

**Director's Talking Points
Dialogue on DEQ FY 2010 Funding
November 6, 2008**

Introduction

- Good morning and welcome.

- I want to thank you for taking the time today to attend this meeting and to discuss the very serious funding challenges facing the Department of Environmental Quality (DEQ).

- Collectively - all of us in attendance this morning, the Michigan Legislature, the Governor's Office and the citizens of Michigan - must decide how best to provide long-term stable funding that supports the DEQ's efforts to protect public health and the environment, and promotes economic growth and development.

- Since FY 2002, General Fund support for the DEQ has declined by \$56.6 Million – a 56% reduction. To continue to meet the environmental and natural resource protection obligations that are imposed on us by law, and given the loss of General Fund support, the Department has had to pursue significant fee increases in the past several years. In this regard, FY 2010 is no different than prior years.

- The purpose for this meeting thus is two-fold —

- **First**, to provide
 - a high-level view of DEQ services,
 - an overview of the current and the future DEQ funding challenges for FY 2010 and beyond, and
 - a summary of the fee proposals being developed to address the DEQ funding challenges.

- **Second**, to provide you an opportunity
 - to give us your feedback and input on these fee proposals, and
 - to offer viable alternative approaches to address our funding challenges.

- Let's take a moment to review the Agenda that's included in your information packet.
 - First, I'll provide the high-level view of DEQ services.
 - I'll broadly discuss our responsibilities,
 - Then discuss some of what we've accomplished in protecting human health and the environment, and
 - End by mentioning several recent adjustments we've had to make in the level of services we provide.
 - Second, Jim Kasprzak—Chief of our Financial and Business Services Division—will provide
 - the overview of the funding challenges facing DEQ, and
 - a summary of the fee proposals to address these funding challenges.

- Lastly, starting this morning and continuing this afternoon, the DEQ division chiefs will host break-out sessions to provide details on the specific fee proposals for FY 2010 and beyond.
- Throughout the presentations today, we will provide significant time for your questions, your feedback and your constructive ideas and input.

The DEQ Responsibility—A Healthy Environment and A Healthy Economy

- The DEQ has the responsibility to administer virtually every state environmental law enacted by the Michigan Legislature, and has been delegated the authority by the U.S. Environmental Protection Agency (U.S.EPA) to administer the most important federal environmental laws within Michigan. During my tenure as Director, the DEQ's commitment to support both robust environmental protection and economic development consistently has been demonstrated through our actions.
- In the DEQ, we often speak of a healthy environment and a healthy economy, and, in doing so, we are affirming that these concepts are not in opposition to one another but rather are complementary. As we face the challenges of the 21st Century, we must find ways to both protect human health and the environment while promoting sustainable economic growth and development.

- The Air Emissions Permit program is a prime example of a DEQ administered program that demonstrates this point. U.S. EPA has delegated to Michigan the responsibility for implementing most aspects of the federal Clean Air Act.
- Consistent with this delegation, manufacturers and other businesses must obtain permits from the DEQ rather than from the U.S. EPA.
- These permits authorize the permittees to install new facilities and/or expand their existing business operations while also setting limits on the level of contaminants that can be emitted to the atmosphere from the facilities.
- In implementing the Clean Air Act and the state air law, the DEQ has done our part to strike an appropriate balance between protecting human health and the environment, and fostering economic development.
- As we make progress toward complying with federal air quality standards, through the work and efforts of the DEQ, we are greatly reducing the number of asthmas, loss work days, hospital visits and premature deaths attributable to air pollution, in particular ozone and fine particle pollution.
- At the same time, we have found ways to become more efficient in the review and issuance of permits, and have provided companies

with greater flexibility in how they operate their plants. Without question, Michigan is a leader among all states in turn-around time on permits, and we have issued more flexible permits for major manufacturing facilities than any other state.

- Another example of the DEQ promoting a healthy environment and a healthy economy is through our administration of the State Revolving Fund and Drinking Water Revolving Fund programs.
- Since January of 2003, Michigan has tendered over \$1.2 Billion in Clean Water State Revolving Fund (SRF) assistance, and awarded nearly \$260 Million in loans from the Drinking Water Revolving Fund (DWRF). As a result, these programs have provided hundreds of millions of dollars to communities for sewer, drinking water, and other infrastructure improvements, while the state has taken significant strides toward protecting its water resources and the health of its citizens.
- Michigan's loan rates still remain well below market rates, with current SRF and DWRF assistance being tendered at 2 ½ percent. Eligibility in the SRF was significantly expanded beginning in FY 2005 by making additional sewer system rehabilitation work eligible for assistance. According to Treasury calculations, combined, these loan programs account for over 16,700 jobs.

- By any measurement, the DEQ cleanup and brownfield redevelopment program has been a great success, environmentally and economically.
- With bond proceeds from the 1988 Quality of Life and the 1998 Clean Michigan Initiative, the DEQ has provided over \$925 Million to address contamination at nearly 1,800 orphan sites, completing work on over 1,000 of those sites, and providing drinking water supplies to over 10,000 homes and businesses.
- The DEQ has also awarded nearly \$100 Million in brownfield grants and loans leveraging \$3.1 Billion in private investment and creating over 18,000 jobs. In just the last six years, we have awarded \$47 Million of this amount, leveraging over \$1.4 Billion in private investment and creating over 9,400 jobs.
- And as a last example, DEQ's award winning program for the electronic filing of discharge monitoring reports (e-DMRs) by holders of National Pollutant Discharge Elimination System (NPDES) permits has streamlined the reporting process, made compliance monitoring easier and saved businesses and municipalities money.
- Since the inception of the e-DMR system in May, 2003, facility participation has steadily increased to its current level of over 60% of the total facilities required to submit DMRs. The e-DMR system has been well received by both DEQ staff and the regulated facilities. In

fact, the DEQ was awarded with an "Excellence in Technology Award" from Government Technology magazine.

