Senate Fiscal Agency
P. O. Box 30036
Lansing, Michigan 48909-7536

SFA BILL ANALYSIS

Telephone: (517) 373-5383
Fax: (517) 373-1986
TDD: (517) 373-0543

House Bill 5622 (Substitute H-3 as passed by the House)
Sponsor: Representative Tom Alley
House Committee: Conservation, Environment and Recreation

CONTENT

The bill would create "Michigan's Economic, Environment, and Recreational Initiative Act" to require the State to borrow up to $786,000,000 and issue general obligation bonds, to finance environmental and natural resources protection programs that would do the following: remediate and redevelop contaminated sites, protect and improve water quality, upgrade wastewater systems, improve drinking water infrastructure, prevent pollution, abate lead contamination, provide for pollution prevention, reclaim and revitalize community waterfronts, enhance recreational opportunities, and clean up contaminated sediments in lakes, rivers, and streams.

The question of borrowing the money and issuing the bonds would have to be submitted to the voters at the next general election.

The bill is tie-barred to House Bill 5620, which would require the Department of Environmental Quality (DEQ) to establish a waterfront redevelopment grant program; House Bill 5719, which would require the DEQ to establish local recreation grants; House Bills 5894 and 5895, which would create a "Farmland Trust Fund" and provide for the purchase of development rights; Senate Bill 902, which (as passed by the House) would require the DEQ to establish a program for nonpoint source pollution prevention and control grants and wellhead protection grants; and Senate Bill 904, which would provide for the implementation of the proposed Act.

Legislative Analyst: N. Nagata

FISCAL IMPACT

The cost to sell and repay general obligation bonds depends on how long the bonds are issued for and the annual rate of interest that must be paid on the bonds. These bills would give the State Administrative Board and the Department of Treasury flexibility in deciding the term of the bonds, but a reasonable assumption at this time is that the bonds would be issued for 25 years. In addition, given the current level of interest rates and Michigan's credit rating of AA+, it is assumed that these tax-exempt bonds would be sold at an annual interest rate of 4.8%. Based on these assumptions, the debt service on issuing $786 million in general obligation bonds would cost the General Fund/General Purpose budget about $55 million annually or a total of $1.37 billion during the 25-year period ($786 million in principal and $580 million in interest). Additional costs totaling about $7 million also would be incurred the year the bonds were sold, to pay for underwriting fees, bond counsel, credit rating fees, bond insurance, and other costs incurred when selling long-term bonds.

Date Completed: 6-29-98

Fiscal Analyst: J. Wortley