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Department of Environmental Quality

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**Drinking Water Revolving Fund
Final Intended Use Plan
Fiscal Year 2015**

Prepared by:
Revolving Loan Section
Office of Drinking Water and Municipal Assistance
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Table of Contents

I.	Introduction	3
II.	Structure of the Drinking Water Revolving Fund	4
III.	Advantages of the Drinking Water Revolving Fund	5
IV.	Goals	6
V.	Allocation of Funds	7
VI.	Criteria and Method for Distribution of Funds - Set Asides	8
VII.	Criteria and Method for Distribution of Funds - Project Loans	13
VIII.	Disadvantaged Business Enterprise.	14
IX.	Disadvantaged Community Status	14
X.	EPA Automated Clearinghouse Activities	15
XI.	Assurances	15
XII.	Output/Outcome Measures	15
XIII.	Public Review and Comment	16
XIV.	Origination of Documents	17

DWRF Final Project Priority List (PPL) for Fiscal Year (FY) 2015
DWRF Final Green Project Reserve List for FY 2015
DWRF Final PPL Future Projects for FY 2015
DWRF Final PPL Scoring for FY 2015
Category Costs for FY 2015 Final PPL

I. INTRODUCTION

The Michigan Department of Environmental Quality (DEQ) through the Office of Drinking Water and Municipal Assistance (ODWMA) administers the Drinking Water Revolving Fund (DWRF). The DWRF program details are set forth in Part 54, Safe Drinking Water Assistance, MCL 324.5401-324.5421, of the Natural Resources and Environmental Protection Act, 1994 PA 451, as amended (Act 451). In addition, the Michigan Finance Authority (Authority) is charged with administering DWRF funds through the Shared Credit Rating Act, 1985 PA 227, as amended (Act 227).

The DWRF provides reduced interest rate loan financing to qualified water suppliers to finance construction of public water systems. Projects may include new wells, new water treatment plants, storage facilities, upgrades or expansions to existing facilities, transmission lines, pumping facilities, and other related waterworks system improvements. Suppliers must meet federal and state program requirements, as well as demonstrate their ability to publicly finance their project and retire project debt. In addition to the loan provided by the DEQ, suppliers also have the option to pay for part of their project with cash and other resources. Since 1998, Michigan has awarded over \$809 million in financial assistance to over 265 borrowers. In fiscal year (FY) 2015, the DWRF will fund \$50 million worth of projects.

This final Intended Use Plan (IUP) describes how the DEQ and the Authority will jointly administer all available DWRF funds during FY 2015. An IUP is a required part of the process to request the federal 2014 capitalization grant, which will be matched with 20 percent in state match funds. The 2014 capitalization grant allotment for Michigan is \$27,530,000. The Revolving Loan Section (RLS) of the ODWMA is charged with carrying out the program administration responsibilities. The Field Operations Section (FOS) of the ODWMA will assess project priority, issue the necessary construction permits, and offer technical review and assistance throughout project planning, design, and construction. Financial administration of the program will be handled by the staff of the Authority.

The U.S. Environmental Protection Agency (EPA) Region 5 staff will offer guidance and conduct annual program oversight reviews of the DWRF. The EPA serves as a helpful partner in creating and maintaining this program.

The relationship between the DEQ, the Authority, and the EPA is established in an Operating Agreement signed by authorized signatories from each agency. The Operating Agreement is incorporated into this IUP by reference and is available from the DEQ upon request.

This final IUP includes details on specific project funding and identifies amounts to be set aside from federal capitalization grants for other uses authorized under the federal Safe Drinking Water Act (SDWA) and Part 54 of Act 451. A public hearing for the IUP and the Project Priority List (PPL) was held on August 20, 2014.

The DEQ certifies that it is recognized by the EPA as the primary agency for management of the drinking water program. The priority system was developed by the DEQ and will be used each fiscal year to determine which projects will have access to DWRF assistance. The priority system is designed to provide low-interest financing to those projects that will have the greatest impact in facilitating safe drinking water supplies.

American Recovery and Reinvestment Act

In FY 2009, Michigan received additional capitalization of \$67,454,000 through the American Recovery and Reinvestment Act of 2009 (ARRA), the federal stimulus bill. Twenty-eight projects received low-cost financing through ARRA. Twenty-four projects have completed construction as of September 10, 2014.

Fiscal Year 2015 Project Funding

Michigan's 2014 federal capitalization grant is \$27,530,000. Congress mandated that at least 20 percent of this amount be provided as additional subsidy to borrowers. The DEQ plans to provide the entire amount (20 percent) as principal forgiveness. All DWRF projects funded in FY 2015 must pay their workers the federal Davis Bacon wage rates for their job classification.

II. STRUCTURE OF THE DWRF

In FY 2015, the DEQ will continue with a direct loan structure. In a direct loan structure, federal funds and state match, or fund assets that have 'revolved' back into the fund, are paid directly to municipal borrowers. There will be no cross collateralization of the DWRF.

For borrowers who are non-municipal entities, limitations on private activity from tax-exempt issues would require the DEQ and the Authority to fund private water suppliers from funds other than tax-exempt revenue bonds. These loans will be made as direct loans with a letter of credit supplied by the private borrower or through a partnership with a private lending institution with the state providing an insurance annuity. There are no private water suppliers on the FY 2015 final PPL.

There is a provision for subordinate investment of funds between the DWRF and the SRF. This concept permits the administrators of the two funds to make temporary investments from one fund or the other in the event that monies are needed to service debt on the state's tax-exempt bond issues, cover deficiencies in a fund's reserve accounts, or satisfy other reserve account requirements. Only those funds periodically released from debt service reserve accounts, supplemental reserve accounts, revenue accounts, or any other account of the fund, wherein released monies may be generated, may be used for the purposes of subordinate investment.

