Evaluation of the Michigan State Revolving Fund (SRF)

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Prepared for

The Michigan Infrastructure and Transportation Association
Okemos, Michigan
and
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Executive Summary

In December 2004 Public Sector Consultants (PSC) was hired by the Michigan Infrastructure and Transportation Association (MITA), formerly known as the Association of Underground Contractors, and Local 1191, Laborers' International Union of North America (LIUNA), to conduct an assessment of Michigan's Water Pollution Control Revolving Fund to examine why participation in the program appears to have decreased in recent years and determine if opportunities exist for streamlining and improving the program to increase participation. The Fund, better known as the State Revolving Fund (SRF) program, is a low-interest loan-financing program that assists qualified municipalities with the construction of water pollution control facilities that comply with state and federal environmental laws. The intended advantage of the SRF to municipalities is the ability to borrow funds at interest rates below the market rate. Since 1989, the SRF has loaned $2.1 billion to upgrade and construct water pollution control projects.

In 2002, Michigan voters passed Proposal 2, which authorized $900 million in bonding authority for the SRF over a ten-year period. The funding level was based in part on a 2000 study entitled "Managing the Cost of Clean Water (Clean Water Michigan)," which estimated that $1.7 billion is needed to address remaining combined sewer overflow problems over the next 12 years, with long-term projections greatly exceeding this amount. Since passage of the Proposal 2, however, the available funding has significantly exceeded the project requests.

MITA and the LIUNA Local 1191 undertook this study to assess the extent to which available SRF program dollars are being utilized by eligible communities and, where appropriate, determine if potential opportunities exist to heighten demand and increase participation in the SRF program.

Demand for SRF funding is driven by a variety of factors, but limited research had been conducted to analyze these factors. Anecdotal evidence suggests the following factors affect participation in the SRF:

- **Market interest rates for municipal bonds**—The SRF provides loans at interest rates below the market rate. The difference between market rates and the interest rate charged for SRF loans is the principal inducement for participating in the program. When market rates are low, the SRF is not as attractive.
- **Additional transaction costs and constraints for participating in the SRF**—SRF requirements, many of which are federal mandates, such as historic preservation requirements, add transaction costs to a project. These additional costs offset, to some extent, the advantage of the lower interest rates. The "perception" of increased SRF requirements (gleaned from interviews conducted as part of the project) appears to be more significant than the reality. Many municipalities, and even engineering firms, may not have a clear understanding of these issues and whether they represent a significant cost differential. Lack of flexibility in the SRF to deal with *real-world* timing constraints is also seen as a problem.
- **The financial strength of Michigan municipalities**—Sewage system improvements are costly and generally lead to increased service charges or taxes. When economic times are good, the public and their locally elected officials are more likely to support local fee or tax increases for infrastructure improvements. In poor economic times, the opposite is true.

- **Enforcement of environmental mandates**—MDEQ enforcement activity mandating system improvements has a direct effect on the demand for SRF project funding.

To develop a clearer understanding of the SRF program and assess the factors that drive SFR demand and participation, PSC reviewed SRF program information, conducted interviews with a wide range of stakeholders and government officials, reviewed MDEQ enforcement records, and convened an advisory group to discuss the findings, explore issues in detail, and provide input for this report.

A review of trends in the use of the SRF and the related balance in the Fund indicates that the significant increase in the use of Fund from 1999 to 2003 was related to several large projects in southeast Michigan, most notably Detroit. Likewise, the decrease in use of the Fund in 2004 and anticipated for 2005 and 2006 relates in large part to the fact that Detroit is between projects and not utilizing the Fund. This situation is expected to reverse in 2007 when Detroit and Dearborn seek SRF loans for major combined sewer overflow (CSO) projects.

