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BILL ANALYSIS

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Senate Bill 353 (Substitute S-2 as passed by the Senate)
Sponsor: Senator Jud Gilbert, II
Committee: Economic Development, Small Business and Regulatory Reform

Date Completed: 8-24-05

RATIONALE

The Michigan Strategic Fund (MSF) administers the community development block grant program using grants from the U.S. Department of Housing and Urban Development (HUD). The program provides funds to eligible counties, cities, villages, and townships for economic development, community development, and housing projects. The grants are usually given to communities with populations of less than 50,000; larger communities receive block grant funds directly from the Federal government.

Currently, more than 50% of the community development block grants approved by the MSF are awarded for projects located in rural areas. Some people believe that projects in rural areas should be statutorily guaranteed at least 55% of the money awarded through the community development block grant program so that they would continue to receive a majority of the grants.

CONTENT

The bill would create a new act to provide that, in operating and administering the community development block grant program, to the extent allowed by law, the Michigan Strategic Fund would have to require that at least 55% of the community block grant program funds be awarded for projects located in rural areas (counties with a population of 90,000 or less). Projects that created or retained jobs would have to be given priority.

If there were insufficient applicants for projects in rural areas, the MSF could award community development block grant program funds for projects not in rural areas only for the following: economic development infrastructure; economic development planning; downtown and gateway development; economic development grants and loans; and broadband telecommunications development.

For projects located in rural areas, the MSF could not require matching funds greater than 5% of the cost of a project. Projects that provided matching funds greater than 5% of the cost of the project could be given priority.

The bill would define "community development block grant program" as the Federal community block grant program described in Title I of the Housing and Community Development Act of 1974, that is operated by the Michigan Strategic Fund.

BACKGROUND

The Michigan Strategic Fund originally was created under Public Act 270 of 1984 as an autonomous entity to assist in promoting economic development in the State. Executive Order 1999-1 transferred the MSF from the former Michigan Jobs Commission to the Department of Management and Budget and transferred all of the economic development programs into the MSF. Executive Order 2003-18 transferred the agency from the Department of Management and Budget to the Department of Labor and Economic Growth. Under the Urban Cooperation Act, the MSF entered into interlocal agreements with various local entities to create a separate autonomous entity known as the Michigan Economic Development Corporation (MEDC).

Each year, the State receives approximately $40 million in community development block grant funds from HUD. The Michigan State Housing Development Authority uses 25% of the funds for housing-related activities that assist low- and moderate-income individuals. The MEDC uses the remaining 75% of the funds to assist low- and moderate-income individuals through grants that address the following:

-- Economic development infrastructure to facilitate business locations/expansions.
-- Downtowns and gateways infrastructure.
-- Economic development planning grants.
-- Public works infrastructure grants for low- and moderate-income communities.
-- Unique innovative project needs.

ARGUMENTS

(Please note: The arguments contained in this analysis originate from sources outside the Senate Fiscal Agency. The Senate Fiscal Agency neither supports nor opposes legislation.)

Supporting Argument

Michigan's rural areas tend to have higher unemployment rates than the State average. Reportedly, one of the reasons for high rural unemployment is that businesses do not want to locate in rural areas where the infrastructure is often inadequate for their needs. One way smaller communities can afford to make the improvements necessary to attract businesses is through the community block grant program. The program generally targets smaller communities with its grants and more than half of the grants are awarded to projects in counties with populations under 90,000. The bill would guarantee that projects that were located in rural counties would continue to get at least 55% of the grants, provided there were a sufficient number of applicants. Giving priority to projects that created or retained jobs could help reduce unemployment in rural areas.

Response: The MSF is currently meeting the 55% threshold so there is no reason to mandate in statute that rural communities continue to receive that amount.

Legislative Analyst: J.P. Finet

FISCAL IMPACT

The bill could reallocate funds received by the State from the Federal Community Development Block Grant program. The State will receive approximately $40 million in FY 2004-05 from the program. The Michigan Strategic Fund board approves the grants, including the transfer of $10 million to the Michigan State Housing Development Authority (MSHDA) and $4 million to the Broadband Development Authority for the Digital Divide Investment Program. Currently, the Strategic Fund is meeting the proposed 55% threshold, which includes projects funded from the $10 million allocated to MSHDA.

The board typically requires matching funds of up to 10% of the grant amount. The bill would set 5% as the maximum matching requirement for projects in rural areas, in most cases reducing the amount of local match a municipality must demonstrate to qualify for a grant. However, priority could be given to those projects that would provide a larger match amount.

Fiscal Analyst: Elizabeth Pratt

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