At each point that monies are released, the DEQ and the Authority will undertake a "snapshot" look at both the SRF and the DWRF. For each fund, we will first examine whether we need to service debt or satisfy reserve account requirements within the fund from which the released monies originated. Next, we will examine the other fund for the same conditions. Then, if sufficient monies are available to satisfy requirements for each fund, the released money will pass completely through and become available for future commitments to new projects consistent with its source. This provision will not be exercised in FY 2015.

Set-asides in the DWRF are derived from the capitalization grant awarded to the state by the EPA. Set-asides are designated for specified uses within the DWRF to address areas of concern included in the reauthorization of the SDWA. Legal provisions included in Act 227, permit the Authority and the DEQ to establish accounts and sub-accounts to track revenues and expenditures for the set-asides. The set-asides for program and other activities will be directly administered by the Environmental Health Section (EHS), with

support from the FOS. EHS and FOS staff will also be responsible for the technical assistance activities, except for those funds made available to subsidize loans to disadvantaged communities. The disadvantaged community loans will be managed by the RLS.

The following is a list of potential set-asides identified in Section 1452 of the federal SDWA. The percentages noted would affect the federal capitalization grant.

DWRF Administration - 4 percent

Technical Assistance - 2 percent

Program Set-asides - 10 percent

- Public Water System Supervision
- Source Water Protection

Other Activities - 15 percent, not to exceed 10 percent for any one activity

- Assistance for Capacity Development-Grants for Source Water Protection
- Implement Wellhead Protection

It is imperative to note that the program set-asides also require a one-for-one state match, in addition to the regular 20-percent state match calculated on the entire amount of the federal capitalization grant. Thus, money diverted to these set-asides will demand an additional investment of state or local funds.

III. ADVANTAGES OF THE DWRF

The primary advantage for Michigan water suppliers is their ability to borrow funds at interest rates below market. The DWRF interest rate is established prior to each new fiscal year. As identified in Part 54 of Act 451, determination of the interest rates is based on loan demand, market conditions, program costs, and future needs.

In setting the interest rates for FY 2015, the DEQ examined a widely used market index for general obligation municipal bonds to identify current market conditions existing at the time the final IUP is prepared. Then, to establish a rate of interest for municipal borrowers, the DEQ considered present and future demand for DWRF assistance and the costs to comply with program requirements.

Once the interest rate was determined for municipal borrowers, the resulting interest subsidy to municipalities will be used for private borrowers. If a private borrower chose to obtain a letter of credit and receives a direct DWRF loan from the Authority, the interest rate would be determined by using the U.S. T-bill rate as the base and applying an identical percentage reduction of interest as municipalities receive. For those private borrowers who chose to obtain financing through a financial institution, the interest rate would be the lending institution's rate, reduced by an identical percentage as a municipality would receive.

The interest rate for municipal borrowers in FY 2015, as established by the DEQ Director, will be 2.5 percent. Private borrowers would receive an interest rate subsidy that equates to the same subsidy received by municipal borrowers.

Apart from the low-interest rate, suppliers also benefit from the DWRF in that they can finance all eligible waterworks system costs. The major benefit results from the fact that water supply financing in the past has always been left to the local units of government or private entities. Historically, there has been no significant state financial assistance available to local officials in meeting water supply needs. The DWRF provides an ongoing source of funding to maintain or improve drinking water quality and public health.

IV. GOALS

Michigan's DWRF establishes a funding source designed to protect and preserve public health within the state's boundaries. Michigan's geographical identity as a "Great Lakes" state affords its citizens with an abundant and high quality water resource from which to draw its drinking water. Unlike many states, Michigan water supplies are plentiful and periods of restricted use are few in most communities. The great challenge for water suppliers lies in protecting the high quality of the resource, as well as ensuring that adequate volume and pressure exist to deliver potable water to the customer.

To this end, Michigan's DWRF has the following long-term goals:

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

The Authority uses a financial advisor to guide decisions on funding levels, interest rates, and other financing terms. Michigan looks to balance the goals of meeting the capitalization grant requirements (i.e., additional subsidies, green projects, Davis Bacon, American Iron and Steel) while maintaining the DWRF 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.*

Given the limitations on pooled capital, the DEQ continues to work together with various federal and state agencies, such as the U.S. Department of Agriculture - Rural Development, Rural Community Assistance Program and the Michigan Department of Economic Development, so that we may collectively fund qualifying projects and maximize use of our capital pool to achieve stated goals. Such partnerships ultimately benefit everyone. Industry, tourism, and day-to-day quality of life are strengthened when our most valuable natural asset is preserved and made available for use and enjoyment.

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.*

The DEQ will use DWRF set-aside funding to: maintain source water assessment, wellhead protection, and source water protection programs; assist small, economically disadvantaged communities in meeting drinking water standards; apply a capacity assessment program for all new and existing community and non-transient non-community water supplies; and continue operator certification program requirements to assure proper operation and maintenance of public water systems.

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

The DEQ will continue to use effective outreach methods such as: direct mail, electronic media, newsletter publication, and informational meetings to publicize and encourage the use.

In order to accomplish the long-term goals, we must also focus on more immediate objectives. Therefore, our short-term goals in FY 2015 are:

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

The DEQ has prepared and identified on the FY 2015 final PPL all projects that are willing and able to progress to loan closing consistent with a project milestone schedule for the construction of eligible facilities. All projects receiving DWRF funds in FY 2015 will issue a Notice to Proceed within 60 days of the loan closing.