Another major factor affecting municipalities' decisions to delay infrastructure projects, where possible, appears to be the current weakness in the state's economy. This reflects the general slowdown of infrastructure financing on construction that is occurring nationally. The problem has been exacerbated by recent reductions in state revenue sharing with municipalities, which often use revenue sharing as a credit enhancement for their own bond sales (even though they do not use these funds directly to pay off their bonds). Reduced state funding makes financing projects through bond issues more difficult and diminishes the overall number of infrastructure projects initiated in a given year. According to the House Fiscal Agency, from fiscal years 2002–2003 through 2005–2006, cities, villages, and townships are projected to lose over $1 billion in state revenue sharing. This economic unpredictability is a significant factor that drives the decision-making process when a municipality considers a major infrastructure investment.

While regulatory mandates and related enforcement actions have a significant impact on participation in the SRF, the level of Michigan Department of Environmental Quality (MDEQ) enforcement against municipalities appears to be relatively steady over the last several years, and is not likely to be the cause for a decrease in use of the SRF.

The perception that participation in the SRF is significantly more time consuming and expensive than open market financing should be addressed. Further outreach and education may be necessary to clearly explain the program and facilitate participation.

RECOMMENDATIONS

Recommendations were developed around the broad areas listed below. The detailed recommendations can be found on page 13.

- Education/outreach
- Enhancing the SRF and expanding eligibility
- Streamlining and planning coordination
- Planning coordination and improvement
- Regulatory incentives
- Local funding

Introduction

Michigan's Water Pollution Control Revolving Fund, better known as the State Revolving Fund (SRF), is a low-interest loan-financing program that assists qualified local municipalities with the construction of needed water pollution control facilities. Michigan enacted PA 317 of 1998, The Clean Water Assistance Act, to establish the SRF, which is now codified as Part 53 of the Natural Resources and Environmental Protection Act, PA 451 of 1994.

The SRF is a result of the 1987 amendments to the federal Clean Water Act (PL 92-500). Under Title VI of the act, Congress ordered the phasing out of the federal construction grants program, in place since 1972. To replace the grants, Congress authorized a low-interest loan program that each state would develop with the assistance of the United States Environmental Protection Agency (EPA). Each fiscal year, Congress authorizes an amount to be appropriated for the SRF, which is then allocated among the states. To receive its share of federal funds, a state must contribute one dollar in matching funds for each five dollars given by the federal government. Michigan's 20 percent match initially came from the *Protecting Michigan's Future* environmental bond issue approved in November 1988. These yearly state matching funds have since been generated from a variety of sources, including general fund appropriations.

As loans are repaid, the revolving nature of the Fund will enable Michigan to finance water pollution control projects for years to come. However, the value of the Fund will diminish over time due to the subsidized interest rates and the costs associated with administering it. The Michigan Department of Environmental Quality (MDEQ) and the Michigan Municipal Bond Authority (MMBA) jointly administer the SRF. Each agency lends its particular expertise to efficient operation of the program.

In 2002, Michigan voters passed Proposal 2, which authorized $900 million in bonding authority for the SRF over a ten-year period. Proposal 2 also provided bonding authority for $100 million over the same period for a Strategic Water Quality Initiative Fund (SWQIF). The SWQIF provides low-interest financing to qualifying communities for two specific kinds of projects that do not qualify for SRF assistance. These projects include improvements on private property that (1) reduce or eliminate the amount of groundwater or storm water entering a sanitary or a combined sewer or (2) upgrade, repair, or replace failing on-site systems that are adversely affecting public health or the environment, or both.

The primary advantage of the SRF to Michigan municipalities is the ability to borrow funds at interest rates below the market rate. In the early years, loans were offered at a 2 percent rate of interest. At the start of FY1995, this rate was raised to 2.25 percent. In FY 2004, the rate was set at 2.125 percent. In comparison, open market rates have ranged from 5 to 8 percent. The relative stability of the SRF has allowed communities to plan more adequately without factoring in major market rate adjustments. Since 1989, the SRF has loaned $2.1 billion to upgrade and construct water pollution control projects.

