

# Legislative Analysis

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## **SHARED CREDIT RATING ACT: WASTEWATER APPLICATION GRANT FUND**

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**House Bill 5297 as introduced**  
**Sponsor: Rep. Aldo Vagnozzi**  
**Committee: Local Government and Urban Policy**

### **First Analysis (10-24-05)**

**BRIEF SUMMARY:** The bill is 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 bill would have an indeterminate fiscal impact on the state and could benefit local governments. The fiscal impact is discussed in more detail below.

### **THE APPARENT PROBLEM:**

By passing Proposal 2 in 2002, voters recognized that a new revenue stream was needed to ensure that efforts to control water pollution by repairing or replacing aging or inadequate sewage collection and treatment systems would 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 be used in developing the project plan 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.

### ***THE CONTENT OF THE BILL:***

House Bill 5297 would add a new section to the Shared Credit Rating Act to allow government units to enter into grant agreements under Section 5204a of the Natural Resources and Environmental Protection Act (which would be added by House Bill 4572), and to pledge their limited taxing power as security for repayment of their obligations. The bill specifies that the grant agreements would not be subject to the Revised Municipal Finance Act. Further, repayment obligations of the governmental unit under a grant agreement would not be a general obligation or debt of the governmental unit within the meaning of any constitutional or statutory debt limitation, and would not be subject to any notice or referendum. Finally, grant agreements could be entered into by the Michigan Municipal Bond Authority and would not be required to be in fully marketable form.

The bill is tie-barred to five bills that constitute a package of legislation to create the Wastewater Application Grant Fund. House Bill 5297 could not become law unless those bills also were enacted. House Bills 4572 and 4573 have passed both the House and the Senate and would amend Part 52 (Strategic Water Quality Initiatives) and Part 197 (Great Lakes Water Quality Bond Implementation), respectively, of the Natural Resources and Environmental Protection Act (NREPA). House Bill 4572 would establish a program to provide grants 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, and House Bill 4573 would revise the allocation of money received from the sale of Great Lakes water quality bonds. Senate Bill 789 would also amend Part 52 of NREPA to allow the Michigan Municipal Bond Authority, in consultation with the Department of Environmental Quality, to spend money from the Strategic Water Quality Initiatives Fund, upon appropriation, for grants under House Bill 4572. Senate Bill 790 would amend Part 52 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 NREPA to include in the definition of "construction activities" actions undertaken in the planning of sewage treatment works, storm water treatment, or non-point source projects, and project planning services.

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### ***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. These tie-barred bills would earmark 10 percent of Great Lakes Water Quality Bond proceeds to a new fund called the Wastewater Application Grant Fund to support grants to communities to cover engineering and professional consulting costs charged to prepare applications for sewage treatment projects. Aside from reducing the amount available for loans, there would not be an additional fiscal impact on the state. 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. The cost of

these engineering studies is estimated to be between \$20,000 and \$50,000. 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.

***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.

House Bill 5297 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.

***POSITIONS:***

The Department of Environmental Quality supports the bill. (10-19-05)

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■ 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.