Goal: *Ensure that the additional requirements of the 2014 capitalization grant are met, including those that are imposed on local borrowers.*

The 2014 capitalization grant does not have a Green Project Reserve requirement. The DEQ solicited green infrastructure, water/energy efficient and environmentally innovative projects for the FY 2015 PPL. The DEQ required and approved business cases for projects that are not determined as a categorically Green Project as described in the EPA's FY 2011 DWRF Procedures. Business cases will be posted on the DEQ website once green projects are funded.

Congress mandated that at least 20 percent of the 2014 capitalization grant be provided as additional subsidy to borrowers. The DEQ plans to provide the additional subsidy as principal forgiveness to green projects. Congress also requires all DWRF projects funded in FY 2015 to pay their workers the federal Davis Bacon wage rates for their job classification.

Goal: *Review and update, as applicable, the Operating Agreement by December 31, 2014.*

The DWRF program has acquired additional requirements since ARRA; however, the Operating Agreement has not been updated to reflect the new requirements. This goal was not completed in 2012 or 2013 as expected. A draft of the updated Operating Agreement has been circulated to the signing parties and is expected to be signed by all parties by December 31, 2014.

V. ALLOCATION OF FUNDS

The establishment of a fundable range for any given fiscal year entails a series of steps that culminate in a determination of how much fund resources could support. Using a series of assumptions (DWRF loan rate, return on investment rates, and level of capitalization) the process for FY 2015 is outlined below:

1. The DEQ reviewed the total amount of loans committed through September 30, 2014.

Total loan commitments through 9/30/2014

\$808,720,000

2. The DEQ assumes that the new federal capitalization grant and the appropriated state match will remain constant until 2016 (for planning purposes only). However, it should be noted that the DEQ has **no assurance** of state general fund monies to match federal funds beyond the 2015 capitalization grant. Five million dollars (\$5M) of general funds was appropriated for use in FY 2015 and will be available to match the 2015 capitalization grant.

Any remaining state match needed will come from state match revenue bonds. Michigan was appropriated \$27,530,000 in DWRF federal capitalization grant funds for calendar year 2014. The federal budget for 2015 has not been approved.

2014 cap. grant for loans (total grant is \$27,530,000)	\$21,525,200
2014 state match	\$5,506,000

3. After subtracting the amount needed to service existing loans, with continuation of a direct loan structure, fund resources could support \$50 million in new binding loan commitments in FY 2015. A direct loan structure will result in higher lending capacities in out years and maximize the fund's ability to compensate for the loss of state match funds that have resulted from general fund budget cuts in recent years.

The final PPL has 23 projects, totaling \$144 million. Fourteen (14) projects would like to receive funding in FY 2015, of which 10 projects will be awarded funding to proceed with construction as noted on the PPL. These projects total \$67 million. Nine (9) projects, totaling \$77 million, will receive funding in the future.

The provision of additional subsidy is a requirement of the 2014 capitalization grant. The additional subsidy will be in the form of principal forgiveness and will not exceed \$5,506,500. The principal forgiveness amount is not sufficient to provide for all projects funded in FY 2015. Thus, the \$5.5 million will be allocated and provided to projects with green components only. The actual principal forgiveness amount will be calculated as 25 percent of the green project component and will not be modified at loan close as in prior years. When principal forgiveness is provided from available loan proceeds to projects, it greatly reduces the amount of the assets returning to the DWRF as loan repayments, which could be used to make future loans.

Each state may transfer 33 percent of available funds between the SRF and the DWRF programs. This may occur starting one year after a state receives its first capitalization grant for project funds. At this time, Michigan does not propose to transfer funds between the SRF and DWRF programs.

VI. CRITERIA AND METHOD FOR DISTRIBUTION OF FUNDS – SET-ASIDES

The DEQ has established the set-asides and requests funding for each set-aside based on what is needed to effectively administer the public drinking water programs, to enhance public health protection and the protection of surface and ground waters through additional non-regulatory programs, projects, and activities. In recent years, the DEQ has become more dependent on the funding provided by the set-asides to fund the staff needed to effectively administer the programs because the federal Public Water Supply Supervision grant awards have not increased to cover the costs of additional work required to implement several new federal drinking water regulations or for inflation.

Each year, Michigan is required to submit detailed work plans to the EPA for approval describing how each set-aside fund will be expended. Work plans for the FY 2015 set-asides were submitted to the EPA with the grant application.

Administration

Up to 4 percent of the federal capitalization grant can be used to administer the fund. Michigan intends to utilize the full 4 percent, which is \$1,101,200. Any funds not utilized in FY 2015 will be retained on account for administration costs in future years.

Small Systems Technical Assistance

The DEQ is requesting 2 percent of the 2014 grant, or approximately \$550,600. These funds will support existing staff that provide technical assistance to small public water systems. This work includes, but is not limited to:

