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Department of Environmental Quality



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**Drinking Water Revolving Fund
Final Intended Use Plan
Fiscal Year 2018**

**Prepared by:
Revolving Loan Section
Drinking Water and Municipal Assistance Division
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DWRF Final Project Priority List (PPL) for Fiscal Year (FY) 2018
DWRF Final PPL Scoring for FY 2018
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I. INTRODUCTION

The Michigan Department of Environmental Quality (DEQ) through the Drinking Water and Municipal Assistance Division (DWMAD) 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 \$940 million in financial assistance to over 288 borrowers. In fiscal year (FY) 2018, the DWRF will fund \$42 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 2018. An IUP is a required part of the process to request the federal 2017 capitalization grant, which will be matched with 20 percent in state match funds. The 2017 capitalization grant allotment for Michigan is \$25,652,000. The Revolving Loan Section (RLS) of the DWMAD is charged with carrying out the program administration responsibilities. The Community Water Supply Section (CWSS) of the DWMAD 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. The city of Flint projects are being funded from a supplemental funding source, Water Infrastructure Improvements for the Nation (WIIN). WIIN has a separate IUP that does not impact the DWRF. A public hearing for the draft IUP and the Project Priority List (PPL) was held on August 23, 2017.

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-seven (27) projects have completed construction as of August 31, 2017.

Fiscal Year 2018 Project Funding

Michigan's 2017 federal capitalization grant allocation is \$25,652,000. 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 2018 must pay their workers the federal Davis Bacon wage rates for their job classification and comply with American Iron and Steel requirements.

II. STRUCTURE OF THE DWRF

In FY 2018, 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 2018 final PPL.

There is a provision for subordinate investment of funds between the DWRF and the State Revolving Fund (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 2018.

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 CWSS. EHS and CWSS 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

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

- Local Assistance for Capacity Development
- Wellhead Protection

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 2018, the DEQ examined a widely used market index for general obligation municipal bonds to identify current market conditions existing at the time the draft 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 is 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 2018 will be 2 percent for 20 and 30-year loans. 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, signage, 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, the Michigan Department of Health and Human Services, and the Michigan Department of Transportation, 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; and apply a capacity assessment program for all new and existing community and nontransient, noncommunity water supplies.

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 of DWRF to meet the infrastructure needs of communities.

In order to accomplish the long-term goals, we must also focus on more immediate objectives. Therefore, our short-term goals in FY 2018 are:

Goal: *Forgive prior DWRF debt for the city of Flint; \$20,770,336.*

A commitment to forgive the prior loans to the city of Flint made by the DEQ. The federal appropriation allows the use of the 2017 capitalization grant to forgive prior DWRF debt for a community in which a federal state of emergency declaration was issued due to a public health threat from lead exposure. The city of Flint prior debt totals \$20,770,336 and may be forgiven per review of the impact on the DWRF to make future loans, with concurrence from EPA, using the 2017 capitalization grant additional subsidy amount.

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 2018 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 2018 will issue a Notice to Proceed within 60 days of the loan closing.

Goal: *Ensure that the additional requirements of the 2016 and 2017 capitalization grants are met, including those that are imposed on local borrowers.*

The 2016 and 2017 capitalization grants do not have a Green Project Reserve requirement. The DEQ solicited green infrastructure, water/energy efficient, and environmentally innovative projects for the FY 2018 final PPL. The DEQ reviewed and approved business cases for projects that are not determined as a categorically Green Project as described in the EPA's 2011 DWRF Procedures.

Congress mandated that at least 20 percent of the 2016 and 2017 capitalization grants be provided as additional subsidy to borrowers. The DEQ plans to provide the additional subsidy as principal forgiveness to communities deemed to be disadvantaged. Congress also requires all DWRF projects funded in FY 2018 to pay their workers the federal Davis Bacon wage rates for their job classification, comply with the American Iron and Steel and EPA signage requirements.

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 2018 is outlined below:

1. The DEQ reviewed the total amount of loans committed through June 30, 2017, and anticipated to be awarded by September 30, 2017.

Total loan commitments through 6/30/2017	\$949,050,000
Expected loans to close by 9/30/2017	\$0

2. The DEQ assumes that the new federal capitalization grant and the appropriated state match will remain constant until 2018 (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 2017 capitalization grant. Five million dollars (\$5M) of general funds was appropriated in the state budget for use in FY 2018 to match the 2017 capitalization grant.

Any remaining state match needed will come from state match revenue bonds. Michigan was appropriated \$25,652,000 in DWRf federal capitalization grant funds for calendar year 2017.

