

EPIC Comments on Michigan's Drinking Water State Revolving Fund FY2023 Draft Intended Use Plan

Executive Summary

The Environmental Policy Innovation Center (EPIC) supported We the People of Detroit (WPD) to draft [public comments on the FY2023 Draft Intended Use Plan \(Draft IUP\) for Michigan's Drinking Water State Revolving Loan Fund \(DWSRF\)](#) that were submitted on September 23, 2023 to the Michigan Department of Environment, Great Lakes, and Energy (EGLE), the agency that administers SRFs in Michigan. WPD and EPIC are committed to water affordability and ensuring the equitable distribution of State Revolving Loan Funds (SRFs), and the comments focused on these priorities.

A legacy of discriminatory policies and practices, including but not limited to racist housing policies and practices, have led to disparities in water service and water affordability across the country. The comments highlight how policies adopted in the annual IUP that determine how much principal forgiveness (PF) for DWSRF loans is made available and how PF is allocated are critical to ensure that historical legacies are accounted for and redressed. The comments urged EGLE to state goals to the IUP relating to the equitable distribution of DWSRF assistance, achieving environmental and restorative justice, developing the local workforce, building resilience, and making water more affordable and to explicitly link policy decisions determined in the IUP to these substantive goals.

EPIC commends EGLE for implementing policies that help promote equitable distribution of DWSRF assistance. For FY2023, EGLE plans to use the maximum amount of PF allocated from Michigan's FY2023 federal capitalization base grant. EGLE also exercised the option to allocate leftover additional subsidy allowance that were not fully allocated from Michigan's prior federal capitalization grants. Utilizing the maximum amount of principal forgiveness is the first step to direct more DWSRF assistance to disadvantaged communities. Moreover, EPIC commends Michigan for distributing American Rescue Plan (ARP) money through the DWSRF process, which allows disadvantaged communities to receive 100% ARP grant for drinking water infrastructure projects.

Policy Recommendations

WPD and EPIC recommend that EGLE make several improvements to the IUP for FY2023 to ensure SRF funds reach the communities in most, foster an equitable water infrastructure workforce, and ensure that water is affordable for all Michiganders.

- EGLE should assess affordability criteria in relation to impacted census blocks for projects with place-specific benefits, such as lead service line replacement (LSLR) and other localized projects.
- EGLE should make any communities unable to satisfy the requirements of Michigan's Shared Credit Rating Act, due to a legacy of emergency management or other systemic racism and disinvestment, eligible for 100% ARP grants if they are not already eligible for 100% ARP grants under EGLE's proposed prioritization tiers.
- EGLE should delete Tier 3 awarding ARP grants or PF to projects that do not qualify as disadvantaged. Such additional subsidies should be reserved for underserved and overburdened

communities that would not be able to implement needed water infrastructure projects without additional subsidies.

- EGLE should provide 0% interest rates for loans for projects that meet affordability criteria.
- EGLE should use set-aside funds for technical assistance (TA) and develop a TA plan. To create this plan, EGLE should conduct a robust public consultation process. The TA plan should also be designed to ensure that Michigan's set-aside funds align with Justice40 goals and targets. The TA plan should proactively help disadvantaged communities to develop and submit shovel-worthy DWSRF projects and directly reimburse project planning costs incurred by disadvantaged communities.
- EGLE should allocate some set aside funds to help public water systems design, implement, and assess affordable rate structures and provide incentives to systems that do so.
- EGLE should set aside the maximum allowed by federal law from Michigan's federal capitalization grant for LSLR and use these funds to help public water systems accomplish a wide range of non-construction LSLR tasks. In addition to reducing the cost of LSLR projects by removing these pre-construction tasks from project costs, maximizing set asides from the LSLR capitalization grant will improve the loan-to-PF ratio for LSLR projects.
- EGLE should do more proactive outreach and engagement for public input and ensure that communities and applicants have adequate time to participate in the development of state policies in the IUP and in the development of projects proposed for CWSRF funds.
- EGLE should explain its criteria for selecting certain projects to comply with federal equivalency requirements.

The comments also noted that Michigan Public Act 132, adopted in June 2022, requires EGLE to adopt new definitions for "overburdened" and "significantly overburdened communities." However, for FY2023 projects, EGLE will still use the definition of "disadvantaged communities" (DACs) used in prior years to determine eligibility for PF. The [process of adopting the new definitions was underway](#) at the same time that EGLE was preparing the Draft IUP for FY2023 DWSRF projects. For this reason, the comments submitted by WPD and EPIC did not focus on the DAC definition, but instead provided inputs on the new definitions being developed by EGLE.