- Providing technical assistance to local health department staff (LHD) staff responsible for implementation of the Noncommunity Water Supply (NCWS) and Well Construction Programs in Michigan.
- Assisting LHD staff in providing direct technical assistance to NCWS owners and operators, registered well drillers, and pump installers.
- Overseeing the work conducted by the LHDs to implement the NCWS and well construction programs throughout Michigan.
- Reviewing engineering plans and issuing permits for treatment systems at noncommunity water supplies.
- Providing direct assistance to small public water systems that employ treatment to comply with drinking water standards, primarily those that treat for arsenic and for nitrates.
- Assisting small nontransient, noncommunity public water supplies currently on an arsenic bottled water agreement gain compliance with the arsenic maximum contaminant level by installing water treatment systems or using some other compliance option.
- Conducting one-on-one or group technical training for LHD staff, well drillers, or pump installers, and NCWS owners and operators. This technical training typically focuses on sampling and monitoring practices, aspects of proper well construction and pump installations, compliance with NCWS regulations or the well construction code, investigatory techniques to use to identify a problem with a NCWS or well and remedies to correct a given problem, cross connection control including proper use and maintenance of control devices, properly completing and submitting all required documentation such as water well logs and monthly operation reports.
- Assisting a LHD, NCWS, well driller, or pump installer with understanding rule and code requirements to improve compliance rates.
- Drafting technical guidance documents, factsheets, brochures, or forms that can be used by the LHDs or distributed to noncommunity water supplies, well drillers, and pump installers to help improve or maintain compliance with applicable regulations.
- Working directly with schools and daycare centers to improve or maintain compliance with applicable NCWS regulations.

- Exploring ways to increase capacity development work at small public water systems at both noncommunity and community water supplies. Efforts will be coordinated with Michigan's LHDs and with staff from the Michigan Rural Water Association.
- Providing clerical, managerial, and administrative support to the program staff.

In addition, the funds in this set-aside will be used for the following program activities:

- Training for LHD staff responsible for implementation of the NCWS program in Michigan.
- Ongoing maintenance of the database system, WaterTrack, which houses all the NCWS program data.
- Initial work to convert from the WaterTrack database system to the State Drinking Water Information System database.

Program Set-Asides - \$ 2,753,060

The DEQ is requesting set-aside funds for two of the state program management set-asides in the 2014 grant; the Public Water System Supervision Program Set-Aside and the Source Water Protection Set-Aside. The additional required matching funds will be provided through the Public Water System Supervision Program from the state general fund and restricted fund (fee) revenue, plus the perpetual match from the FY 1993 Public Water System Supervision matching money. The following is a breakdown of the \$2,753,060 projected amount:

Source Water Protection – The DEQ is requesting \$1,100,000 from the 2014 grant to support source water protection activities. The funds will be used to support existing staff and program activities, as follows:

On-Site Wastewater Program

This program serves to protect public health and the groundwaters of the state used for drinking water by assuring proper treatment of effluent from individual residential and collective residential wastewater treatment and disposal systems where the wastewater effluent is discharged to the ground and ultimately make its way to the groundwaters of the state. The DEQ provides assistance in administration of this program to staff at 44 LHDs under contract to assure that on-site systems are designed and operated so that effluent wastes will receive the maximum natural attenuation of microbial agents, nutrients, and other contaminants before the effluent enters the groundwater.

Septage Waste Program

Staff in the septage waste program oversee and regulate the removal, transport, and land application of septic tank waste. The DEQ also contracts with LHDs to inspect pumping and transport vehicles, land application sites, septage waste receiving, and storage facilities.

Approximately 20 percent of the average amount of septage pumped from home septic tanks per year, or 41 million gallons, is disposed of by land application. Staff conduct compliance and enforcement work to prevent improper land application of septage waste and also provide training to septage pumpers and

haulers on the proper techniques and practices that need to be followed to prevent groundwater contamination or surface water discharges.

In addition, the funds in this set aside will be used for the following program activities:

- On-site wastewater training for LHD staff that are responsible for issuing permits for on-site wastewater systems with flows less than 10,000 gallons per day.

Public Water System Supervision – The DEQ requests \$1,653,000 from the 2014 grant to support existing staff and the existing scope of the Public Water System Supervision Program. This work includes, but is not limited to:

- Maintaining an inventory of public water supplies in Michigan.
- Providing compliance assistance to public water supplies.
- Conducting sanitary surveys and surveillance visits at public water supplies.
- Issuing permits for new construction or for modifications.
- Assessing public water supply compliance with the federal SDWA and the National Primary Drinking Water Standards, and with Michigan's Safe Drinking Water Act, 1976 Public Act 399, as amended (Act 399), and the Administrative Rules.
- Initiating escalated enforcement actions, when indicated, to compel a public water supply to comply with applicable federal and state drinking water regulations.
- Maintaining program data and submitting reports to the EPA as required.
- Maintaining a drinking water operator training and certification program.
- Assisting public water supplies in acquiring and maintaining capacity as outlined in *Michigan's Capacity Development Strategy for Existing Water Systems*, dated August 1, 2000.
- Drafting Michigan's Annual Capacity Development Report and the triennial Capacity Development Report to the Governor.
- Continuing work on implementation of the Revised Total Coliform Rule, including revisions to Act 399 and drafting and submitting the primacy application to the EPA.
- Providing clerical, managerial, and administrative support to the program staff.

In addition, the funds in this set-aside will be used for the following program activities:

- Implementation of the Revised Total Coliform Rule
- Assessment of financial adequacy and capacity assessments at new community and new or existing nontransient, noncommunity drinking water supplies.
- Development and employment of the Electronic Drinking Water Reporting software.