2017 capitalization grant for loans (total grant is \$25,652,000)	\$20,778,120
2017 state match revenue bond	\$130,400
2017 general fund/state match	\$5,000,000

3. After subtracting the amount needed to service existing loans, with continuation of a direct loan structure, fund resources could support \$65 million in new binding loan commitments in FY 2018. A direct loan structure will result in higher lending capacities in future 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 draft PPL has 17 projects, totaling \$106 million. Eight (8) projects would like to proceed with construction as noted on the PPL in FY 2018. These projects total \$42 million. Nine (9) projects, totaling \$64 million, will be considered for funding in the future.

The provision of additional subsidy is a requirement of the 2016 capitalization grant. The additional subsidy will be in the form of principal forgiveness and will not exceed \$3,198,744 in FY 2018. The principal forgiveness amount will be allocated and provided to projects with disadvantaged community status only. 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.

Principal forgiveness will be allocated to disadvantaged community projects expected to close on a loan in FY 2018 as follows:

\$1,400,000	Muskegon Heights
\$998,744	Highland Park
\$800,000	Burton

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. Michigan does not propose to transfer funds between the SRF and DWRf programs in FY 2018.

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 nor for inflation. In addition, the federal government has rescinded a portion of each grant award in the last several years.

In FY 2017, the DWMAD workload increased exponentially due to elevated lead levels in the Flint, Michigan community water supply. Nationwide, lead in drinking water became a top issue. It was realized that DWMAD needs additional staff resources to adequately oversee compliance with not only the Lead and Copper Rule, but all other federal drinking water standards as well.

Each year, Michigan is required to submit detailed work plans to the EPA for approval describing how each set-aside fund will be expended or the amount to be reserved. Work plans for the FY 2018 set-asides will be submitted to the EPA in late summer-early fall 2017.

Administration

Up to 4 percent of the federal capitalization grant can be used to administer the fund. Michigan will reserve the full 4 percent from the 2017 grant, which is \$1,026,080 for use in the future. Prior year grant funds will be utilized in FY 2018 for administration costs.

Small Systems Technical Assistance

The DEQ is requesting 1 percent of the 2017 grant, or approximately \$256,520; Michigan will reserve 1 percent, or approximately \$256,520, for use in the future. These funds will support new and 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 NCWSs.
- 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, NCWSs, formerly 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 used 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; and 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 NCWSs, well drillers, and pump installers to help improve or maintain compliance with applicable regulations.
- Administering Michigan's NCWS database, Water Track.
- Providing clerical, managerial, and administrative support to the scientific and engineering staff performing the activities listed above.

In addition, the funds in this set-aside will be used in FY 2018 for the following program activities:

- Training for LHD staff responsible for implementation of the NCWS program in Michigan.
- Ongoing maintenance of the database system, Water Track, which houses all the NCWS program data.

Program Set-Asides

The DEQ is requesting set-aside funds for one state program management set-aside in the 2017 grant, the Public Water System Supervision Program Set-Aside. The following is a breakdown of the projected amount:

Public Water System Supervision – The DEQ requests \$769,560, or 3 percent of the 2017 grant, to support existing staff and the existing scope of the Public Water System Supervision Program. Michigan will reserve 7 percent, or approximately \$1,795,640, for use in the future. 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, the National Primary Drinking Water Standards, 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.
- Drafting Michigan's Annual Capacity Development Report and the triennial Capacity Development Report to the Governor.
- Providing clerical, managerial, and administrative support to the scientific and engineering staff performing the activities listed above.

Wellhead Protection (Section 1452(k))

The DEQ is requesting \$1,795,640 for the Wellhead Protection set-aside from the 2017 grant, approximately 7 percent. The amount requested will be used to support new and 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.
- Administrating the On-site Wastewater Program, including evaluating each LHD's on-site wastewater program for consistency and assurance that minimum program requirements are met.
- Administrating the Septage Waste Program, including the licensing of septage waste haulers and permitting of land application sites.
- Providing technical training and assistance to public water supplies, LHDs, well drillers, pump installers, and septage waste haulers.
- Ensuring wells are constructed to code, initiating enforcement for compliance, or revoking a registration from a well driller or pump installer when necessary.
- Administering the Abandoned Well Management Program.
- Evaluating and approving the use of new technologies for treatment of on-site wastewater.
- Overseeing contractual work on DWMAD'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.
- Promoting the need for a statewide sanitary code and assisting with efforts to promulgate one.
- Promoting the need for vertical closed-loop geothermal regulations.
- Administrating the wellhead protection matching grant program to local communities.
- Reviewing construction plans and issuing permits for on-site wastewater installations or modifications at campgrounds to ensure site suitability, installation, and operation.
- Providing clerical, managerial, and administrative support to the scientific and engineering staff performing the activities listed above.

