This revised analysis replaces the analysis dated 4-21-98.



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CLEAN MICHIGAN INITIATIVE BOND PROPOSAL

House Bill 5620 (Substitute H-3) Sponsor: Rep. James M. Middaugh

House Bill 5622 (Substitute H-3) Sponsor: Rep. Tom Alley

Revised First Analysis (4-22-98) House Committee: Conservation, Environment and Recreation

THE APPARENT PROBLEM:

A decade ago, the governor's state of the state message stressed the need for a long-term funding commitment to meet environmental challenges facing the state. The voters responded by approving the "Quality of Life Bond Proposal." The bond proposal -- actually two proposals, the Environmental Protection Bond Proposal and the Recreation Bond Proposal, each of which had to be approved separately -- authorized the state to issue \$660 million in general obligation bonds to finance environmental protection programs, and \$140 million to finance public recreation projects. Proceeds from the Environmental Protection Bond Proposal were deposited in the Environmental Protection Bond Fund (established under Public Act 328 of 1988). A major portion of the \$660 million --\$435 million -- was allocated to clean up sites of environmental contamination. The fund was also used for solid waste projects, including recycling; to capitalize a state water pollution control revolving fund; and to finance the state's participation in a regional Great Lakes Protection Fund. Proceeds from the Recreation Bond Proposal were deposited in the Recreation Bond Fund (established under Public Act 329 of 1988) and disbursed to build recreational facilities at state parks, and to provide grants and loans for local public recreation projects. Grants and loans were also provided to local governments from this fund to redevelop vacant or abandoned industrial sites for recreational facilities.

When the Quality of Life Bond Proposal was first contemplated, it was estimated that there were some 1,800 sites of environmental contamination where response activities would have to be conducted. By 1995, 1,000 of these sites had been cleaned up. However, additional sites had been detected, so that the total number of sites had actually increased to

2,812. Based on the argument that reduced cleanup standards -- from those that required restoration of contaminated land to a pristine condition, to ones that used variable standards based on land use -- would allow the state to clean up three times as many sites, Public Act 71 of 1995 restructured the "polluter pay" provisions of the Natural Resources and Environmental Protection Act (NREPA) to reduce cleanup standards at commercial and industrial contaminated sites. (For additional information, see HLAS analysis of House Bill 4596 of 1995). At present, according to the Department of Environmental Quality, there are approximately 9,700 contaminated sites, 6,926 of which are leaking underground storage tanks. Cleanup activities of some type are being carried out at 562 of the sites. Of the \$425 million allocated to clean up these sites, approximately \$58 million remains, and more contaminated sites are being discovered each year.

The state of the state address in 1998, in the portion pertaining to environmental concerns, echoed the 1988 address and its Quality of Life Bond Proposal recommendation. Pointing to the fact that the state's credit rating has been upgraded on Wall Street to "AA+," and to low interest rates and Michigan's economic strength, the governor suggested that \$500 million be raised through "Clean Michigan Initiative" bonds. In his address, the governor pointed out specific projects that could be remedied under the initiative. For example, it could "accelerate the cleanup of sites like a PCB saturated landfill in Bay City, sludge pits in Van Buren County and a rusting tank yard in Eaton County." The governor suggested that the bonds would benefit the state in three ways: \$400 million would be used to restore polluted and abandoned sites; and \$50 million each would be used

for state park improvements and to protect the quality of the state's drinking water.

It is proposed that the "Clean Michigan Initiative" bond proposal be submitted to the electorate, with some modifications: \$325 million would be used to clean up contaminated sites and "brownfields" (former urban industrial property), \$50 million would be used for nonpoint source pollution prevention and control; \$50 million would be used for state park infrastructure improvements; \$50 million would be used for waterfront improvements; and \$25 million would be used for the clean up of contaminated river sediments. Further, it is proposed that \$50 million be authorized to provide grants and loans for local public recreation projects, as was provided under the Quality of Life Bond Proposal in 1988. Consequently, legislation has been introduced in both the House and the Senate that would put the issue before the voters at the November, 1998, general election.

