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March 26, 2015

Ms. Gina McCarthy  
Administrator, Environmental Protection Agency  
1101 A  
1200 Pennsylvania Avenue, N.W.  
Washington, D.C. 20460

Dear Administrator McCarthy:

My office has reached out to both the Office of Congressional and Intergovernmental Relations at the Environmental Protection Agency (EPA) and the Congressional Research Service (CRS) to determine if there are any statutory limitations on states to forgive the principal on loans made through the Safe Drinking Water State Revolving Fund (SDWSRF) program. After talking to both of these offices, there seems to be a difference in legal opinion between the two interpretations as to whether forgiveness of principal is statutorily allowed, and I am requesting further clarification.

The City of Flint, Mich., located in my district, continues to endure prolonged and severe financial stress due to the loss of thousands of manufacturing jobs, resulting in population loss and an erosion of its tax base. In an effort to improve the city's financial stability, Flint decided to end its 50-plus-year affiliation with the City of Detroit Water and Sewage Department in April of 2013. Instead, Flint would become a partner in the Karegnondi Water Authority (KWA) to bring raw water from Lake Huron to the city.

The water contract between the City of Detroit Water and Sewage Department and Flint was terminated in May of 2014. The KWA, however, will not be able to provide water to the city until its pipeline from Flint to Lake Huron is completed at the end of 2016. To fill the gap in service until the KWA is completed, Flint has turned to the Flint River as its current source for raw water. The Flint River has proven to have an inconsistent quality because of high levels of organic matter. Flint water officials have used high levels of trihalomethanes to treat the occasional elevated levels of organic matter in the water. On December 16, 2014, the Michigan Department of Environmental Quality cited the city for being in violation of water standards determined by the Safe Drinking Water Act (SDWA) due to high levels of trihalomethanes. In accordance with the SDWA, a cautionary notice about the citation was subsequently sent to residents.

Since its citation, Flint has engaged local and state leaders to find a solution for the poor quality of the water. On February 3, 2015, the state gave the city close to \$2 million to hire consultants to assess the condition and find leaks in the water infrastructure system. While this funding is a step in the right direction, it is not nearly enough to significantly improve the water quality.

This background on Flint's water situation is to point out that the SDWA is intended to improve drinking water in America's cities, such as Flint, by creating water quality standards and funding the SDWSRF to invest in water infrastructure. In addition to the high levels of trihalomethanes, the poor condition of water infrastructure in Flint, regardless of the water's source, contributes to discolored and poor tasting water. Furthermore, Flint currently suffers an over 35 percent loss ratio of water between the treatment plant and the end user. In the past, Flint has benefitted from the SDWSRF and currently has close to \$22 million in outstanding loans from it that the city has used to repair the water system. The financial stress of making payments on these loans, however, has prevented the city from making the necessary ongoing investments to its water infrastructure.

To decrease the burden of these loans, on January 18, 2015, Flint requested that the state of Michigan, as the responsible party in appropriating funds from the SDWSRF to local governments, forgive part of the principal. The state responded that forgiving the principal is not an option as the state does not have the authority to do so.

In response to the state's reply, on February 10, 2015, my staff reached out to the Office of Congressional and Intergovernmental Relations at the EPA to ask if they were aware of any statutory language that prevents principal forgiveness of loans made under the SDWSRF. On February 25, 2015, the EPA responded that they "could find ... no provision that would allow a state to [forgive an existing loan made from a Safe Drinking Water Act state revolving fund]."

On February 23, 2015, my staff also reached out to the CRS for their legal opinion on this matter. Although they could not find any precedent for doing so, the CRS did find two instances in statute that, in their opinion, allows states to forgive the principal on loans made through the SDWSRF.

First, SDWA sec. 1452(d)(1), 42 USC 300j-12(d)(1), states – "Notwithstanding any other provision of this section, in any case in which the State makes a loan pursuant to subsection (a)(2) of this section to a disadvantaged community ... , the State may provide additional subsidization (including forgiveness of principal)."

Second, the Consolidated and Further Continuing Appropriations Act, 2015, Pub. Law 113-235, states on page 296 – "Provided further, [t]hat not less than 20 percent but not more than 30 percent of the funds made available under this title to each State for Drinking Water State Revolving Fund capitalization grants shall be used by the State to provide additional subsidy to eligible recipients in the form of forgiveness of principal, negative interest loans, or grants (or any combination of these), and shall be so used by the State only where such funds are provided as initial financing for an eligible recipient or to buy, refinance, or restructure the debt obligations of eligible recipients only where such debt was incurred on or after the date of enactment of this Act; ...."

The difference in opinion between EPA and CRS has created ambiguity for the affected parties. The ability of states to forgive portions of the principal on loans made through the SDWSRF could have a significant impact on the financial state of Flint and many other distressed municipalities across the county. I would appreciate clarification from you on what, according to EPA's interpretation of the law, statutorily prevents states from forgiving the principal on loans made under the SDWSRF.

Due to critical nature of the water quality in Flint and the impact that loan forgiveness could have on improving the quality of the water, I ask for your prompt attention to this matter.

Sincerely,



Dan Kildee  
MEMBER OF CONGRESS

cc:

Cathy Davis, EPA  
Eileen Deamer, EPA  
Robert Meltz, CRS