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

- Implementation of wellhead and source water protection activities.
- Maintenance of the Wellogic database software.
- Grants to local communities to increase source water protection efforts and initiatives. The DEQ plans to utilize approximately \$300,000 from the 2017 Wellhead Protection Set-Aside to provide the state funding for these 50/50 match grants.

- Onsite wastewater technical training for local health department staff.

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

The DEQ is requesting approximately \$2,052,160, or 8 percent of the 2017 grant, for the Local Assistance for Capacity Development Set-Aside to support new and existing staff and other source water protection activities. The staff funded by this set-aside are responsible for providing direct technical assistance to public water supplies to enhance and maintain their technical, managerial and financial capabilities. Specific duties include:

- 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.
- Development and administration for the Surface Water Intake Grant Program; Providing assistance to surface water systems in the development and implementation of a Surface Water Intake Protection Program Plan.
- Development and implementation of source water microcystin screening and source water assessment methodology for surface water sources.
- Coordination with other departmental programs, state and federal agencies, in the development and integration of drinking water protection strategies.
- Assisting public water supplies impacted by harmful algal blooms, including promoting a voluntary microcystin monitoring network among vulnerable supplies.
- Transitioning to a centralized approach to the oversight of surface water treatment public water supplies, where three engineering specialists are responsible for all surface water supplies state-wide to promote consistency and expertise development.
- Implementing an Engineering Unit, consisting of three surface water engineers, along with a non-community supply engineer and three engineering specialists in the areas of distribution systems, treatment systems, and corrosion control.
- Implementing a centralized approach to the Revised Total Coliform Rule, where two Lansing rule managers handle Community Water Supply RTCR monitoring and reporting statewide.
- Implementing a centralized approach to Community Water Supply Lead and Copper Rule oversight, where a staff-level analyst and a Lead and Copper Compliance Specialist process all LCR monitoring and reporting statewide and provide assistance to supplies.
- Implementing a centralized approach to Consumer Confidence Report technical assistance and compliance determinations at Community Water Supplies, to promote consistency and clarity.
- Continued DEQ implementation of lead consumer notice requirements for nontransient NCWS systems.
- Conducting sanitary surveys within the required timeframes.
- Conducting plan reviews for new construction.
- Providing one-on-one technical assistance and consultation with water supply personnel to assist in the understanding of and compliance with state and federal requirements.
- Reviewing master plans and engineering studies to assure regulatory compliance and optimum performance.

- Providing cross connection control guidance and training, and continuing to assist Community Water Supplies with the development of residential cross connection programs.
- Expanding the operator certification and training program, including further involvement in training classes and the possible formation of a stakeholder group to strengthen and clarify the applicable rules.
- Updating 5 level, certified drinking water operator training modules for continuing education credits.
- Providing reminder letters for compliance activities.
- Providing extensive training for new and existing staff, including a “Rule School” series providing an in-depth review of the Act 399 Rules, a rolling six-week series of new analyst training, and an extensive training series on engineering topics in both classroom and hands-on settings. These trainings, in addition to outside training for staff, are positively impacting the consistency and technical expertise available to the regulated community.

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

- Continuing a surface water intake protection program.
- Determining if a new community water supply meets the financial adequacy requirements of the capacity development program.
- Reimbursing LHDs for updating source water assessments at nontransient NCWSs.
- Reimbursing LHDs for performing capacity assessments at new nontransient NCWSs.

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

Michigan’s DWRP will commit loans for qualified projects based on project plans that were submitted to the RLS by May 1, 2017. Plans were reviewed by staff of the DEQ to ensure compliance with Section 5405 of Act 451, before being placed on the draft PPL for FY 2018. The DWRP, 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 2018 DWRP draft PPL is included as part of the IUP and was presented as part of the public hearing on August 23, 2017. The DWRP final PPL has 17 projects totaling \$106 million. This includes nine (9) projects and/or segments equaling \$64 million for

funding in the future and eight (8) projects that would like to proceed with construction in FY 2018, totaling \$42 million.

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 2017 capitalization grant, Michigan must reach or exceed \$3,847,800 to satisfy this requirement. Loan awards to the village of Lake Orion totaling \$4,700,000 will exceed 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.