THE CONTENT OF THE BILLS:

House Bills 5620 and 5622 are part of a package of bills that include Senate Bills 902 and 904 and that would place a "Clean Michigan Initiative" bond proposal on the ballot for the November, 1998 general election. The Senate bills are also tie-barred to House Bill 5719, which is pending before the House Conservation. Environment and Recreation Committee. The voters would be asked to approve \$550 million in general obligation bonds to finance environmental and natural resources protection programs, including components for the remediation of environmentally contaminated sites and contaminated river sediments, for waterfront improvements, for nonpoint source pollution prevention and control, for state park infrastructure improvements, and for local public recreation projects, as follows:

- House Bill 5622 would establish the Clean Michigan Initiative Act, which would authorize the state, with voter approval, to borrow up to \$550 million and issue general obligation bonds to finance environmental and natural resources protection programs.
- Senate Bill 904 would provide for the distribution of the \$550 million in general obligation bonds issued under the proposed Clean Michigan Initiative Act.
- House Bill 5620 and Senate Bill 902 would establish a waterfront redevelopment grant program, and a

nonpoint source pollution prevention and control grants program, respectively.

• House Bill 5719 would require that the Department of Natural Resources (DNR) establish a Local Recreation Grant Program to fund local projects financed under the bond proposal.

House Bills 5620 and 5622 are tie-barred to each other and to Senate Bills 902 and 904.

<u>House Bill 5622</u> would establish the Clean Michigan Initiative Act. If approved by the voters, the bill would allow the state to borrow up to \$550 million and issue general obligation bonds to finance environmental and natural resources protection programs, as follows:

General Obligation Bonds. The bonds would be backed by the full faith and credit of the state, and would be issued in accordance with conditions, methods, and procedures to be established by law. After issuing the bonds, a sufficient amount to pay the principal and interest on all outstanding bonds, and the costs incidental to payment of the bonds, would be appropriated from the general fund each fiscal year. The bill would require that the governor include an appropriation for this amount in annual executive budget recommendations to the legislature. proceeds from the bonds would be deposited into the Clean Michigan Initiative Bond Fund that would be established under the NREPA under the provisions of Senate Bill 904, and expended only for the environmental clean up purposes specified under the act, and for the expense of issuing the bonds.

Environmental Cleanup. The bill would specify that the bonds would finance environmental and natural resources protection programs that would clean up and redevelop contaminated sites, protect and improve water quality, reclaim and revitalize community waterfronts, enhance and increase recreational opportunities at Michigan state parks, and clean up contaminated sediments in lakes, rivers, and streams.

<u>Ballot Question</u>. The secretary of state would be required to perform all acts necessary to properly submit the question of borrowing \$550 million to finance environmental cleanup by issuing general obligation bonds to the electors at the next general November election. The bill would require that the question be submitted to the voters substantially as follows:

"Shall the state of Michigan finance environmental and natural resources protection programs that would clean up and redevelop contaminated sites, protect and improve water quality, reclaim and revitalize community waterfronts, enhance recreational opportunities, and clean up contaminated sediments in lakes, rivers, and streams, by borrowing a sum not to exceed \$550 million and issuing general obligation bonds of the state, pledging the full faith and credit of the state for the payment of principal and interest on the bonds, the method of repayment of the bonds to be from the general fund of this state?"

House Bill 5620 would amend the Natural Resources and Environmental Protection Act (NREPA) to establish a waterfront redevelopment grant program. (Under the bill, "waterfront" would be defined to mean land that was contiguous to the Great Lakes or their connecting waterways, a river, or a lake or impoundment with a surface area of at least 50 acres; and a "waterfront redevelopment plan" would mean a waterfront redevelopment plan prepared by a local unit of government under the requirements of the bill, or a state approved recreation plan that included waterfront improvements.) The bill would specify, however, that a grant could not be provided for a project located on land sited for use as a gaming facility, stadium, or arena that was to be used by a professional sports team; land or facilities owned or operated by a casino, stadium, or arena; or land within a project area that was described in a project plan in accordance with the provisions of the Economic Development Corporations Act (MCL 125.1601 et al.). The effective date of the bill would be December 1, 1998, provided that the question put forward in the Clean Michigan Initiative Act was approved by a majority of the registered electors at the November, 1998, general election.

