



Senate Fiscal Agency
P. O. Box 30036
Lansing, Michigan 48909-7536

BILL ANALYSIS



Telephone: (517) 373-5383
Fax: (517) 373-1986
TDD: (517) 373-0543

Senate Bill 495 (as introduced 5-10-07)
Sponsor: Senator Jud Gilbert, II
Committee: Natural Resources and Environmental Affairs

Date Completed: 6-19-07

CONTENT

The bill would amend Part 52 (Strategic Water Quality Initiatives) of the Natural Resources and Environmental Protection Act to double the amount of funding available from the Strategic Water Quality Initiatives Grant Program as well as the amount a municipality may receive in total grants, and extend for two years the deadline to apply for a grant.

Part 52 requires the Michigan Municipal Bond Authority, in conjunction with the Department of Environmental Quality (DEQ), to establish a Strategic Water Quality Initiatives Grant Program that provides 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 Strategic Water Quality Initiatives Fund (SWQIF), 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 bill would increase the total amount of the grants from \$40.0 million to \$80.0 million.

The grant program must provide grants to cover a maximum of 90% of the costs a municipality incurs to complete an application for loan assistance from the State Water Pollution Control Revolving Fund (SRF) or the SWQIF. (Both Funds are described below, under **BACKGROUND**.) The 10% local match is not eligible for loan assistance from either Fund. Grant funds may not be used for general local government administrative activities or activities performed by municipal employees.

A municipality may not receive more than \$1.0 million in total grant assistance. The bill would increase the maximum amount to \$2.0 million.

The grants are available for projects seeking or intending to seek loan assistance after September 30, 2006. The DEQ must stop accepting grant applications two years after the date the first grant agreement is entered into. Under the bill, the DEQ would have to stop accepting applications four years after the first agreement was entered into.

MCL 324.5204a

BACKGROUND

In the 2002 general election, Michigan voters approved the Great Lakes water quality bond proposal, authorizing the State to borrow up to \$1.0 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 (Great Lakes Water Quality Bond Implementation) to the Act to implement the bond proposal, effective November 5, 2002.

Public Act 397 created the Great Lakes Water Quality Bond Fund within the State Treasury. The Fund consists 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. The Act also required the State Treasurer to distribute 90% of the money to the SRF, and the remaining 10% to the SWQIF. 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 from the SWQIF 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.

Public Act 254 of 2005 amended Part 52 to require some of the money from the sale of the bonds to be directed to a grant program to assist municipalities in the loan application process, which can result in significant planning and engineering costs.

Legislative Analyst: Julie Cassidy

FISCAL IMPACT

The bill 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.

The \$40.0 million is not currently available in the Strategic Water Quality Initiatives Fund. The State would have to sell general obligation bonds in order to generate the revenue. Bonds may be structured in many different ways, with factors including length of the bond, interest rates, ability to renegotiate interest rates, and the borrower's credit rating affecting the amount of annual debt service and the payment schedule. For the initial issue of \$43.0 million in Great Lakes Water Quality bonds in 2006, the payments began at \$1.5 million in 2007 and will increase to \$2.4 million in 2008. Payment amounts in future years will vary. Debt service typically is paid from the General Fund.

A local unit of government would be eligible to receive a grant up to \$2.0 million for project planning services if it sought a loan under either the State Water Pollution Control Revolving Fund or the Strategic Water Quality Initiatives Fund. Since the initial \$40.0 million for these grants has been committed, up to \$40.0 million in aggregate would be available under the bill 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.