Employing the criteria found in Section 5415 of Act 451, the Director of the DEQ set the interest rate at 2 percent for FY 2018. 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 Web site (<http://www.michigan.gov/drinkingwaterrevolvingfund>). All DWRF projects will comply with the DBE requirements.

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 if the population is less than 10,000. There are four communities, the cities of Burton, Highland Park, Pontiac, and Muskegon Heights, on the FY 2018 final PPL that qualify for disadvantaged community status. The four projects total \$17,940,000. No planning grants will be awarded to these communities as the population for each exceeds 10,000.

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 DWRP.

Beginning in the 1st quarter of FY 2018, Michigan anticipates drawing capitalization grant funds from the ASAP system. The draw ratio will be 80.20 percent (federal) and 19.80 percent (state) for the 2017 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 DWRP, while funds are electronically wired to a municipal water supplier's bank from a DWRP 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. The DEQ has a Quality Management Plan that guides our selection of qualified staff, and that the relevant staff is in place to work on DWRP projects. DWRP project information will continue to be provided to the EPA via the Drinking Water Project & Benefits Reporting (PBR) and the National Information Management System (NIMS). All projects funded in FY 2018 will meet the equivalency requirements for crosscutter review and Federal Funding Accountability & Transparency Act (FFATA).

XII. OUTPUT/OUTCOME MEASURES

To comply with the EPA requirements on Environmental Benefits of the DWRP, Michigan estimates that the following outputs could result from project loans in FY 2018 (including any projects noted as future on the PPL):

- A. Output: Michigan could fund approximately 16 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 \$78 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 two drinking water treatment projects to construct and/or rehabilitate drinking water treatment facilities across the state. The dollar amount of these application total approximately \$20 million.

Outcome: The funding of these projects 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 one drinking water storage project to construct and/or rehabilitated drinking water storage facilities across the state. The dollar amount of the application totals approximately \$5 million.

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

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 DWRP draft IUP on August 23, 2017. The 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 2018 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 draft IUP may be directed to:

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Revolving Loan Section
Drinking Water and Municipal Assistance Division
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P.O. Box 30241
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Other contacts for the DWRF are:

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Drinking Water and Municipal Assistance Division
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Ms. Mary G. Martin, Executive Director
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Michigan Department of Treasury
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Lansing, MI 48922
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XIV. ORIGINATION OF DOCUMENTS

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



Department of Environmental Quality

Current PPL

DWRF

Rank	Project #	Project Name, Location and Description			Population	Total Points	Binding Com Date	Binding Com Amount
PROJECTS WITHOUT PRIOR YEAR SEGMENTS								
1	7425-01	City of Fraser	Macomb County	Ground level storage tank, PRVs,	14,084	540	08/23/2018	\$4,925,000
2	7437-01	City of St. Joseph	Berrien County	WTP improvement, watermain repla	33,000	465	Future	\$35,565,000
3	7418-01	City of Muskegon Heights	Muskegon County	Watermain & meter replacement	10,800	465	08/23/2018	\$5,735,000
4	7427-01	City of St. Joseph	Berrien County	WTP improvement, watermain repla	33,000	465	08/23/2018	\$13,055,000
5	7436-01	City of St. Joseph	Berrien County	Watermain replacement	33,000	465	Future	\$1,645,000
6	7419-01	Marquette Township	Marquette County	Watermain improvement	2,275	445	Future	\$3,265,000
7	7428-01	City of Highland Park	Wayne County	Watermain replacement & looping	10,441	440	06/01/2018	\$4,080,000
8	7426-01	City of Rochester	Oakland County	Watermain replacement & transm	13,660	415	08/23/2018	\$5,950,000
9	7400-01	City of Burton	Genesee County	Watermain replacement ph.5	29,999	415	03/14/2018	\$3,325,000
10	7409-01	Oakland County	City of Pontiac	Watermain replacement (phase 3)	59,248	400	Future	\$4,800,000
11	7429-01	Village of Lake Orion	Oakland County	Watermain replacement ph 1 North	3,032	395	06/01/2018	\$2,500,000
12	7430-01	Village of Lake Orion	Oakland County	Watermain replacement ph 2 South	3,032	395	06/01/2018	\$2,200,000
13	7431-01	Village of Lake Orion	Oakland County	Watermain replacement ph 3 North	3,032	395	Future	\$1,800,000
14	7432-01	Village of Lake Orion	Oakland County	Watermain replacement ph 4 East	3,032	395	Future	\$1,500,000
15	7434-01	City of Dearborn	Wayne County	Watermain replacement Area 1 20	100,000	325	Future	\$8,000,000
16	7433-01	City of Dearborn	Wayne County	Watermain replacement area 1	100,000	325	Future	\$4,500,000
17	7435-01	City of Dearborn	Wayne County	Watermain replacement area 2	100,000	325	Future	\$3,500,000
Total 17 Projects								\$106,345,000