In the years 2002–2004, there was a significant decrease in the use of the SRF, compared to the high-use years of 1999–2001, although still above 1996–1998 levels. Factors that could cause a decrease in the use of the SRF include, but are not limited, to the following:

- **Market interest rates for municipal bonds**—Low bond rates over the last several years may have led municipalities to believe it is more economical and expeditious to forego SRF funding in favor of public revenue bonds.
- **Additional transaction costs for participating in the SRF**—Many municipalities and contractors perceive SRF requirements as overly burdensome and expensive. For example, project planning required under the SRF but not for market bonds is seen to be a costly, time-consuming process that some claim does little to improve projects.
- **The financial strength of Michigan municipalities**—Municipalities strapped for cash during the present economic downturn are likely to postpone major infrastructure improvement projects. For example, the cost of an average new sewer system to replace failing septic systems runs between $10,000 and $17,000 per residential unit; but the largest expenditures are for combined sewer overflow and sanitary sewer overflow facilities, which can cost as much as tens of millions of dollars. Regardless of available funding support, these costs are perceived to be extremely high and public support is difficult to obtain, despite the potential negative environmental impacts resulting from delaying replacement or repair.
- **Enforcement of environmental mandates**—Municipalities are more likely to take on a major infrastructure project when they are required to do so. The degree to which state and federal mandates are enforced by the MDEQ and/or the U.S. Environmental Protection Agency (EPA) has a direct effect on a municipality's decision to proceed with the project and participate in the SRF for financial assistance.

Findings

STAKEHOLDER INTERVIEWS

Public Sector Consultants conducted interviews with 12 stakeholders possessing considerable knowledge and experience with the SRF program (including representatives of government entities, environmental and conservation organizations, and consulting engineers). In most cases the stakeholders felt that the water quality initiatives in Michigan have been good and that the SRF is a valuable tool for communities to consider. Nevertheless, interviews revealed that demand for SRF financing has declined from a high of $370 million in fiscal year 2001 (FY 2001) to just $186 million in FY 2005.

There was consensus that the current weakness in the state's economy is the largest impediment to participation in the SRF; communities struggling to provide basic services such as police and fire protection are putting water quality infrastructure projects on hold. In the past, many communities used revenue sharing funds received from the state as a credit enhancement for their own bond sales to finance projects such as wastewater infrastructure improvements, even though they do not use these funds directly to pay off their bonds. Thus, reduced state funding compounds their financing challenges.

The second significant cause of reduced SRF participation gleaned from the interviews is that several major combined sewer overflow (CSO) projects in southeast Michigan are between phases and not currently pursuing funding through the SRF program. The City of Detroit has no projects on the FY 05 project priority list (PPL) because it is completing ongoing projects on the Detroit River. In addition, the city is in the planning and design phase for a $600–800 million tunnel project on the Rouge River, targeted to commence in 2007 or 2008. The City of Dearborn is also between project phases—a phase two totaling an estimated $116 million will not appear on the PPL for at least two years. These and additional projects in southeast Michigan, including the North Huron Valley Rouge Valley project, are expected to pursue funding through the SRF.

Stakeholders also made the following observations and suggestions to increase use of the SRF:

- Enhanced education and outreach is necessary to help market the program to communities and assist them through the SRF process.
- MDEQ budget constraints have diminished coordination of outreach and assistance efforts.
- Streamlining the SRF application process would make participation more attractive in a competitive interest rate environment.

Other interviewees expressed concern over what they considered the MDEQ's inflexibility in applying federal and state statues and regulations, often requiring unnecessary facilities with no apparent environmental benefit (e.g., requiring levels of treatment or control above those needed to meet water quality standards or protect designated uses). This inflexibility will cost communities large sums of money with little, if any, benefit. One interviewee suggested that the SRF should focus on its primary mission of providing financial assistance to municipalities, and not require environmental review or other constraints such as cost effectiveness, Clean Water Act Title II requirements, or any of the social program requirements currently imposed. It was suggested that these might add delay and costs to infrastructure projects. Others believed that the

SRF requirements are not necessarily a significant burden, considering the cost savings achieved with a reduced-interest loan.

