

Legislative Analysis



WATER QUALITY GRANT PROGRAM

Mitchell Bean, Director
Phone: (517) 373-8080
<http://www.house.mi.gov/hfa>

Senate Bill 789 (Substitute H-1)
Sponsor: Sen. Patricia L. Birkholz

Senate Bill 790 (Substitute H-1)
Sponsor: Sen. Gerald Van Woerkom

Senate Bill 799 (Substitute H-1)
Sponsor: Sen. Liz Brater

House Committee: Local Government and Urban Policy
Senate Committee: Natural Resources and Environmental Affairs

First Analysis (10-31-05)

BRIEF SUMMARY: The bills are part of a package that would allow local governments to apply for a grant to be used in developing the project plan needed to apply for a loan from Proposal 2 water treatment funds.

FISCAL IMPACT: The bills would have an indeterminate fiscal impact on the state. See below for a more detailed analysis.

THE APPARENT PROBLEM:

By passing Proposal 2 in 2002, voters recognized that a new revenue stream was needed if efforts to control water pollution by repairing or replacing aging or inadequate sewage collection and treatment systems were to succeed. The proposal authorized the state to issue up to \$1 billion in bonds with the proceeds going into two funds to make low-interest, subsidized loans to local governments to repair or replace these systems. To date, only \$100 million in bonds has been issued, and only \$3 million of that money has been utilized to accomplish the goals of Proposal 2.

Some feel that one obstacle to applying for a loan from the State Water Pollution Control Revolving Fund (SRF) or Strategic Water Quality Initiatives Fund (SWQIF) is the cost of assembling the application. The application requires submission of a project plan. The initial design and engineering study costs that are associated with completing an acceptable project plan can range from \$20,000 to \$50,000. Therefore, before a community can even apply for a loan, it must secure the revenue to complete a project plan. Once it secures the state loan, it cannot use money from the loan to reimburse itself for the costs spent in developing the project plan.

To address this problem, legislation has been introduced in both the House and Senate to create a program to provide grants to local governments to finance the project plans needed to apply for a loan from the State Water Pollution Control Revolving Fund (SRF)

or the Strategic Water Quality Initiatives Fund (SWQIF). The first bills in the package, House Bills 4572 and 4573, have already passed both chambers and are waiting enrollment and House Bill 5297 has passed the House.

THE CONTENT OF THE BILLS:

The bills are part of a package of legislation to create the Wastewater Application Grant Fund and allow local governments to apply for a grant to be used in developing the project plan needed to apply for a loan from Proposal 2 funds. That 2002 ballot proposal authorized the state to issue up to \$1 billion in bonds with the proceeds going into two funds to make low interest, subsidized loans to local governments to repair or replace aging or inadequate sewage collection and treatment systems.

Senate Bill 789 would amend Part 52 (Strategic Water Quality Initiatives) of the Natural Resources and Environmental Protection Act (MCL 324.5204), also known as NREPA, to allow the Michigan Municipal Bond Authority, in consultation with the Department of Environmental Quality (DEQ), to spend money from the Strategic Water Quality Initiatives Fund (SWQIF), upon appropriation, for grants under House Bill 4572.

Senate Bill 790 would amend Part 52 of the NREPA (MCL 324.5201) to define "grant" as a grant from the program that House Bill 4572 would establish.

Senate Bill 799 would amend Part 53 (Clean Water Assistance) of the NREPA (MCL 324.5301) to include in the definition of "construction activities" actions undertaken in the planning of sewage treatment works, storm water treatment, or nonpoint source projects, and project planning services.

The bills are tie-barred to each other and to House Bills 4572, 4573, and 5297. House Bill 4572 would amend Part 52 (Strategic Water Quality Initiatives) of NREPA to require the Michigan Municipal Bond Authority, in consultation with the Department of Environmental Quality (DEQ), to establish a program to provide grants from the Strategic Water Quality Initiatives Fund (SWQIF) to governmental units to cover the cost of developing a project plan in applying for a loan from the State Water Pollution Control Revolving Fund. House Bill 4573 would amend Part 197 (Great Lakes Water Quality Bond Implementation) to revise the allocation of money received from the sale of Great Lakes water quality bonds. House Bill 5297, which is identical to Senate Bill 800, would add a new section to the Shared Credit Rating Act (MCL 141.1016d) to allow a governmental unit and the Michigan Municipal Bond Authority to enter into grant agreements under a Strategic Water Quality Initiatives Grant Program (pursuant to House Bill 4572).

HOUSE COMMITTEE ACTION:

In the enacting section of each bill, the House substitute lists the tie-barred bills by their bill numbers rather than by request numbers.

FISCAL INFORMATION:

There would be an indeterminate fiscal impact on the State of Michigan, and local governmental units would potentially benefit from the grants authorized by this package. This package of bills would direct revenue from Proposal 2 for grants to local governments to cover the up-front costs associated with the loan application process.

These tie-barred bills would provide funding from the Strategic Water Quality Initiatives Fund to support grants to communities for engineering and professional consulting costs as they prepare applications for sewage treatment projects. The cost of an engineering study supported by these bills is estimated to be between \$20,000 and \$50,000. Aside from reducing the amount available for other fund loans, there would not be an additional fiscal impact on the state. It should be further noted that these grants would not be repaid to the DEQ. The actual fiscal impact on the Strategic Water Quality Initiatives Fund would depend on the number of grants made in a given fiscal year.

ARGUMENTS:

For:

Though Proposal 2 in 2002 created a new revenue stream to aid local governments in repairing or replacing aging or inadequate sewage collection and treatment systems, only a fraction of the available funds have been utilized to accomplish these goals. Some believe that the state's slow economic recovery, and its effects on local governments, have made it difficult for local officials to fund the cost of developing the needed project plan, which can range from \$20,000 to \$50,000, when the communities are struggling to find the funds needed to support public services such as fire and police.

Senate Bills 789, 790, and 799 would work in tandem with the other bills in the package to create the mechanism needed that would allow local governments to seek a grant to help cover the cost of applying for Proposal 2 funds. In a nutshell, under the bill package, up to \$40 million of the \$100 million of Proposal 2 revenue earmarked for the Strategic Water Quality Initiatives Fund (SWQIF) could be given to communities in the form of grants to be used to develop project and design plans for various wastewater and storm water projects. These project and design plans are needed to complete the application process for loans from the SWQIF and the State Water Pollution Control Revolving Fund (SRF). The grant program would not apply to applications submitted before September 30, 2006, would only be available for a period of two years, and be limited to no more than \$1 million per municipality.

In addition, Senate Bill 799 would now allow municipalities to reimburse themselves from an SRF loan for costs incurred when developing a project plan. This provision will aid those municipalities submitting loan applications prior to the start of the grant program and after it ends, as well as for those projects not meeting the grant program's criteria.

POSITIONS:

The Department of Environmental Quality supports the bills. (10-26-05)

A representative of the Michigan Infrastructure and Transportation Association indicated support for the bills. (10-26-05)

Legislative Analyst: Susan Stutzky
Fiscal Analyst: Kirk Lindquist

■ 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.