

Stanton, Terry A. (Treasury)

From: Barton, John (Treasury)
Sent: Friday, March 27, 2015 1:24 PM
To: Workman, Wayne (TREASURY); Saxton, Thomas (Treasury)
Cc: Koryzno, Edward (Treasury); Stanton, Terry A. (Treasury); Byrne, Randall (Treasury)
Subject: RE: Loan Forgiveness

I think they would have concerns as to where it would stop; the slippery slope argument. The program tenants are based on sound business practice and are looked to as a program strength. If the path of principal forgiveness is opened up, they would view that as negative which would certainly impact the outlook, but maybe not the overall rating in the near term.

From: Workman, Wayne (TREASURY)
Sent: Friday, March 27, 2015 1:19 PM
To: Barton, John (Treasury); Saxton, Thomas (Treasury)
Cc: Koryzno, Edward (Treasury); Stanton, Terry A. (Treasury); Byrne, Randall (Treasury)
Subject: RE: Loan Forgiveness

What would the rating agencies say about forgiveness?

From: Barton, John (Treasury)
Sent: Friday, March 27, 2015 1:03 PM
To: Workman, Wayne (TREASURY); Saxton, Thomas (Treasury)
Cc: Koryzno, Edward (Treasury); Stanton, Terry A. (Treasury); Byrne, Randall (Treasury)
Subject: RE: Loan Forgiveness

Below is the response from DEQ:

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.

For a succinct statement I would suggest:

There is no provision or program capacity to provide principal forgiveness outside the scope mandated by the EPA for disadvantaged communities (populations less than 10,000) or green infrastructure projects. The purpose of the funds are to revolve in perpetuity (as stated in federal statute) which allows communities to receive financial assistance in the future. Further, DWRF loans are pledged as security to various bond issues which provide the up-front capital to fund projects. Without a dollar-for-dollar replacement of revenue due to the loss of principal, the bonds could default.

From: Workman, Wayne (TREASURY)
Sent: Tuesday, March 24, 2015 4:53 PM
To: Saxton, Thomas (Treasury); Barton, John (Treasury)
Cc: Koryzno, Edward (Treasury); Stanton, Terry A. (Treasury); Byrne, Randall (Treasury)
Subject: FW: Loan Forgiveness

Do we have a succinct statement on why we cant forgive Flint DWRF?

From: Gerald Ambrose [<mailto:gambrose@cityofflint.com>]
Sent: Tuesday, March 24, 2015 1:19 PM
To: Workman, Wayne (TREASURY)
Cc: Byrne, Randall (Treasury); Koryzno, Edward (Treasury)
Subject: Fwd: Loan Forgiveness

FYI... I have said no, nothing in writing. If you have something I can share, let me know. Thanks!

J

----- Forwarded message -----

From: Hovey, Amy <Amy.Hovey@mail.house.gov>
Date: Tue, Mar 24, 2015 at 1:13 PM
Subject: Loan Forgiveness
To: "Dayne Walling (mayor@cityofflint.com)" <mayor@cityofflint.com>, Jerry Ambrose <gambrose@cityofflint.com>

Good afternoon –

Do you have anything in writing from the Governor or any state department indicating that they are statutorily limited from forgiving the loans? Is so, are you willing to share? It would be very helpful to us in trying to make a case with the EPA that they should allow forgiveness.

Thanks!

Amy