Some stakeholders felt that the project planning costs should be an eligible SRF expense. (The MDEQ is currently seeking legislative changes to make these costs eligible.) They also suggested that making funds available early in the fiscal year would help, as this would better align funding with the construction season. (The MDEQ funds projects on a quarterly basis, and a large portion of projects do not receive funding until the fourth quarter.). This is a concern also expressed by the MDEQ.

The MDEQ currently publishes a guidance document, "Securing Financial Assistance Through the Clean Water Revolving Loan Funds," which provides help to potential applicants. In addition, a companion brochure, *Michigan's Clean Water Funds*, is made available to interested parties. The MDEQ also publishes a quarterly newsletter, *The Loan Arranger*, which provides program information and an update of current program and project activities.

Several actions have been taken recently by the MDEQ to make the SRF more helpful and increase participation, including

- Reducing the interest rate for FY 2005 to 1 5/8 percent
- Expanding the eligibility of collecting sewer replacement to include sewers that have poor structural integrity (Prior to this change, collector sewer rehabilitation was limited to cost-effective infiltration and inflow removal.)
- Relaxing the policy covering decommissioning of existing facilities to allow the cost effective demolition or decommissioning of existing facilities (Past policy limited demolition of facilities to activities necessary to accomplish project construction.)
- Increasing the contingency for project cost overruns from 4 percent to 6 percent
- Addressing in statute the project planning costs, which currently cannot be part of an SRF loan (The MDEQ is hopeful that legislation will be passed in the 2005 session.)

FUNDING CAPACITY

Since FY 1989, Michigan has requested and received federal grants from the EPA that capitalize the SRF program. This federal contribution has been significant, amounting to approximately $1 billion to date. These funds, matched by a 20 percent contribution from state sources, have created the capital pool from which the low-interest loans are made to local units of government. In addition, funds from these accounts become available as coverage requirements lapse on each bond issue sold. These monies then become available for commitment to municipalities, along with interest and principal repayments.

From 1989 through 1992, Michigan's SRF operated as a direct loan program. Municipalities requested reimbursement for project costs, and draws were processed directly upon federal and state funds as they were requested. Since 1992, however, in order to leverage the capacity of state and federal SRF funds, the state has sold State Revolving Fund Revenue Bonds that are covered with a reserve drawn directly from the federal and state funds. It is from these bond issues that reimbursements are drawn for the local units of government. Concurrently, the federal and state funds are deposited into the debt service reserve accounts that provide coverage for the

revenue bonds. Leveraging available funds in this manner created a significant increase in SRF capacity in the short term, at the expense of reduced capacity in future years.

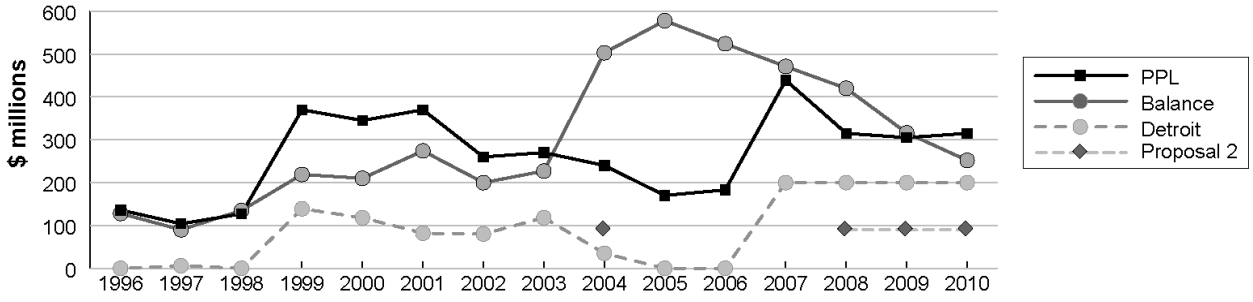
Until 1999 there was sufficient fund capacity to cover every project request and the Fund was managed so the balance in the SRF tracked the PPL fairly closely. Starting in 1999 and continuing through 2002, project requests generally exceeded the SRF balance, and a fundable range was established from projects ranked on the PPL.

