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BILL ANALYSIS



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House Bill 4572 (Substitute S-4)
House Bill 4573 (Substitute S-2)
Senate Bills 789 and 790 (as introduced 10-5-05)
Sponsor: Representative John Stakoe (H.B. 4572)
Representative Neal Nitz (H.B. 4573)
Senator Patricia L. Birkholz (S.B. 789)
Senator Gerald Van Woerkom (S.B. 790)
House Committee: Local Government and Urban Policy (H.B. 4572 & 4573)
Senate Committee: Natural Resources and Environmental Affairs

Date Completed: 10-5-05

CONTENT

House Bill 4573 (S-2) would amend Part 197 (Great Lakes Water Quality Bond Implementation) of the Natural Resources and Environmental Protection Act (NREPA) to revise the allocation of money received from the sale of Great Lakes water quality bonds.

House Bill 4572 (S-4) 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 (SRF).

Senate Bill 789 would amend Part 52 of NREPA to allow the Michigan Municipal Bond Authority, in consultation with the DEQ, to spend money from the SWQIF, upon appropriation, for grants under House Bill 4572 (S-4).

Senate Bill 790 would amend Part 52 of NREPA to define "grant" as a grant from the program that House Bill 4572 (S-4) would establish.

(In the 2002 general election, Michigan voters approved the Great Lakes water quality bond proposal, authorizing the State to borrow up to \$1 billion and issue general obligation bonds to finance sewage treatment projects, storm water projects, and nonpoint source projects that improve the State's water quality. Public Act 397 of 2002 added Parts 52 and 197 to the Natural Resources and Environmental Protection Act to implement the bond proposal, effective November 5, 2002.)

The bills are tie-barred to each other and to two other bills that have not yet been introduced. They are described below in further detail.

House Bill 4573 (S-2)

Public Act 397 of 2002 created the Great Lakes Water Quality Bond Fund within the State Treasury, and requires that the Fund consist of the proceeds of sales of the bonds and any premium and accrued interest received on the delivery of the bonds, any interest or earnings generated by the sale proceeds, and any Federal or other funds received.

Currently, the State Treasurer must distribute 90% of the money to the SRF, and the remaining 10% to the SWQIF. Under the bill, in aggregate, not more than 90% would have to be deposited into the SRF and, in aggregate, not more than 10% would have to be deposited into the SWQIF.

The bill also would require bonds that were directly deposited into the SRF or the SWQIF as authorized by Section 19703 to be taken into account for the purpose of determining the allocation and transfer of money set forth under the bill. (Under that section, the bonds may be deposited directly into either Fund as determined by or pursuant to a resolution of the State Administrative Board.)

(The SRF provides low-interest loans to assist municipalities in funding wastewater treatment improvements. The projects may include wastewater treatment plant upgrades or expansions, combined sewer overflow abatement, new sewers designed to reduce existing sources of pollution, nonpoint source pollution management measures, and other related wastewater treatment efforts. Qualified municipalities must meet Federal and State program requirements, and demonstrate environmentally sound water pollution control project plans.

Under the State Water Quality Initiatives Loan Program, the Michigan Municipal Bond Authority, in consultation with the DEQ, provides low-interest loans to municipalities to provide assistance for one or both of the following sewage system improvements: improvements to reduce or eliminate the amount of groundwater or storm water entering a sanitary sewer lead or a combined sewer lead; and upgrades or replacements of failing on-site septic systems that are adversely affecting public health and/or the environment.)

House Bill 4572 (S-4)

Under Part 52, the Michigan Municipal Bond Authority, in consultation with the DEQ, must spend money from the SWQIF, upon appropriation, for loans to municipalities and for the Authority's and DEQ's costs in administering the Fund.

The bill would require the Authority, in conjunction with the DEQ, to establish a Strategic Water Quality Initiatives Grant Program that provided grants totaling not more than \$40.0 million to eligible municipalities to complete the loan application requirements of Section 5308.