<u>Waterfront Redevelopment Grant Program.</u> The bill would require that the Department of Environmental Quality (DEQ) establish a program that provided for the following:

- The response activities on waterfront property consistent with a waterfront redevelopment plan.
- The demolition of buildings and other facilities along a waterfront that were inconsistent with a plan.
- The acquisition or the assembly of waterfront property consistent with a plan.
- The public infrastructure and facility improvements to waterfront property consistent with a plan.

The bill would also require that the DEQ require that a local unit of government provide at least 25 percent of the total project's cost from other public or private funding sources for any grant issued under the bill.

Grant Application Process. To apply for a grant, a local unit of government would have to prepare a waterfront redevelopment plan that would provide for the improvement of the waterfront. The plan would have to designate clearly the geographic area included within the waterfront planning area, and identify the economic impact on the improved area, the surrounding neighborhood, and the waterfront planning area region. A grant application would have to include the following information:

- A detailed description of the project to be funded and how it would be used, including any private sector participation.
- A copy of the waterfront redevelopment plan for the area in which the project was to be located.
- An explanation of how the project would contribute significantly to the local unit of government's economic and community redevelopment or the revitalization of adjacent neighborhoods.
- An explanation of how the project would provide for public access to the waterfront or recreational opportunities for the public.
- An identification of the intended use of the property, if the project included the purchase of property, and a time line for its redevelopment.
- The total cost of the project and the source of the local unit contribution.
- Other relevant information.

After receiving a grant application, the DEQ would have to forward a copy to the Michigan Jobs Commission. The DEQ and the commission would jointly review each grant application, and consider several factors, including whether the project was authorized under, and the grant application complied with, the provisions of the bill; the project was consistent with the waterfront redevelopment plan for the area in which it was located; the project provided significant public access to the waterfront or provided recreational opportunities for the public; and the level of public and private commitment to improving

abandoned real property with the waterfront planning area in which the project was located.

Issuance and Conditions of Grants. The DEQ, with the commission's approval, would have to issue grants for projects that met the requirements of the bill and that would contribute to the revitalization of waterfront throughout the state that were not being used in a manner that maximized economic and public value. The DEQ and the Department of Attorney General could recover costs expended for response activities on waterfront property from persons considered liable under the NREPA. Actions to recover costs would have to proceed in the manner specified under the act. Further, grants provided under the provisions of the bill would have to comply with the applicable provisions of Part 196 of the NREPA, which would provide for the implementation of the Clean Michigan Initiative Fund, including reporting of the grants to the legislature.

FISCAL IMPLICATIONS:

House Bill 5622 would require that the state issue \$550 million in general obligation bonds. Assuming a 25-year term for the bonds, and a 4.8 percent interest rate, the Senate Fiscal Agency (SFA) reports that the bill would cost the general fund/general purpose budget about \$35 million annually, or a total of \$870 million for the 25-year period. This amount would include \$500 in principal and \$370 million in interest during the 25-year period. In addition, according to the SFA, costs totaling about \$5 million would be incurred for the year that the bonds were sold for underwriting fees and other costs associated with selling long-term bonds. (4-16-98)

Fiscal information regarding House Bill 5620 is not available.

ARGUMENTS:

For:

The 1988 Quality of Life Bond Proposal initiated a commitment to confront environmental challenges. The current ballot initiative is needed to make funds available to continue the commitment. In his 1998 state of the state address, the governor praised the state's accomplishments as steward of the Great Lakes. He noted the progress made in monitoring the quality of the state's drinking water -- Michigan was first in the nation to meet federal drinking water standards. Pointing to the progress the state has made in monitoring air quality, he observed that Grand

Rapids and the metro Detroit area were the first major metropolitan areas in the nation to be designated as having attained federal clean air standards. Among other improvements, he noted that Michigan was the first state to craft a comprehensive environmental code, which took effect in 1995; and that Ballot Proposal P in 1994 set up a State Park Endowment Fund to provide a stable source of funding for these resources.

Notwithstanding these achievements, the state faces environmental problems that need to be addressed immediately. In 1988, when the Quality of Life Bond Proposal was first contemplated to address the state's environmental problems, it was estimated that there were some 1,800 sites of environmental contamination where response activities would have to be conducted. Public Act 71 of 1995 reduced cleanup standards. However, by then, the number had increased to 2,812. According to the Department of Environmental Quality (DEQ), there are now some 9,700 contaminated sites, and more are being discovered each year. Also, according to the DEQ, of the 562 sites at which cleanup activities of some type are being carried out, only 19 percent have been fully cleaned up.