In 2003 the SRF balance again exceeded the project cost totals. In 2002, market interest rates were quite low and the state found it advantageous to refinance outstanding SRF bonds, resulting in an unanticipated release from the reserve account and creating a significant increase in the SRF balance. At the same time, there was a general downward trend in project requests from the peak years of 1999–2001.

In 2004, $100 million of Proposal 2 bonds were issued to provide funding for eligible projects under the SRF and the new Strategic Water Quality Initiative Fund (SWQIF). Although only SWQIF funds were needed, the state was required by law to issue bonds for the full $100 million, $90 million of which went to the SRF (which already had ample lending capacity to satisfy PPL demand).

Based on information provided by the MDEQ, Exhibit 1 depicts the SRF balance and funding level of projects on the PPL, assuming conservative levels of federal support, estimating project requests using currently known future projects, and assuming stable base-level use of the Fund. The SRF balance is expected to peak in 2005, after which it will steadily decrease due primarily to the need for increased deposits to the Reserve Account.

EXHIBIT 1
SRF Project Requests, Fund Balance, and Projected Demand



SOURCE: Public Sector Consultants Inc. with data provided by MDEQ.

Exhibit 1 also shows the Detroit projects, which, because of their size, tend to drive the PPL level. Likewise, when future Detroit and Dearborn projects come in for loan assistance, the balance will eventually fall to where additional Proposal 2 funding will be needed. The projections depicted in Exhibit 1 includes the Proposal 2 bonds issued in 2004 and projected issuance of Proposal 2 bonds in 2008, 2009, and 2010 ($90 million each year) to keep the balance at a level commensurate with project requests.

Based on several assumptions, including stable and continued federal funding and ample state match, the MDEQ estimates that the SRF could maintain a $400–500 million level of funding in

the future. However, with the loss of general funds for the state match, it is necessary to use interest earnings of the loaned funds and investment earnings to provide the state match, which erodes the program's ability to maintain this funding level in the future.

Additional feedback through the interview process suggests that communities must find ways to reduce infrastructure costs and to increase revenue. Initiatives such as the Southeastern Michigan Water Quality Consortium have worked to develop operational efficiency of local infrastructure and identify the true cost of service to make sewer rates more transparent in southeast Michigan. In August 2003 the Michigan Land Use Leadership Council recommended that all Michigan communities review public investments in existing and new infrastructure with a view toward coordination among local and multijurisdictional planning efforts, and to ensure that the true cost of local government and its efforts to protect water quality and the environment are apparent and affordable. Water quality improvements should be based on comprehensive community planning.

MDEQ ENFORCEMENT

Regulatory mandates and related enforcement actions have a significant impact on participation in the SRF. A significant number of the projects that received assistance over the last 10 years have been under either an enforcement order or an enforceable permit schedule. Enforceable schedules are established in National Pollutant Discharge Elimination System (NPDES) permits, administrative enforcement orders, and court orders. Municipalities subject to enforceable schedules qualify for an additional 300 points under the SRF scoring system, which can be important to qualifying for an SRF loan.

Communities that operate sewer systems in noncompliance with laws, regulations, or discharge permit conditions are subject to MDEQ enforcement. The MDEQ follows a graduated enforcement process, depending on the severity of the violation and how promptly the issue can be resolved. The customary process involves written enforcement notices issued in the field. If violations continue, the matter is escalated to a Lansing-based enforcement unit. This unit may pursue an administrative order or refer the case to the attorney general for litigation, which would normally lead to either an administrative order or a court order, mandating a corrective program and establishing an enforceable schedule.

