\$2,408,280) of their annual capitalization grant from EPA as additional subsidization to eligible recipients. Secondly, under the Safe Drinking Water Act (SDWA) Disadvantaged Community Additional Subsidy Authority, states must use at least 12 percent (\$2,064,240), but not more than 35 percent (6,020,700) of the capitalization grant as additional subsidization to state-defined disadvantaged communities. Michigan is planning to award all additional subsidization as principal forgiveness to disadvantaged communities in FY2023. Principal forgiveness allows applicants to forgo loan repayment for the portion of their loan that is forgiven, thereby operating similar to a grant.

EPA allows states to carry over ‘leftover’ subsidy from past capitalization grants where the minimum subsidy was not met, or maximum subsidy was not utilized. Michigan has subsidy remaining from the 2017 through 2020 grants that can be used. In FY2023, \$9,340,103 in leftover subsidy will be used and allocated to applicants on the final PPL. The table below illustrates the traditional DWSRF capitalization grant and associated additional subsidy amounts for FY2023 projects. Subsidy from the FY2022 capitalization grant will be used first and then subsidy from oldest grant to newest will be applied.

Table 2 Additional Subsidy Allocation

Capitalization Grant	Required 14% Congressional Subsidy	SDWA Subsidy	Leftover 2017	Leftover 2019	Leftover 2020	Total Traditional Subsidy Proposed in 2023
\$17,202,000	\$2,408,280	\$2,282,668	\$115,744	\$5,285,679	\$3,938,680	\$14,031,051

BIL Additional Subsidy

As mandated under the BIL, 49 percent of funds from the DWSRF Supplemental grant, 100 percent of funds under the Emerging Contaminants grant, and 49 percent of funds under the Lead Service Line Replacement (LSLR) grant must be awarded as additional subsidy. This BIL subsidy will also be awarded to applicants in the form of loan principal forgiveness. The table

below illustrates the total subsidy allowed. Michigan does not have enough applicants under the Emerging Contaminants or LSLR allocations to award total BIL dollars. Attachment 1 illustrates the total dollars that are estimated to be awarded in FY2023. Remaining BIL dollars will be awarded in FY2024.

Table 3 BIL Grant Allocation from EPA

	DWSRF Supplemental	DWSRF Emerging Contaminants	DWSRF LSLR
Fund Amount	\$44,168,000	\$18,546,000	\$69,593,000
Additional Subsidy Amount	\$21,642,320	\$18,546,000	\$34,100,570

As discussed previously, a new source of funds for FY2023 projects is Michigan’s allocation of ARP dollars in combination with DWSRF projects. EGLE has proposed awarding \$248,181,377 in ARP dollars for FY2023 projects. This increases the overall number of projects WIFFS can reach in the fundable range.

Using a combination of principal forgiveness, ARP dollars, DWSRF BIL and traditional loan dollars WIFFS is planning to award \$464,440,789 to projects on the FY2023 PPL. The methodology listed below was used to allocate the fundable ranges for traditional DWSRF of \$122,031,051 and BIL DWSRF LSLR of \$39,775,361 in FY2023:

- All disadvantaged communities with MAHI less than or equal to \$35,000 will receive a 100% ARP grant or forgiveness combination up to the maximum of \$20,000,000.
- Disadvantaged communities with a MAHI above \$35,000 and within the traditional DWSRF fundable range will receive 75% ARP grant or forgiveness combination up to a maximum of \$20,000,00.
- Disadvantaged communities with a MAHI above \$35,000, outside of the traditional fundable range, and having LSLR components will receive 75% ARP grant or forgiveness combination up to a maximum of \$20,000,000 until the BIL LSLR fundable range is exhausted.
- All other applicants within the traditional fundable range will receive 25% ARP grant up to a maximum of \$20,000,000.

Michigan is applying for the full allocation of EPA awarded funds for BIL grants in FY2023. However, due to the availability of state ARP funds and insufficient applicants for the Emerging Contaminant money, the full amount of the BIL grants will not be awarded in FY2023 but will be carried over to FY2024 projects. Attachment 1 illustrates the total in each category that will be allocated to FY2023 projects. EGLE reserves the right to limit grant, principal forgiveness, and loan dollars to the amounts identified on the final PPL. All activities greater than \$50,000 require an executed contract solicited using competitive bidding unless otherwise approved by EGLE.