For:

According to the state constitution, the state may borrow money for specific purposes in amounts provided by acts of the legislature and adopted by a vote of two-thirds of the members serving in each house, and approved by a majority vote of the public at a general election. Within the past 50 years, several general obligation bond proposals have been approved. In 1968, for example, the Public Recreation Bond Proposal Act was approved for \$100 million, and the Clean Water Bond Proposal Act was approved for \$335 million. In 1974, the Vietnam Veterans Bonus Bond Proposal Act was approved for \$205 million. More recently, in 1988, the Quality of Life Bond Proposal authorized the sale of \$800 million in bonds to improve the environment, as well as state parks.

Recalling the 1988 Quality of Life Bond Proposal, the governor observed, in his 1998 state of the state address, that Michigan citizens have always supported environmental ballot initiatives, and that the selling of bonds is a way to invest in the environment for future generations. Nonetheless, some have suggested that there are only two legitimate reasons to burden future taxpayers with bonded indebtedness: to use a significant sum of money now to save a larger sum in

the future, and to fund an expensive project whose life and usefulness would outlive the repayment of the bond. Others note that issues such as environmental problems are of such magnitude and cost that they can be properly addressed only by long-term planning and payment. The sale of general obligation bonds would allow the state to make the necessary long-term plans for the environment and the state's recreational industry.

Response:

Some fear that the state is mortgaging its children's future by borrowing huge sums of money in good financial times. According to this viewpoint, if the economy slows over the next 30 years, the state will be saddled with close to a billion dollars in debt that it might find difficult to repay.

For:

By reducing cleanup standards at industrial and commercial contaminated sites, Public Act 71 of 1995 led the way for a new emphasis to be placed on the private redevelopment of contaminated urban areas, or so-called "brownfield" sites. However, the act also eliminated retroactive liability for cleanup at these sites by private companies. The combination of this provision, together with the insolvency of the Michigan Underground Storage Tank Financial Assurance (MUSTFA) Fund, left the state with the problem of financing the cleanup of new "orphan sites," or "orphan shares" -- i.e. contaminated industrial or commercial sites or sections of sites for which no culpable party can be found, or for which the culpable party no longer exists. Appropriations from the Quality of Life Bond program provided a source of funding for this work. In addition, Public Acts 380 through 384 of 1996 provided funds and encouraged the redevelopment of these sites by allowing brownfield areas to be treated in a manner similar to the treatment of tax increment financing and other economic development districts.

It is especially important that contaminated sites be cleaned up in urban areas. Developers tend to avoid them, and, instead, concentrate on pristine "greenfields" in suburban areas. As a result, local communities suffer a loss of jobs, must contend with a smaller tax base, a waste of the public infrastructrures that were built to support the exiting businesses, and the security, health, and aesthetic problems inherent in vacant properties. The flight of developers also results in a loss of habitat for the state's flora and fauna, costly construction of public infrastructure to support the new industries, and

overdevelopment of the state's constantly shrinking open spaces.

Response:

Michigan businesses and industry already have been relieved of substantial cleanup responsibilities by the weakening of the polluter pay law under the provisions of Public Act 71 of 1995. In addition, under the provisions of Public Act 380 of 1996, businesses were not required to make any kind of significant contribution to the cleanup program. If the bond proposal is passed, Michigan taxpayers will have spent three-quarters of a billion dollars to restore contaminated sites, and will have added approximately \$52 to the state's per capita tax supported debt. Meanwhile only a fraction of the sites have been cleaned up. At the current rate of spending, taxpayers may end up pouring millions more dollars into cleanup efforts without rescuing even a fraction of the state's brownfields. Further, it is pointed out that no inventory has been made of the state's brownfields, so it is impossible to assess how much will be needed to clean them up.