Based on information obtained from the MDEQ website and from interviews with Lansing-based enforcement staff and district enforcement officials, enforcement against municipalities has been relatively steady over the last six years. MDEQ municipal enforcement efforts, as measured by the entry of enforcement orders, are shown in Exhibit 2.

Enforcement orders typically address one of the following three conditions:

- Wastewater treatment plant (WWTP) discharges or operation problems
- Combined sewer overflows (CSO) and/or related capacity problems
- Sanitary sewer overflows (SSO) and/or related capacity problems

EXHIBIT 2
Municipal Enforcement Orders Entered by MDEQ, 1999–2005

Year	Number of municipal enforcement orders
1999	10
2000	9
2001	16
2002	19
2003	13
2004–2/2005	16

SOURCE: Public Sector Consultants Inc. based on data from MDEQ and personal interviews.

Violations are discovered as the result of a MDEQ inspection or through self-reporting. MDEQ inspections are a critical step in assuring compliance with environmental requirements. Information obtained from the MDEQ website and from Lansing-based files indicates that the number of municipal inspections has been fairly consistent over the last several years (see Exhibit 3).

EXHIBIT 3
MDEQ Compliance Inspections, Municipal Wastewater Treatment Plants, 1999–2003

Year	Compliance biomonitoring inspection (CBI)[a]	Compliance evaluation inspection (CEI)[b]	Compliance sampling inspection (CSI)[c]	Total
1999	14	44	6	64
2000	17	33	26	76
2001	19	49	15	83
2002	23	35	17	75
2003	21	34	8	61

SOURCE: Public Sector Consultants Inc. based on data from MDEQ.
[a] CBI uses acute and/or chronic toxicity testing techniques to evaluate the biological effects of effluent discharges on test organisms.
[b] CEI involves inspections designed to verify permittee compliance with applicable permit effluent limits, self-monitoring requirements, and compliance schedules. This inspection involves records reviews, visual observations, and evaluations of the treatment facilities, effluent, receiving waters, and sewage sludge use and disposal practices. The CEI may be a nonsampling inspection or a sampling inspection in which sample types other than those required for permittee self-monitoring are collected (i.e., effluent grab samples for major publicly owned treatment works [POTWs]).
[c] CSI includes the same objectives as a CEI except that sample types consistent with permittee self-monitoring requirements are collected (i.e., effluent composite samples for major POTWs). Sample results are used to verify the accuracy of the permittee's self-monitoring program and report, determine the quantity and quality of effluent to assess compliance with permit limits, and provide evidence for enforcement proceedings where appropriate.

CSOs and SSOs are required by Michigan law to be reported to the MDEQ. As a result, the MDEQ has one of the most comprehensive CSO and SSO databases in the country. CSOs have received MDEQ enforcement attention since the late 1980s. Michigan has established corrective programs with enforceable schedules in NPDES permits or administrative orders for all Michigan CSO communities. Michigan's SSO initiative is more recent, beginning in the late

1990s. Over the last several years, the MDEQ has entered a number of administrative enforcement orders to establish SSO corrective programs, as shown in Exhibit 4.

EXHIBIT 4
Municipal Enforcement Orders Addressing SSOs, 1999–2005

Year	Number of SSO enforcement orders
Prior to 1999	5
1999	4
2000	2
2001	10
2002	16
2003	6
2004–2005	12

SOURCE: Public Sector Consultants Inc. based on data from MDEQ.

The MDEQ has an ongoing enforcement program to address SSOs and is in the process of bringing all SSO communities under enforceable corrective programs. An exact count of SSO communities is not available, but based on the review of SSO reports over the last six years, PSC estimates that there are approximately 70 municipalities with SSO problems that may need enforceable corrective programs. Of these, 54 are now under administrative orders, 4 have enforceable schedules in their NPDES permits, and one is under a district enforcement agreement. In addition, there are a number of currently pending SSO enforcement actions for which the names and details are not publicly available.

