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SFA**BILL ANALYSIS**

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House Bill 4625 (Substitute S-1 as reported)
Sponsor: Representative Bruce Patterson
House Committee: Commerce
Senate Committee: Natural Resources and Environmental Affairs

CONTENT

The bill would create the "Great Lakes Water Quality Bond Authorization Act" to require the State, with voter approval, to borrow up to \$1 billion and issue general obligation bonds to finance sewage treatment works projects that would improve the quality of the waters of the State.

The proceeds of the sale of the bonds, premium and accrued interest received on the delivery of the bonds, and any interest earned on the bonds' proceeds would have to be deposited in the State Treasury and credited to the "Great Lakes Water Quality Bond Fund" (pursuant to House Bill 5892).

The question of borrowing the money and issuing the bonds would have to be submitted to the voters at the next general election. The proposed bonds could not be issued unless a majority of the qualified electors voting approved the question.

The bill is tie-barred to House Bills 5892 and 5893. (House Bill 5892 (S-1) would require the Michigan Municipal Bond Authority, in consultation with the Department of Environmental Quality (DEQ) to create the Strategic Water Quality Initiatives Program and Fund; establish criteria for the issuance of the bonds; and create the "Great Lakes Water Quality Bond Fund". House Bill 5893 (S-1) would require the DEQ to develop separate priority lists for projects funded under House Bill 5892, regarding assistance from the State Water Pollution Control Revolving Fund.)

Legislative Analyst: Nobuko Nagata

FISCAL IMPACT

The debt service on the bonds that would be authorized by the voters, assuming 20-year bonds issued over a 10-year period at a constant interest rate of 5%, would be approximately \$8 million in the first year. The debt service would increase by \$8 million per year until the 10th year, when the entire amount of the bond issue had been distributed, and the debt service amount would be \$80.2 million. The debt service amount would remain \$80.2 million for 11 years, after which it would decrease gradually until the bonds were paid off. The bonds would all be paid off in 30 years. The interest costs would be \$605 million, bringing the total cost of the bonds to \$1.605 billion GF/GP.

The bills would result in an increase in the amounts deposited to the State Water Pollution Control Revolving Fund, known as the State Revolving Fund or SRF, by approximately \$90 million per year for 10 years. This increase to the SRF would translate initially into an increase in the amounts available for loans to local units of government for wastewater projects of approximately \$180 million per year, given current investment and interest conditions.

The bills also would create a new Strategic Water Quality Initiatives Fund. Approximately \$10 million per year for 10 years would be deposited to this Fund from the proceeds of the sale of general obligation bonds that would be authorized by the voters. The money in the Fund would be used to provide low-interest loans to local units of government for certain sewage system improvement projects; or, if authorized by the State Administrative Board, as security for bonds issued by the Municipal Bond Authority for the purpose of providing loans for sewage system improvements. If the money in the Fund were used to provide loans, loan repayment amounts would be returned to the Fund. The Fund, therefore, would grow, at a minimum, at a rate equivalent to the interest rate charged for the local loans. If the money in the Fund were used as security for Bond Authority-issued bonds, then there is the potential that a greater pool of funding could be leveraged for providing loans.

The bills would result in an indeterminate increase in the administrative costs of the Departments of Environmental Quality and Treasury and the Michigan Municipal Bond Authority. The bills would allow the Department of Treasury to recover the cost of issuing bonds from the proceeds of the bonds, and the Department of Environmental Quality and the Authority to recover administrative costs from the Strategic Water Quality Initiatives Fund.

Date Completed: 5-15-02

Fiscal Analyst: Pam Graham