For:

Agricultural runoff from nitrogen fertilizers and pesticides has polluted many of the state's rivers and streams. In some areas, such as those located adjacent to hog farms, runoff that includes animal wastes depletes the water's oxygen and kills off fish and Under the bond proposal, aquatic plants. environmental improvement projects would be designed to protect and enhance these areas. The bond proposal would also enable local governments to reclaim and revitalize local waterfronts that were currently abandoned or underdeveloped and clean up contaminated waterfront property. Waterfront property has not always been used effectively in terms of its economic value and the public enjoyment. Further, as the demands for waterfront property exceed the supply, pressure is put on environmentally sensitive areas that are not suitable for some types of development. The proposal also would help establish nonpoint source pollution prevention and control grants programs for local governments or tax-exempt organizations and implement the physical improvement portion of watershed plans to protect and improve water quality. Nonpoint source pollution includes, among other things, soil and sediment, nutrients, paint and used motor oil, and fecal coliform, which contribute to the depreciation of Michigan's water quality. In addition, the bond proposal would provide funding for state and local park revitalization projects. The funds would target state parks that possess a

significant natural feature, are larger than 500 acres, and/or offer multiple recreational activities; infrastructure revitalization; critical construction needs; and standardization of building designs. Revitalizing our state and local parks and recreational facilities not only would preserve and enhance environmental quality, but also would increase the state's tourism industry, since over 20 million persons reportedly visit state and local parks yearly.

Response:

Recent polls suggest that 75 percent of the state's voters would support using the bond proposal for a farmland preservation trust, and to keep sewers from overflowing into rivers and streams, and some have suggested that the bond proposal should be increased to include money for these purposes. (Environmental groups have suggested \$100 million for each of these projects.) Otherwise, it is argued, the bond proposal would be an economic development bond, rather than an environmental bond, and would be inadequate because it would fail to address certain key environmental issues. Under a farmland preservation trust, land would be purchased from farmers who otherwise would sell their land for development. As a result, farmland and open spaces would be preserved and urban sprawl would be contained. communities have had bonds issued to construct, improve, and replace combined sewer overflow (CSO) abatement facilities, which separate sanitary sewers and storm sewers in order to reduce the contamination of lakes and rivers that results when combined sewers overflow in heavy rainstorms. However, the Revolving Loan Fund established for these projects has been inadequate in assisting local communities.

Against:

House Bills 5620 and 5622 are part of a package of bills that would place a "Clean Michigan Initiative" bond proposal on the ballot for the November, 1998, general election. The voters would be asked to approve \$550 million in general obligation bonds to finance environmental and natural resources protection programs. In Senate Bill 904, to which these bills are tie-barred, provisions have been included to assure that the Department of Environmental Quality (DEQ) provide the governor and the legislature with a list of projects that were to be funded by grants or loans with money from the Clean Michigan Initiative Bond Fund. In fact, Senate Bill 904 would require that the list be submitted no later than February 15th each year, and before any request for supplemental appropriation of bond funds. In addition, the DEQ would have to submit a list of projects financed under the bill by December 31st each year. However, some have

suggested that the state should first establish a list of potential projects, similar to that proposed under Senate Bill 904, and provide it as public information before the bond proposal is voted on, and that the department specify what percentage of the state's brownfields would be restored by the bond money. With this information, the public would be able to decide whether the prospective environmental gains justified the additional debt burden.

Against:

While supportive of brownfield redevelopment, many environmentalists oppose the bond proposal, and maintain that it provides no assurance that funds would be used to clean up contaminated sites solely because they pose health and ecological risks, rather than because of their redevelopment potential. They suggest that some of the proceeds from the bond proposal be used at sites that require cleanup due to health and environmental risks, and that funds be provided to local health departments, cities, and qualified nonprofit organizations to clean up lead paint and to prevent lead poisoning in the children who live in these neighborhoods.

Environmentalists add that, while the bond proposal undertakes to restore brownfield sites for economic development, no funds are provided to prevent new sites of environmental contamination, and no funds would be provided to assist small business enterprises in upgrading the pollution-causing procedures they currently use. They contend that, since voters will be taxed to clean up contaminated sites they did not create, they should receive assurance that they will not be asked for more money later, and that, therefore, the amount designated for DEQ administrative costs (five percent of \$325 million) be used, instead, to establish a new pollution prevention program that would offer grants to small businesses, and thereby prevent new contaminated sites.