The perception of a number of MDEQ district enforcement staff interviewed by PSC is that statewide municipal enforcement has been steady or perhaps increased over the last several years. The focus of municipal enforcement has shifted to SSOs, although treatment plant discharge violations continue to get environmental attention. CSO enforcement has decreased as more communities are completing their CSO correction programs. Although staffing levels and funding for all state programs have generally decreased over the last several years, new fee permit systems have helped the Water Bureau offset general fund reductions to minimize staffing shortages. Even with funding shortfalls in other program areas, staffing levels and funding for NPDES compliance/enforcement have incrementally increased over the last three years. Based on this review, it appears that MDEQ municipal enforcement has remained steady or slightly increased over the last several years. Thus, the decrease in use of the SRF does not appear to be related to any noticeable change in MDEQ enforcement activity.

OTHER STATES

To determine the status of Michigan's SSO enforcement program relative to other Great Lakes states, EPA Region V was contacted to gather information on other states. The EPA does not have good information on the numbers of SSO communities in any Great Lakes states except Michigan, which is ahead of other Great Lakes states in identifying SSO communities and taking action to get these communities under corrective programs. Minnesota, Ohio, and Wisconsin are

in the process of identifying their SSO communities, but the EPA was not aware of any published reports.

Wisconsin has issued a general permit applicable to satellite community collection systems, and all Wisconsin satellite systems that have experienced a bypass or overflow are now covered under either the general permit or an individual permit. The permit prohibits sanitary sewer bypasses, except under certain conditions, and requires reporting of all overflows and bypasses. Using this information, Wisconsin is currently developing an inventory of all SSOs. Although the general permit does not establish corrective programs, frequent or chronic bypasses or overflows will result in enforcement actions establishing necessary corrective programs.

An important provision of the Wisconsin general permit is the requirement to submit an annual report summarizing the previous year's activities within the permittee's sewage collection system. Through this annual report, Wisconsin is able to assess whether a community has taken actions to address capacity management, operation, and maintenance (CMOM) aspects of its sewer system.

TIMELY REPLACEMENT OF AGING SEWER SYSTEMS

The MDEQ uses authority under Part 41 (Sewerage Systems) of the Michigan Natural Resource and Environmental Protection Act (NREPA, Act 451 of 1994, as amended) to oversee public sewer systems. Under this statute and related rules, the MDEQ has some limited authority to assure proper operation and maintenance of sewer systems. MDEQ has no authority, however, to mandate timely replacement of aging sewers or otherwise require proactive maintenance.

Part 41, or the rules promulgated under this legislation, could be strengthened to more explicitly require capacity management, operation, and maintenance of sewer systems. These types of CMOM requirements, while not mandating "timely replacement" actions, would drive more thorough inspection, operation, and maintenance actions and provide plant superintendents with increased ability to institute proactive corrective actions. Michigan could also consider strengthening Part 41 or related rules to require an annual report on collection systems similar to that mandated by the Wisconsin general permit.

Conclusion and Recommendations

CONCLUSION

Projects completed through the SRF have helped make Michigan waters cleaner and safer. Since 1989, approximately $2.1 billion has been loaned to upgrade and construct water pollution control projects. The SRF program has helped to ensure that treatment facilities meet their permitted discharge limitations. CSOs are also being brought under strict control due to construction of SRF-assisted projects throughout Michigan. Large metropolitan areas such as Detroit, Grand Rapids, Lansing, and Saginaw, as well as many smaller communities such as Belding and Capac, have had their CSO problems greatly reduced or eliminated because of projects built with SRF assistance.

Many other communities have built new sewers to alleviate septic tank failures that were creating public health risks or water pollution problems. SSOs are being addressed in many communities through sewer rehabilitation projects to eliminate excessive infiltration and inflow (I/I). Excessive I/I causes sewer capacity problems, resulting in sewer overflows, poor treatment plant performance, and backups of sewage into homes and businesses. Although residents who reside in communities that have constructed water pollution control projects financed by the SRF obviously receive the most direct benefit from those projects, clean water results in a healthier environment for all.