WIFFS will focus staff resources on awarded projects identified on the PPL. Applicants are expected to execute a milestone schedule with their WIFFS project manager no later than December 31, 2022. Failure to do so may result in the applicant’s project being bypassed and moved to a future funding year. Limited resources will not be dedicated to projects that fall outside the range of awarded dollars.

In summary, EGLE plans to award the following in FY2023:

Table 4 Proposed Total Funds in FY2023

Allocation	Amount
ARP Grant	\$248,181,377
DWSRF Loan	\$108,000,000
DWSRF Loan Forgiveness	\$14,031,051
BIL Supplemental Loan	\$22,525,680
BIL Supplemental Loan Forgiveness	\$21,642,320
BIL Emerging Contaminants Loan Forgiveness	\$10,285,000
BIL LSLR Loan	\$20,285,434
BIL LSLR Loan Forgiveness	\$19,489,927
Total	\$464,440,789

Davis Bacon Act

Under regulations in 29 CFR 5.5, EPA must ensure that fund recipients are subject to the Davis Bacon provisions. Additionally, compliance with the Davis Bacon Act is required for all ARP funded projects. Therefore, all projects on the DWSRF list, regardless of funding source, are required to comply with the Davis Bacon Act. Applicants are required to submit a certification of compliance with each disbursement request.

American Iron and Steel

All projects receiving DWSRF Base and BIL dollars are required to comply with the American Iron and Steel provision unless a waiver from EPA has been granted.

Equivalency Projects

Equivalency projects are defined within the SRF programs as a select group of loans whose sum is equal to the amount of the capitalization grant which are required to meet certain federal requirements. They must meet the federal crosscutter, single audit, Disadvantaged Business Enterprise, Signage, and FFATA reporting requirements. The addition of Build America, Buy America (BABA) has also been added this year. States are required to meet equivalency projects under both the base DWSRF and the BIL. Attachment 3 illustrates the projects Michigan plans to use as for FY2023 equivalency. Signage requirements will be met via [EGLE's Water Infrastructure Financing Dashboard](#) displayed on the DWSRF public website. The final list of entities that comply with these requirements will be included in the FFATA Reporting and FY2023 Annual Report.

EPA Data System

WIFFS agrees to enter data into the EPA's data system on a minimum quarterly basis as loans are issued.

Fund Financial Management

Source and Allocation

Due to an increase in program demand, in FY2020 EGLE began operating the DWSRF as a leveraged program. The state will sell revenue bonds that are secured by federal and state assets. Bond issuance costs are covered by the bonds sold and thus are not identified as direct administrative expenses of the DWSRF. Project costs of the local units of government are reimbursed from the bond issues. For borrowers who are non-municipal entities, limitation on private activity from tax-exempt issues require EGLE and MFA to fund private water suppliers from funds other than tax-exempt revenue bonds. There are no private, non-municipal water suppliers on the FY2023 PPL.

Michigan is required to provide a 20 percent state match to the traditional DWSRF capitalization grant as well as a 10 percent match of the BIL general supplemental. No state match is required to receive the BIL Emerging Contaminant or LSLR grants. General fund dollars are available for both match requirements this year. Any excessive match funds available in FY2023 will be carried over for the benefit of the fund and used for match requirements in future years.

The DWSRF 2021 capitalization grant is the only open grant for drawing loan dollars. It is anticipated this grant will be fully spent in FY2022. At publication time of this, \$3.7 million remains available for loan draws.

Table 5 Source and Amount of Fund Dollars

Source	Amount
DWSRF Grants (including BIL)	\$149,509,000
State Match Available (General Fund)	\$9,416,800

EGLE uses a process to prescribe how available funds will be allocated between eligible recipients as follows:

- Identify borrowers ready to proceed with projects in FY2023
- Determine amount of financing needed by applicants
- Identify sources and amount of funds available to provide the requested assistance
- Allocate dollars in priority order consistent with the terms of applicable funding sources
- Negotiate a milestone schedule with fundable applicants
- Determine final loan amounts based on as-bid dollars
- Redistribute any remaining funds in future years if projects drop or costs come in lower than estimates. Determine if funds are available for any projects that may come in higher than PPL estimates.