Wellhead Protection (Section 1452(k)) - \$1,500,000

The DEQ is requesting \$1,500,000 for the Wellhead Protection set-aside from the 2014 grant. Approximately one-third of the total requested will support existing staff, responsible for the following work:

- Registering well drillers and pump installers to ensure they are qualified to construct wells or install well equipment, according to Michigan's well construction code requirements.
- Providing technical training and assistance to public water supplies, LHDs, well drillers, and pump installers.
- Ensuring wells are constructed to code, initiating enforcement for compliance, or revoke a registration from a well driller or pump installer when necessary.
- Administering the Abandoned Well Management Program.
- Overseeing contractual work on ODWMA's groundwater databases, such as Wellogic and the Michigan Groundwater Management Tool (MGMT).
- Managing and maintaining Wellogic, Michigan's on-line water well data system.
- Providing education and outreach on wellhead protection, including providing delineations of wellhead protection areas to community water supplies and nontransient noncommunity water supplies using MGMT.
- Reviewing and approving traditional wellhead delineations submitted by community water supplies.
- Revising Michigan's Well Construction Code.
- Drafting new rules for vertical closed-loop geothermal installations.
- Administering the wellhead protection matching grant program to local communities.
- Providing clerical, managerial, and administrative support to program staff.

The remaining two-thirds of the funding requested will fund the following work:

- Enhancements to the MGMT.
- Enhancements to the Drinking Water Geographic Information System (DWGIS) application.
- Updates to and maintenance of the Wellogic database.
- Training for LHD staff on proper water well construction.
- Producing and distributing a water well drilling and construction procedures digital video for educational and training purposes.
- Replacement of the antiquated Water Well Viewer software.
- Grants to local communities to increase source water protection efforts and initiatives. The DEQ plans to utilize up to \$400,000 from the 2014 Wellhead Protection Set-Aside to provide the state funding for these 50/50 match grants.

Local Assistance for Capacity Development (Section 1452(k))

To date, the DEQ has never requested funds from the capitalization grant for this set-aside. In grant year 2014, the DEQ is requesting \$100,000 under this set-aside to provide financial assistance to local communities to develop, implement, or enhance their surface water intake protection program. The grant program will be similar to the program established under the Wellhead Protection Set-Aside, the only difference being that it will provide assistance to local communities that obtain their drinking water from surface water rather than from groundwater.

VII. CRITERIA AND METHOD FOR DISTRIBUTION OF FUNDS - PROJECT LOANS

Michigan's DWRF will commit loans for qualified projects based on project plans that were submitted to the RLS by May 1, 2014. Plans were reviewed by staff of the DEQ to ensure compliance with Section 5405 of Act 451, before being placed on the final PPL for FY 2015. The DWRF, to the maximum extent practicable, must give priority to projects that:

- address the most serious risks to human health,
- are necessary to ensure compliance with the requirements of the federal SDWA,
- in addition, assist systems most in need according to the state's affordability requirements.

Michigan's priority system takes these factors into account in the assignment of priority points. Acute violations receive a larger number of points than any other category. In fact, standard compliance offers over 41 percent of a project's total possible points. All factors point to the need for the project to comply with federal drinking water requirements; affordability is addressed by the award of additional points for disadvantaged community status, and is the ultimate tiebreaker. Michigan's priority point system is detailed in Section 5406 of Act 451.

The FY 2015 DWRF final PPL is included as part of the IUP and was presented as part of the public hearing. The DWRF final PPL has 23 projects totaling \$144 million. This includes nine (9) projects and/or segments equaling \$77 million for funding in the future and 10 projects that would like to proceed with construction in FY 2015.

Section 1452(a)(2) of the federal SDWA requires the state to first make available 15 percent of all funds annually credited to the DWRF for financial assistance to water suppliers serving fewer than 10,000 persons. For the 2014 capitalization grant, Michigan must reach or exceed \$4,129,500 to satisfy this requirement.

All projects are reviewed and scored based upon the priority point system outlined in Part 54 of Act 451. Funds are made available for commitment based on the priority ranking and projects will only be funded out of order to satisfy requirements for small community assistance. Thus, only projects on the PPL are funded in priority order.

Employing the criteria found in Section 5415 of Act 451, the Director of the DEQ set the interest rate at 2.5 percent for FY 2015. The term of the loan will run up to 20 years for most projects. Those suppliers meeting disadvantaged community criteria will, however, be able to extend their terms for up to 30 years, if desired.

Part 54 of Act 451 also permits suppliers serving less than 10,000 persons to receive reimbursement of project planning costs upon delivery of an approvable project plan to the DEQ. Legislation has been passed to provide a funding mechanism for this reimbursement. Interim planning loans first became an option for DWRF applicants in FY 2001.

VIII. DISADVANTAGED BUSINESS ENTERPRISE

Beginning October 1, 2009, the DEQ implemented the EPA's new Disadvantaged Business Enterprise (DBE) Rule (40 CFR Part 33). The DBE rule applies specifically to ANY procurement made utilizing EPA financial assistance. EPA financial assistance includes DWRF funding. The new DBE rule changed substantially from the prior Minority Business Enterprise (MBE) and Women's Business Enterprises (WBE) rule. The DBE rule requires that MBE and WBE firms be certified. Certification applies to enterprises that are at least 51-percent owned and/or controlled by socially and economically disadvantaged individuals who are of good character, are citizens of the United States, and have an initial and continued personal net worth of less than \$750,000.

DBE requirements apply to the DEQ, DWRF loan recipients, and the loan recipient's prime contractors. Additional information regarding the DBE requirements is available on the DEQ, DWRF website (www.michigan.gov/drinkingwaterrevolvingfund).

IX. DISADVANTAGED COMMUNITY STATUS

Disadvantaged community status is determined by the DEQ based on information submitted with a supplier's project plan. To qualify, an applicant must first meet the definition of "municipality" found in Part 54 of Act 451. Next, the updated median annual household income (MAHI) of the area to be served must be less than 120 percent of the state's updated MAHI. Finally, the costs of the project must be borne by the customers in the service area. If costs are spread over a larger area, then that area must demonstrate that it meets the poverty or affordability criteria.

