

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 subsidies;**

(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.

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