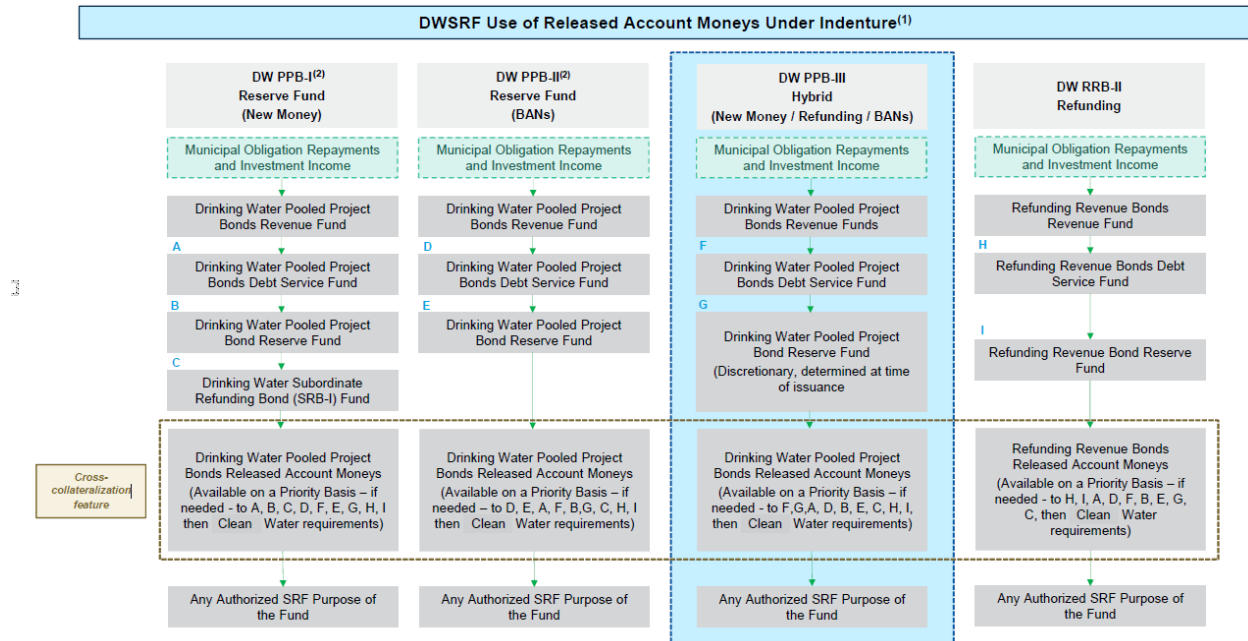
DWSF financial assistance to municipalities during FY 2023 will consist of loans, and principal forgiveness. All projects within the fundable range are anticipated to close loans in FY2023. Final binding commitment dates are subject to change based on the needs of applicants and any unforeseen conditions that may arise and will be established once milestone schedules are negotiated with applicants. WIFFS will offer seven loan closing dates throughout the calendar year. There will be two dates per quarter, except for quarter four, in which there will only be one closing in August.

Final loan award amounts will be included in the DWSRF Annual Report.