Department of Environmental Quality

Drinking Water Revolving Loan Fund PPL Scoring

Category Description	Points	7400-01	7409-01	7418-01	7419-01	7425-01	7426-01	7427-01	7428-01	7429-01	7430-01	7431-01	7432-01	7433-01	7434-01	7435-01
Drinking Water System Compliance Total	450 (max)	150	150	150	150	150	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)	175	150	125	175	250	125	175	100	125	125	125	125	25	25	25
Source/Treatment with Connecting Mains	125 (max)	25	0	125	0	0	0	125	0	0	0	0	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)	125	125	0	100	125	125	25	100	125	125	125	125	25	25	25
Meet Minimum Capacity	100	■	■			■	■			■	■	■	■			
Reliability	75	■	■		■				■							
Other Upgrades	25	■	■		■	■	■	■	■	■	■	■	■	■	■	■
Enforcement Action	25															
Storage Facilities/Pumping Stations	125 (max)	25	25	0	75	125	0	25	0	0	0	0	0	0	0	0
Meet Minimum Capacity	100					■										
Reliability	75				■	■										
Other Upgrades	25	■	■			■		■								
Enforcement Action	25															
Population - Total	50 (max)	40	50	40	20	40	40	40	40	20	20	20	20	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)	50	50	50	0	0	0	0	50	0	0	0	0	0	0	0
Granted	50	■	■	■					■							
Consolidation - Total	100 (max)	0	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	100	100	100	100	100	100	100	100	100	100	100	100	100
Granted	100			■	■	■	■	■	■	■	■	■	■	■	■	■
Total Priority Points Assigned	1000 (max)	415	400	465	445	540	415	465	440	395	395	395	395	325	325	325

Fiscal Year: 2018

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Department of Environmental Quality

Drinking Water Revolving Loan Fund PPL Scoring

Category Description	Points	7436-01	7437-01
Drinking Water System Compliance Total	450 (max)	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)	175	175
Source/Treatment with Connecting Mains	125 (max)	125	125
Meet Minimum Capacity	100	■	■
Reliability	75	■	■
Other Upgrades	25	■	■
Enforcement Action	25		
Source Water Protection	50		
Transmission/Distribution Mains	125 (max)	25	25
Meet Minimum Capacity	100		
Reliability	75		
Other Upgrades	25	■	■
Enforcement Action	25		
Storage Facilities/Pumping Stations	125 (max)	25	25
Meet Minimum Capacity	100		
Reliability	75		
Other Upgrades	25	■	■
Enforcement Action	25		
Population - Total	50 (max)	40	40
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
Granted	50		
Consolidation - Total	100 (max)	0	0
Achieve Compliance	100		
Correct Deficiencies	60		
Other	40		
Comp. Wellhead/Source Water Protect Plans - Total	100 (max)	100	100
Granted	100	■	■
Total Priority Points Assigned	1000 (max)	465	465

Fiscal Year: 2018

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**Michigan Drinking Water Revolving Fund
Estimated Category Costs for FY 2018 Final Project Priority List (PPL)**

Project #	Transmission/Distribution	Treatment	Storage	Other	Total
7400-01	\$3,325,000				\$3,325,000
7409-01	\$4,800,000				\$4,800,000
7418-01	\$3,794,751			\$1,940,249	\$5,735,000
7419-01	\$3,265,000				\$3,265,000
7425-01			\$4,925,000		\$4,925,000
7426-01	\$5,950,000				\$5,950,000
7427-01	\$332,000	\$12,723,000			\$13,055,000
7428-01	\$4,080,000				\$4,080,000
7429-01	\$2,500,000				\$2,500,000
7430-01	\$2,200,000				\$2,200,000
7431-01	\$1,800,000				\$1,800,000
7432-01	\$1,500,000				\$1,500,000
7433-01	\$4,500,000				\$4,500,000
7434-01	\$8,000,000				\$8,000,000
7435-01	\$3,500,000				\$3,500,000
7436-01	\$1,645,000				\$1,645,000
7437-01	\$27,534,194	\$8,030,806			\$35,565,000
	\$78,725,945	\$20,753,806	\$4,925,000	\$1,940,249	\$106,345,000

Number of projects	16	2	1	1	
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