Once these conditions are met, a community will be awarded the disadvantaged community status if one of the following is true:

- More than 50 percent of the area to be served by the proposed project is identified as a poverty area by the U.S. Census Bureau.
- The updated MAHI of the area to be served is less than the most recently published federal poverty guidelines for a family of four in the contiguous United States.
- The updated MAHI is less than the updated statewide MAHI and the annual user costs for water supply exceed 1 percent of the service area's MAHI.
- The updated MAHI is more than the updated statewide MAHI and the annual user costs for water supply exceed 3 percent of the service area's MAHI.

The major benefits for qualified communities include 50 additional priority points, extension of loan terms to 30 years, and assistance to help defray the costs of preparing project plans. There are two projects, the city of Burton (\$4,295,000) and the city of Pontiac (\$7,050,000), on the FY 2015 final PPL that qualify for disadvantaged community status. The two projects total \$11,345,000, which exceeds the annual amount that can be provided as a loan subsidy to disadvantaged communities. Per 40 CFR 35.3525(b)(2) no more than 30 percent of the annual capitalization grant (\$8,259,000 for the 2014 capitalization grant) can be provided as a loan subsidy. The difference, \$3,086,000, will be provided from other resources (investment earnings, repayments) within the DWRF.

A complete discussion of the disadvantaged community status may be found in a guidance document prepared by the DEQ to more fully explain how a supplier can achieve the status and benefit from it. RLS staff encourages all applicants to supply the pertinent data to allow the DEQ to perform a disadvantaged community status analysis.

X. EPA AUTOMATED CLEARINGHOUSE ACTIVITIES

The EPA employs an Automated Standard Application for Payments (ASAP) system to make disbursements of federal funds. Michigan will comply with this system's requirements and deposit funds drawn from it into appropriate accounts set up for the DWRF.

Beginning in the 1st quarter of FY 2015, Michigan anticipates drawing capitalization grant funds from the ASAP system. The draw ratio will be 79.63 percent (federal) and 20.37 percent (state) for the 2014 capitalization grant.

One request for disbursement may be submitted by the local project's authorized representative (or state agencies) each month. As project costs (or program administrative/set-aside costs) are incurred, the request for disbursement of funds will be sent directly to the DEQ, who will then process the request as part of a weekly draw request. Upon delivery to its office, the Authority will execute the fund drawdown electronically by transferring money from the federal ASAP and state accounts. Monies will be automatically deposited into the debt service reserve account of the DWRF, while funds are electronically wired to a municipal water supplier's bank from a DWRF account. For non-municipal water suppliers, the funds will be transferred from direct federal and state capitalization amounts established specifically for the purpose of reimbursing their eligible project costs.

XI. ASSURANCES

The final guidelines from the EPA set forth provisions that the state must provide certain assurances in order to qualify for capitalization grant funding. Such assurances are incorporated into the Operating Agreement and are included here by reference.

XII. OUTPUT/OUTCOME MEASURES

To comply with the EPA requirements on Environmental Benefits of the DWRF, Michigan estimates that the following outputs could result from project loans in FY 2015 (excluding any projects noted as future on the PPL):

- A. Output: Michigan could fund approximately 12 drinking water transmission/distribution loans to construct/rehabilitate/upgrade drinking water transmission and distribution systems across the state. The dollar amounts of these applications total approximately \$43 million.

Outcome: The funding of these projects could result in more people receiving improved drinking water from existing treatment systems in Michigan.

- B. Output: Michigan could fund approximately one drinking water treatment project to construct and/or rehabilitate drinking water treatment facilities across the state. The dollar amount of the application totals approximately \$11 million.

Outcome: The funding of the project could result in improved drinking water for thousands of people in Michigan and, upon completion of the project, facilities that meet all applicable permits and SDWA requirements.

- C. Output: Michigan could fund approximately two drinking water storage projects to construct and/or rehabilitate drinking water storage facilities across the state. The dollar amounts of these applications total approximately \$4 million.

Outcome: The funding of these projects could result in improved drinking water and storage facilities that meet all applicable permits and SDWA requirements.

- D. Output: Michigan could fund approximately one drinking water source project to construct and/or rehabilitate drinking water source facilities across the state. The dollar amount of the application totals approximately \$400,000.

Outcome: The funding of the project could result in improved drinking water for thousands of people across Michigan.

Please note that the number of applications will not agree with the number of loans on the PPL, as many of the project loans include work in more than one category (i.e., transmission/distribution, treatment, storage, and source).

XIII. PUBLIC REVIEW AND COMMENT

In order to satisfy public participation requirements, the DEQ held a public hearing to discuss the DWRF draft IUP on August 20, 2014. This hearing was publicly noticed in the *Detroit Legal News*, the *Lansing State Journal*, and the *Marquette Mining Journal*; posted on the DEQ calendar of events; mailed to all persons and engineering firms on our newsletter mailing list; and individually noticed to each water supplier on the FY 2015 draft PPL. These sources promote the hearing to ensure maximum public input from those interested in the DWRF. The hearing affords stakeholders and other interested parties an opportunity to hear and comment on how the DEQ plans to disburse the DWRF loan funds. All comments were responded to upon the close of the hearing record.

Questions about the DWRF final IUP may be directed to:

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Other contacts for the DWRF are:

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XIV. ORIGINATION OF DOCUMENTS

The ODWMA is responsible for issuing the DWRF final IUP and its accompanying information.