(Section 5308 requires a municipality to submit certain documents in order to apply for assistance from the SQWIF, including financial documentation that a dedicated source of revenue is established; an approved project plan; a certification that the municipality is capable of operating and maintaining the project; a letter of credit; a set of plans and specifications suitable for bidding; an application fee, if required; and various certifications and agreements regarding compliance with applicable State and Federal laws, contracting procedures, accounting, and record-keeping.)

The grant program would have to provide grants to cover a maximum of 90% of the costs a municipality incurred to complete an application for loan assistance from the SRF or the SWQIF. The 10% local match would not be eligible for loan assistance from either Fund. Grant funds could not be used for general local government administrative activities or activities performed by municipal employees.

A municipality could not receive more than \$1.0 million in total grant assistance under the bill.

The grants would be available for projects seeking or intending to seek loan assistance after September 30, 2006. The DEQ would have to stop accepting grant applications two years after the date the first grant was approved.

Within six months after the bill's effective date, the DEQ would have to establish an application and review process for considering grant applications. The application would have to contain the information required by the DEQ and the Authority. Within 60 days after receiving an administratively complete application, the Department would have to notify the applicant in writing whether the application was approved or rejected. If the DEQ approved a grant, the Department, along with the Authority, would have to enter into a grant agreement with the recipient before transferring funds. The grant agreement would have to contain terms established by the DEQ and the Authority and a requirement that the recipient repay the grant within 90 days of being informed to do so, with interest at a maximum rate of 8% per year, to the Authority if any of the following occurred:

- The applicant failed to submit an administratively complete loan application for assistance from the SRF or the SWQIF for the project within three years of the grant award.
- The project had been identified as being in the fundable range and the applicant declined loan assistance from the SRF and the SWQIF in that fiscal year.
- The applicant was unable to or decided not to proceed with constructing the project or opted to finance construction by means other than a grant from the SRF or the SWQIF.

For each year in which the DEQ received applications under the bill, it would have to report by July 1 to the standing committees of the Senate and House of Representatives with primary jurisdiction over issues pertaining to natural resources and the environment and to the Senate and House Appropriations Committees on the use of funds under Part 52 that were received from the Great Lakes Water Quality Bond Fund. At a minimum, the report would have to include all of the following:

- The number of grant applications received.
- The name of each municipality applying for a grant.
- The individual and annual cumulative amount of grant funds awarded, including an identification of whether each award was for the purpose of applying for assistance from the SRF or the SWQIF.
- A summary of loan assistance, by year, tendered from the SRF and the SWQIF.

The Senate and House Appropriations Committees would have to review annually whether there was sufficient money in the SWQIF to implement the bill's requirements.

Senate Bill 789

Currently, the Authority, in consultation with the DEQ, may spend money from the SWQIF, upon appropriation, only for loans under the Strategic Water Quality Initiatives Loan Program and for the Authority's and the DEQ's costs in administering the SWQIF. Under the bill, the Authority also could spend the money for grants under House Bill 4572 (S-4).

Senate Bill 790

Under the bill, "grant" would mean a grant from the grant program. "Grant program" would mean the Strategic Water Quality Initiatives Grant Program that would be established by House Bill 4572 (S-4). "State water pollution control revolving fund" would mean the SRF established under Section 16a of the Shared Credit Rating Act.

Proposed MCL 324.5204a (H.B. 4572)
MCL 324.19708 (H.B. 4573)
324.5204 (S.B. 789)
324.5201 (S.B. 790)

Legislative Analyst: Julie Koval

FISCAL IMPACT

The bills would cost the State \$40.0 million from the Strategic Water Quality Initiatives Fund. Providing the funding in the form of grants instead of loans would reduce loan capacity for the original purposes of the SWQIF program and the State would not recover the amounts awarded as grants.

A local unit of government would be eligible to receive a grant up to \$1.0 million for project planning services if it proceeded with loan funding under either the Water Pollution Control Revolving Fund or the Strategic Water Quality Initiatives Fund. In aggregate, up to \$40.0 million would be available for local units of government as grant funding.

Fiscal Analyst: Jessica Runnels

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This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.