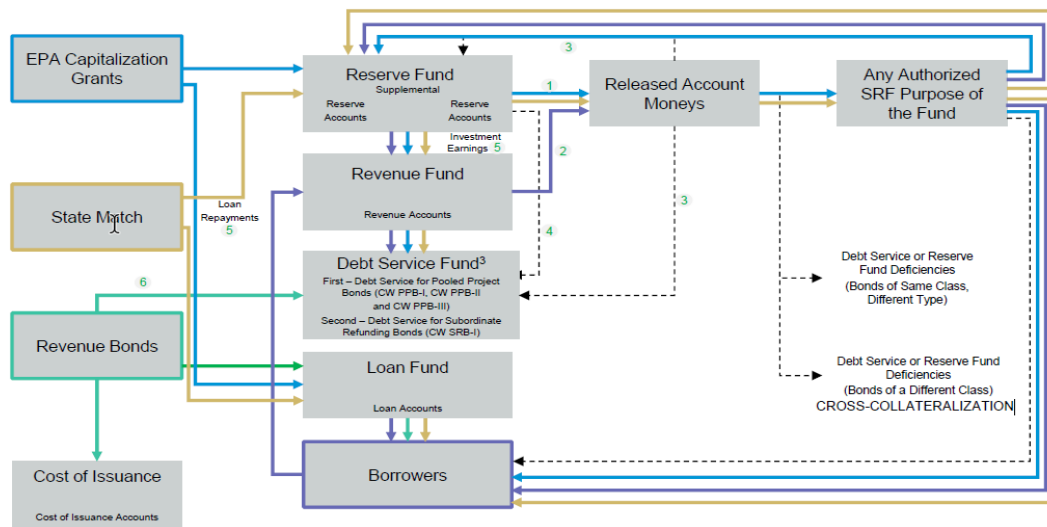
Cross Collateralization

The DWRF and CWSRF are cross-collateralized and have been from the outset. Below are flow charts illustrating the process.

Drinking Water Use of Released Account Moneys Under Indenture



Clean Water and Drinking Water SRF - Flow of Funds^{1,2}



Transfer Authority

In accordance with the Safe Drinking Water Act and the SRF funds transfer provisions, Michigan is able to transfer an amount up to 33 percent of the DWSRF program capitalization grant to the CWSRF program or an equivalent amount from the CWSRF program to the DWSRF program. No funds were transferred from either program during this reporting period.

Interest Rates

Along with the potential for principal forgiveness, low interest rates remain an advantage to municipalities when seeking assistance from the DWSRF. Interest rates are established annually by EGLE's Director and based on the demand for financing in the coming year, anticipated future demand, consideration of market rates, and evaluation of additional costs to borrowers for program participation. FY2023 interest rates have been established as follows:

Table 6 Interest Rates

Term	Rate
20-year loan	1.875 percent
30-year loan	2.125 percent
30-year loan disadvantaged community	1.875 percent
40-year loan disadvantaged community	1.875 percent

Administrative Costs

To administer the program, WIFFS has historically utilized the 4 percent set-aside from the federal capitalization grant as authorized by the SDWA.

Over the past couple of years, WIFFS has seen a substantial increase in applicants into the DWSRF program yet a decrease in FY2023 in available capitalization grant dollars. For these reasons, WIFFS is currently undergoing a review of resources and needs to determine the best option for covering administrative costs moving forward. The BIL allows the 4 percent set-aside to be applied to all BIL buckets. It is anticipated that all available FY2023 4 percent administrative set-aside, including BIL allocations, will be fully spent in FY2023.

Set-Asides

The projects and expenditures proposed in the set aside work plans are deemed necessary to maintain the current level of effort to implement federal drinking water standards in Michigan, to support source water protection activities, to maintain important groundwater databases, and to support an Information Technology Modernization Project which will benefit public water systems by providing opportunities for improved transparency and communication, streamlining processes, increasing data quality control, and enhancing decision-making capabilities through analytics, trends and insights, automated alerts, and data-driven actions. Set-Aside workplans can be obtained by contacting Dana DeBruyn whose contact information can be found at the end of this document.

Public Review

A public hearing on the draft IUP was held September 12, 2022, from 10:30-11:30 am. Hearing information was posted on EGLE's [calendar of events](#) webpage and the DWSRF homepage. The hearing was held in person with an option for the public to also participate virtually. A few comments were presented in writing and can be found on the DWSRF homepage. Comments able to be addressed immediately were. EGLE anticipates a number of comments will be addressed in future years once new scoring, overburdened language, and new project planning processes have been implemented.

ORIGINATION OF DOCUMENTS

The Finance Division of EGLE is responsible for issuing the DWSRF IUP and its accompanying information.

Questions about the IUP may be directed to:

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Questions about Treasury related items may be directed to:

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Questions about DWSRF set asides may be directed to:

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