Michigan Department of Environmental Quality
Drinking Water Revolving Fund Current PPL
Fiscal Year 2015 Final Project Priority List - By Rank

DWRF

DWRF

Project No.	Loanee	Location	Description	Population	Total Points	Binding Commitment Date	Binding Commitment Amount
7380-03	Bay County	Bay City	Membrane WTP, Trans WM-segment 3	82,932	625	11/19/2014	\$15,000,000
7341-01	Genesee Co	Genesee Co	WM Repl	145,100	725	8/26/2015	\$1,060,000
7407-01	Grand Rapids	Grand Rapids	PS and WM improv	296,973	550	3/13/2015	\$10,385,000
7396-01	Northport	Northport	New well, SCADA, watermain imp	532	545	3/13/2015	\$790,000
7404-01	Ypsilanti Community Utilities Authority	Ypsilanti	Watermain improv	72,797	450	3/13/2015	\$110,000
7403-01	Ypsilanti Community Utilities Authority	Ypsilanti	PS improv	72,797	450	6/3/2015	\$625,000
7397-01	Burton	Genesee Co	WM, Looping, Water tank improvements, SCADA	29,999	415	6/30/2015	\$4,295,000
7406-01	Oakland Co Water Resources Commission	Pontiac	Water main repl, meter repl, turbine energy recov. Phase 1	59,248	400	8/26/2015	\$7,050,000
7401-01	Manchester	Washtenaw Co	Water main replacements and improvements	2,096	395	6/3/2015	\$1,100,000
7356-01	Livonia	Wayne Co	Phase 2 WM Repl	95,269	325	6/3/2015	\$11,010,000
7320-01	Ypsilanti Community Utilities Authority	Washtenaw Co	Repl mains (E. Michigan Ave)	72,797	300	3/13/2015	\$390,000
7402-01	Loch Alpine Sanitary Authority	Washtenaw Co	Water main replacements	1,445	295	6/3/2015	\$3,400,000
7393-01	Bay City	Bay Co	Capital Improvement Prog, watermain	34,932	240	6/3/2015	\$4,475,000
7405-01	Genesee Co Drain Commissioner	Genesee Co	Metering project	145,100	225	3/13/2015	\$7,280,000
	Note: The highlighted projects above are within the fundable range for the FY 2015.						
14	Total Number of Projects						\$66,970,000

DWRf

**Michigan Department of Environmental Quality
Drinking Water Revolving Fund Green Projects
Fiscal Year 2015 in Final Project Priority List Order**

DWRf

Project No.	Loanee	Location	Project Description	Requested GPR Amount	Estimated Binding Commitment Amount	Actual Principal Forgiveness Amount	Type of GPR	
							Categorical	Business Case
7341-01	Genesee Co	Genesee Co	WM Repl	\$ 1,060,000	\$ 1,060,000	\$ 265,000		X
7407-01	Grand Rapids	Grand Rapids	PS and WM improv	\$ 1,037,000	\$ 10,385,000	\$ 259,250		X
7396-01	Northport	Northport	New well, SCADA, WM improv	\$ 419,000	\$ 790,000	\$ 104,750		X
7397-01	Burton	Genesee Co	WM replacement	\$ 4,054,250	\$ 4,295,000	\$ 1,013,563		X
7406-01	Oakland Co Water Resources Co	Pontiac	WM repl, metering, turbine ener	\$ 7,050,000	\$ 7,050,000	\$ 1,762,500		X
7401-01	Manchester	Washtenaw Co	WM replacement & improv	\$ 1,100,000	\$ 1,100,000	\$ 275,000		X
7356-01	Livonia	Wayne Co	Phase 2 WM Repl	\$11,010,000	\$ 11,010,000	\$ 2,752,500		X
7320-01	Ypsilanti Community Utilities Aut	Washtenaw Co	Repl mains (E. Michigan Ave)	\$ 390,000	\$ 390,000	\$ 97,500		X
7402-01	Loch Alpine Sanitary Authority	Washtenaw Co	WM replacement	\$ 3,400,000	\$ 3,400,000	\$ 850,000		X
7393-01	Bay City	Bay Co	Capital Improv Prog, watermain	\$ 3,100,000	\$ 4,475,000	\$ 775,000	X	
7405-01	Genesee Co Drain Commission	Genesee Co	Metering project	\$ 7,280,000	\$ 7,280,000	\$ 1,820,000	X	
Totals				\$ 39,900,250	\$ 51,235,000	\$ 9,975,063		

Approximately \$5.5 million is available for principal forgiveness which is not sufficient to provide principal forgiveness to all projects. Each project in the fundable range that has submitted a green project will receive a calculated amount of principal forgiveness (see the highlighted projects). The principal forgiveness amount that each project can expect to receive in the DWRf loan was calculated as 25% of the estimated green project cost. This amount will not be adjusted.

Livonia will be partially funded for principal forgiveness; the actual principal forgiveness amount is the maximum amount that can be provided IF funding is available.