There also appears to be a continuing perception that transaction costs and additional requirements of the SRF outweigh the economic advantage of the lower interest rates the SRF provides. This is not likely to be the case in the majority of situations, and further efforts to educate communities on the facts of the participation process would encourage use of the SRF.

While the recent demand for SRF funding has diminished, the evidence suggests that this is likely a temporary situation that will be influenced by a rebound in economic activity in Michigan and increased demand from southeast Michigan communities.

RECOMMENDATIONS

The following recommendations provide both specific and general guidance for increasing the participation of communities in the SRF. Additional detailed recommendations will be generated in subsequent strategy meetings and discussions with stakeholders.

Education/Outreach

- The MDEQ should expand efforts to present SRF information at annual meetings of the Michigan Municipal League, Michigan Townships Association, and others.
- The MDEQ should review existing program information documents to determine ways they can be updated and disseminated to interested parties.
- The MDEQ should assure ready access to a single point of contact for information and assistance on the SRF.
- The MDEQ should target SRF informational articles in a variety of publications.
- The MDEQ should conduct an annual training seminar with speakers from law, bond, and engineering firms and others to help educate communities on the SRF program.

- The MDEQ, consultants, and other stakeholders (see suggestions below) should coordinate efforts and partner together to provide information and assistance to small communities in understanding the benefits of participation in the SRF program.
    - American Council of Engineering Companies of Michigan
    - American Public Works Association
    - Michigan Association of Counties
    - Michigan Local Government Management Association
    - Michigan Municipal League
    - Michigan Society of Planning Officials
    - Michigan Society of Professional Engineers
    - Michigan Townships Association
    - Michigan Water Association
    - Michigan Rural Water Association
    - U.S. Department of Agriculture – Rural Development

Enhancing the SRF and Expanding Eligibility

- The MDEQ should revise procedures to accommodate concurrent design/build type procurement and other nontraditional contracting procedures.
- The MDEQ should revise SRF requirements to allow broader coverage of previously incurred costs and be more responsive to *real-world* time constraints.
- The MDEQ should work with the legislature to allow "project planning" and "preconstruction" as eligible SRF costs.

Streamlining and Planning Coordination

- The MDEQ should reduce or streamline the "cost-effectiveness" review requirements to be more consistent with local planning needs.
- The MDEQ should examine opportunities for simplifying and streamlining SRF procedures.

Planning Coordination and Improvement

- The state should work with local communities to assure a comprehensive pre-planning process.
- The governor should direct state agencies (e.g., Departments of Environmental Quality, Transportation, Labor and Economic Growth; Public Service Commission) to review how to better coordinate the timing and requirements of various infrastructure projects.
- Local units of government throughout the state should develop readiness redevelopment standards that can measure and promote their ability to compete for private redevelopment investment and state technical and financial assistance.
- The state should provide incentives to local units of government to conduct more comprehensive planning (e.g., preconstruction costs eligible, disincentives for delays).
- Grants to local units of government should be considered with requirements for timely and appropriate project planning and disincentives in place for failure to demonstrate progress.

Regulatory

- The MDEQ should develop regulatory incentives to drive better planning at the local level.

- The MDEQ should provide new incentives for "timely replacement" of aging infrastructure and disincentives for failing to take appropriate actions.
- MDEQ should require periodic reports from owners of collection systems that would include a review of their sewerage system.
- The MDEQ should maintain strong and effective municipal enforcement programs.

Local Funding

- The legislature should support swift implementation of recommendations of the Governor's Local Finance Task Force.
- Local governments should coordinate efforts to avoid reductions in revenue sharing.
- Communities should work with locally elected officials to ensure that local tax policies provide adequate revenues for critical infrastructure improvements.