From: Butler, Sonya (DEQ)
Sent: Tuesday, March 31, 2015 3:26 PM
To: Shekter Smith, Liane (DEQ)
Subject: FW: Principal forgiveness

There is an internal debate at EPA regarding the statute below which was referenced in the Flint letter. EPA will conference tomorrow and let me know the result.

From: Marquardt, Steve [mailto:marquardt.steve@epa.gov]
Sent: Tuesday, March 31, 2015 12:38 PM
To: Butler, Sonya (DEQ)
Subject: RE: Principal forgiveness

The difference is that DW could do PF before ARRA....I have a call tomorrow with OW and will circle back

Statute – Section 130. Section 1452 (d):
''(d) ASSISTANCE FOR DISADVANTAGED COMMUNITIES.—
''(1) LOAN SUBSIDY.—Notwithstanding any other provision of this section, in any case in which the State makes a loan pursuant to subsection (a)(2) to a **disadvantaged community or to a community that the State expects to become a disadvantaged community as the result of a proposed project, the State may provide additional subsidization (including forgiveness of principal)**.
''(2) **TOTAL AMOUNT OF SUBSIDIES**.—**For each fiscal year, the total amount of loan subsidies made by a State pursuant to paragraph (1) may not exceed 30 percent of the amount of the capitalization grant received by the State for the year**.
''(3) **DEFINITION OF DISADVANTAGED COMMUNITY**.—In this subsection, the term 'disadvantaged community' means the service area of a public water system that meets **affordability criteria established after public review and comment** by the State in which the public water system is located. The Administrator may publish information to assist States in establishing affordability criteria.

Regs - **§ 35.3525 Authorized types of assistance from the Fund.**
(b) *Assistance to **disadvantaged communities.*** (1) A State may provide loan subsidies (e.g., loans which include **principal forgiveness**, negative interest rate loans) to benefit communities meeting the **State's definition of ''disadvantaged'' or which the State expects to become ''disadvantaged''** as a result of the project. Loan subsidies in the form of reduced interest rate loans that are at or above zero percent do not fall under the 30 percent allowance described in paragraph (b)(2) of this section.
(2) A State may take **an amount equal to no more than 30 percent of the amount of a particular fiscal year's capitalization grant t**o provide loan subsidies to disadvantaged

communities. **If a State does not take the entire 30 percent allowance associated with a particular fiscal year's capitalization grant, it cannot reserve the authority to take the remaining balance of the allowance from future capitalization grants.** In addition, a State **must**:

(i) **Indicate in the Intended Use Plan (IUP) the amount of the allowance it is taking for loan subsidie**s;

(ii) Commit capitalization grant and required State match dollars taken for loan subsidies in accordance with the binding commitment requirements in § 35.3550(e); and

(iii) Commit any other dollars (e.g., principal and interest repayments, investment earnings) taken for loan subsidies to projects over the same time period during which binding commitments are made for the capitalization grant from which the allowance was taken.

(3) **A State may extend the term for a loan to a disadvantaged community, provided that a recipient completes loan repayment no later than 30 years after project completion and the term of the loan does not exceed the expected design life of the project**.

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From: Butler, Sonya (DEQ) [mailto:BUTLERS2@michigan.gov]
Sent: Tuesday, March 31, 2015 10:05 AM
To: Marquardt, Steve
Subject: FW: Principal forgiveness

Steve

Here's what I sent to John Barton last week to respond to Kildee.

From: Butler, Sonya (DEQ)
Sent: Friday, March 27, 2015 12:45 PM
To: Barton, John (Treasury)
Cc: Shekter Smith, Liane (DEQ)
Subject: Principal forgiveness

John

Here's information that you can share with Amy Hovey, staffer for Congressman Dan Kildee, regarding how Michigan has used principal forgiveness in the Revolving Loan Programs. EPA has talked with Congressman Kildee on this issue at least twice.

Principal forgiveness came around with the American Recovery & Reinvestment Act (ARRA). All of Flint's drinking water loans were prior to ARRA. In May 2009, Flint submitted a project plan that comprised various projects the city wanted to pursue. Flint had 2 projects on the project priority list to receive funding in 2010 thru 2013. Initially the projects did not rank high enough to receive funding. When funding became available for Flint, the city declined to move forward with the projects. Some principal forgiveness was offered as part of the funding.

Annually EPA requires the state to describe how principal forgiveness will be used (Intended Use Plan) and then report at the end of the fiscal year (Annual Report) how the funds were allocated. EPA audits the data during their annual visit. In Michigan, we have used principal forgiveness to assist disadvantaged communities and for projects that are water or energy efficient (i.e. green) consistent with EPA guidance. There is no provision to randomly provide principal forgiveness to a project or use it to refinance a prior loan.

The purpose of the funds are to revolve in perpetuity (as stated in federal statute) so that communities can continue to receive financial assistance. Michigan has never completely forgiven an entire loan as it would greatly reduce the capacity of the fund to offer assistance to future projects.

I hope the above helps. If there are additional questions, please let me know.

Sonya T. Butler, Chief
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