DWRf

**Michigan Department of Environmental Quality
Drinking Water Revolving Fund Future Projects
Fiscal Year 2015 in Final Project Priority List Order**

DWRf

Project No.	Loanee	Location	Project Description	Total Points	Binding Commitment Date	Binding Commitment Amount
7380-04	Bay County	Bay City	Membrane WTP Trans WM-segment	625	Future	\$11,325,000
7407-99	Grand Rapids	Grand Rapids	Various future proj	550	Future	\$45,150,000
7368-01	Leslie	Ingham Co	Water sys impr (Phase 2)	545	Future	\$1,510,000
7400-01	Burton	Genesee Co	WM replacement - Phase 5	415	Future	\$2,215,000
7398-01	Burton	Genesee Co	WM replacement - Phase 3	415	Future	\$2,765,000
7399-01	Burton	Genesee Co	WM replacement - Phase 4	415	Future	\$2,995,000
7409-01	Oakland Co WRC	Pontiac	WM Repl and Meter Repl Phase 3	400	Future	\$5,700,000
7408-01	Oakland Co WRC	Pontiac	WM Repl and Meter Repl Phase 2	400	Future	\$5,700,000
7339-01	Wayne Co	Sumpter Twp	WM repl	315	Future	\$105,000
9	Total Number of Projects					\$ 77,465,000

Estimated Category Costs for FY 2015 Final Project Priority List (PPL)

[illegible]

of projects

12

1

2

1

3

Category Description	Points	7320-01	7339-01	7341-01	7356-01	7368-01	7380-03	7380-04	7393-01	7396-01	7397-01	7398-01	7399-01	7400-01	7401-01	7402-01	7403-01	7404-01
DRINKING WATER SYSTEM COMPLIANCE - TOTAL	450 (max)	150	150	450	150	150	450	450	150	150	150	150	150	150	150	150	150	150
Acute Viol. of DW Standards, Health Advisory Levels, SWTT, Disease	250																	
Non-Acute Viol. of DW Standards, Health Advisory Levels, SWTT, Disease	200																	
Facility Upgrade to Maintain Compliance	150																	
Aesthetic Upgrades to Maintain Compliance	25																	
INFRASTRUCTURE IMPROVEMENTS/UPGRADES - TOTAL	350 (max)	100	125	125	125	275	125	125	50	275	175	175	175	175	125	125	250	250
Source/Treatment w/ Connecting Mains	125 (max)	0	0	0	0	125	125	125	25	125	25	25	25	25	0	0	0	0
Meet Minimum Capacity	100																	
Reliability	75																	
Other Upgrades	25																	
Enforcement Action	25																	
Source Water Protection	50																	
Transmission/Distribution Mains	125 (max)	100	125	125	125	125	0	0	0	125	125	125	125	125	125	125	125	125
Meet Minimum Capacity	100																	
Reliability	75																	
Other Upgrades	25																	
Enforcement Action	25																	
Storage Facilities/Pumping Stations	125 (max)	0	0	0	0	25	0	0	25	25	25	25	25	25	0	0	125	125
Meet Minimum Capacity	100																	
Reliability	75																	
Other Upgrades	25																	
Enforcement Action	25																	
POPULATION - TOTAL	50 (max)	50	40	50	50	20	50	50	40	20	40	40	40	40	20	20	50	50
0-500	10																	
501-3,300	20																	
3,301-10,000	30																	
10,001-50,000	40																	
>50,000	50																	
DISADVANTAGED COMMUNITY - TOTAL	50 (max)	0	0	0	0	0	0	0	0	0	50	50	50	50	0	0	0	0
Granted	50																	
CONSOLIDATION - TOTAL	100 (max)	0	0	100	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Achieve Compliance	100																	
Correct Deficiencies	60																	
Other	40																	
COMP. WELLHEAD/SOURCE WATER PROTECT PLANS - TOTAL	100 (max)	0	0	0	0	100	0	0	0	100	0	0	0	0	100	0	0	0
Granted	100																	
TOTAL PRIORITY POINTS ASSIGNED	1000 (max)	300	315	725	325	545	625	625	240	545	415	415	415	415	395	295	450	450

Category Description	Points	7405-01	7406-01	7407-01	7407-99	7408-01	7409-01												
DRINKING WATER SYSTEM COMPLIANCE - TOTAL	450 (max)	150	150	150	150	150	150												
Acute Viol. of DW Standards, Health Advisory Levels, SWTT, Disease	250																		
Non-Acute Viol. of DW Standards, Health Advisory Levels, SWTT, Disease	200																		
Facility Upgrade to Maintain Compliance	150	■	■	■	■	■	■												
Aesthetic Upgrades to Maintain Compliance	25																		
INFRASTRUCTURE IMPROVEMENTS/UPGRADES - TOTAL	350 (max)	25	150	350	350	150	150												
Source/Treatment w/ Connecting Mains	125 (max)	25	0	125	125	0	0												
Meet Minimum Capacity	100			■	■														
Reliability	75																		
Other Upgrades	25	■		■	■														
Enforcement Action	25																		
Source Water Protection	50																		
Transmission/Distribution Mains	125 (max)	0	125	125	125	125	125												
Meet Minimum Capacity	100		■	■	■	■	■												
Reliability	75		■	■	■	■	■												
Other Upgrades	25		■			■	■												
Enforcement Action	25																		
Storage Facilities/Pumping Stations	125 (max)	0	25	125	125	25	25												
Meet Minimum Capacity	100			■	■														
Reliability	75																		
Other Upgrades	25		■	■	■	■	■												
Enforcement Action	25																		
POPULATION - TOTAL	50 (max)	50	50	50	50	50	50												
0-500	10																		
501-3,300	20																		
3,301-10,000	30																		
10,001-50,000	40																		
>50,000	50	■	■	■	■	■	■												
DISADVANTAGED COMMUNITY - TOTAL	50 (max)	0	50	0	0	50	50												
Granted	50		■			■	■												
CONSOLIDATION - TOTAL	100 (max)	0	0	0	0	0	0												
Achieve Compliance	100																		
Correct Deficiencies	60																		
Other	40																		
COMP. WELLHEAD/SOURCE WATER PROTECT PLANS - TOTAL	100 (max)	0	0	0	0	0	0												
Granted	100																		
TOTAL PRIORITY POINTS ASSIGNED	1000 (max)	225	400	550	550	400	400												