The environmental community also points out that only a fraction of the amount required to provide loans to communities to correct combined sewer overflows (CSOs) is currently provided to correct this problem. It suggests that the Clean Michigan Initiative Bond Proposal be increased to include funds for wastewater treatment to end the dumping of raw sewage into Michigan lakes and streams. Further. environmentalists recognize that, while redevelopment of brownfields is important to halt urban sprawl, it provides only part of the solution. Providing local communities with grants to purchase the development rights to farmland and open spaces

would, on the other hand, result in the saving of irreplaceable land resources, and the redirection of development investment to cities. They suggest that the proposal be increased to provide grants to local communities to purchase development rights and to protect critical farmland and open spaces. Further, environmentalists point out that the Clean Michigan Initiative Bond Proposal should stress that grants awarded for waterfront improvements must require that public access be provided to the waterfronts.

Environmentalists also suggest that the bond proposal should allow for more public participation. They propose that a "planning process" be included during the implementation of the Clean Michigan Initiative Bond Proposal so that the public can participate in identifying and establishing priorities for cleanup projects. They also suggest that a portion of the amount proposed to clean up contaminated sites be spent on environmental assessments in urban areas, so that potential buyers will know what contamination remains on a property before purchasing it. In addition, they suggest that priority in environmental cleanup efforts be assigned first to those contaminated areas that pose a threat to public health (for example, sites with a high level of lead contamination).

SUGGESTED AMENDMENTS:

The Michigan Environmental Council (MEC) suggests that the bond proposal be amended to specify that \$100 million of the \$325 million proposed for the cleanup of contaminated sites be used, instead, at sites that require cleanup due to health and environmental risks, and that \$25 million of the \$325 million be provided to local health departments, cities, and qualified nonprofit organizations to clean up lead paint and to prevent lead poisoning in the children who live in these neighborhoods. The MEC also proposes that Senate Bill 904 be amended to specify that the amount designated for DEQ administrative costs (five percent of \$325 million) be provided, instead, to establish a new pollution prevention program that would offer grants to small businesses. Another amendment proposed by the MEC would be to increase the Clean Michigan Initiative Bond Proposal by \$200 million, with \$100 million of this increase to be used for wastewater treatment projects, and the other \$100 million to be used to provide grants to local communities to purchase development rights and to protect critical farmland and open spaces. The MEC also suggests that the bond proposal be amended to specify that grants awarded for waterfront improvements require that public access be provided to the waterfronts.

The Michigan United Conservation Clubs (MUCC) suggests amendments that would increase the bond proposal by \$250-\$300 million, of which \$100 million would be used for sewage treatment and combined sewer overflow (CSO) projects, and \$150-200 million for farmland preservation. The MUCC also proposes that the bond proposal be amended to specify that a portion of the \$325 million proposed for the cleanup of contaminated sites be spent on environmental assessments in urban areas.

POSITIONS:

The Department of Environmental Quality (DEQ) supports the bills. (However, the department does not support Senate Bill 904's provision to fund local public recreation projects.) (4-2-98)

The Executive Office supports the bills. (However, the office does not support Senate Bill 904's provision to fund local public recreation projects.) (4-2-98)

The Michigan Chamber of Commerce submitted written testimony in support of the bills. (3-24-98)

The Michigan Townships Association supports the bills. (4-1-98)

The Michigan Municipal League supports the bills. (4-2-98)

The Michigan Recreation and Park Association supports the bills. (4-2-98)

The Michigan Chemical Council supports the bills. (4-2-98)

The Michigan Association of Home Builders supports the bills. (4-2-98)

The National Bank of Detroit (NBD) supports the bills. (4-2-98)

The City of Detroit supports the bills. (4-2-98)

The City of Grand Rapids supports the bills. (4-2-98)

The City of Lansing supports the bills. (4-2-98)

The Small Business Association of Michigan (SBAM) supports the bills. (4-2-98)

The Michigan Manufacturers Association supports the bills. (4-3-98)

The Southeast Michigan Council of Governments (SEMCOG) supports the bills. (4-7-98)

The Michigan United Conservation Clubs (MUCC) is generally supportive of the bills, but suggests amendments (see Suggested Amendments). (4-2-98)

The National Federation of Independent Business (NFIB) has no position on the bills. (4-2-98)

The Michigan Environmental Council (MEC) opposes House Bill 5622 and has no position on House Bill 5620. In addition, the MEC has proposed amendments (see Suggested Amendments). (4-1-98)

Analyst: R. Young

[■]This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.