Environmental Benefits from DEQ Program Activities - POWERPOINT

DEQ Prudent Budget Management

- In the last six years, the DEQ has both applied ***prudent budget management*** and implemented ***efficiencies***, which have reduced and held down costs and have resulted in improved customer service. The following are several examples of these actions.

Land and Water Management Program

- The Land and Water permit fees were last increased between 1989 and 1998. General Fund support for Land and Water programs has also decreased with time. Consequently, the current fee and General Fund revenue is insufficient to support all of the programs that the Land and Water Management Division is obligated by law to administer.
- In order to manage within available funding, the Land and Water Management Division has taken several actions that create efficiencies for staff and permit applicants, but also reduce some services previously provided to the public. Several examples of these measures are as follows:

- Permits requiring renewal or extension now are issued for 5-year periods instead of the previous 3-year period. (Part 353 Sand Dunes are the exception, with 2-year permits.)
- Land and Water Permit applicants will no longer be allowed to temporarily withdraw their applications to extend the processing time for consideration of the permit application. The exceptions that have been granted in recent years were not in keeping with the statutes establishing these programs.
- General and minor permits now are processed with no on-site review.
- LWMD will no longer be involved in Part 301—Inland Lakes and Streams and Part 303—Wetlands Protection permits where the US Army Corps of Engineers has dual federal jurisdiction. (Section 10 waters—rivers and harbors portion of Section 404 of the Clean Water Act).
- LWMD will no longer respond to ‘low-priority’ complaints; previously made up 50 percent of the complaint response activity.

Air Quality Division Program

- The DEQ Air Quality Division has made major improvements in the air use permit to install program. These changes have resulted in the issuance of air permits, on average within two months, in contrast to an historical average of six or more months. This has been accomplished without compromising protections for human health and the environment. I’m pleased to note that Michigan is part of an Environmental Council of States (ECOS) five-state leader team that

has developed guidance for other states to make similar improvements in their permit programs.

- After conducting a comprehensive workload analysis, the Air Quality Division eliminated the Operating Program Unit and a Unit Chief position within the Permit Section. This unit was responsible for development and issuance of general permits, development of rules, database management, and administrative support for the permit section. Many of these activities have been consolidated and subsumed in other AQD units.

Water Bureau Program

- As mentioned earlier, Water Bureau has created an e-DMR Reporting system that eliminates the need for paper-based reports. This electronic system is faster, more efficient and less burdensome for both the regulated facilities and the DEQ.
- However, like LWMD, Water Bureau has had to reduce the level of services it historically has provided to manage within its available funding. These adjustments include conducting 25% fewer annual inspections of NPDES facilities, 30% fewer inspections of industrial storm water sites, and 50% fewer construction storm water site inspections. Water Bureau also is responding to fewer complaints, making case-by-case decisions as to those low priority complaints it cannot respond to.

On-Line Payments

- DEQ is the first state agency to implement the Treasury Department's on-line internet payment system, allowing DEQ permit holders to pay invoices for annual permits with credit card or e-check. More than a dozen categories of on-line payments have been established, with 10,000 payments made in the first 18 months. Additional payment categories are in the process of being put on-line.
- This saves time for the DEQ accounting staff in processing payments, and it provides a convenient, customer-friendly means to make payments.

Document Management

- In the DEQ Grand Rapids District Office, a pilot project is underway to establish standards for 'cradle-to-grave' management of all documents and records.
- When it is fully implemented over the next 3-5 years, this effort is expected to achieve 10-20 percent savings in operational costs supporting department programs, through savings in space to store records and documents, and in support staff to maintain the files.

DEQ Staffing

- Let me share with you a final word on staffing. Some individuals I have spoken with have the clear impression that, over time, the DEQ has grown in size. This is simply not true. Despite having vastly greater responsibilities today than in the 1990s, our staffing levels

have remained stagnant. Our highest level of staffing, in fact, was in 1997 when we had 1,462 employees.

- As positions have become vacant as the result of retirements and departures in the last 2 years, the DEQ has managed within available revenues. The current number of filled positions in DEQ—1,330—is 115 fewer filled positions than two years ago, representing a 10 percent decrease in staffing available to support DEQ programs.
- While this is responsible management of available resources, the level of service provided to DEQ customers and promptness of service in many program areas has declined. The result has included both reduced customer service and less ability to protect human health and the environment—
 - longer processing times for permit applications, including some recent slippage on processing times for the air emissions permits where DEQ had made substantial improvements;
 - significantly reduced compliance inspections, often only when problems are reported; and,
 - many fewer complaint responses.

Conclusion

- In just a minute, I'm going to ask Jim Kasprzak, Chief of the DEQ Financial and Business and Services Division to provide a more detailed discussion of the specific fee proposals being considered today.

- But let me conclude by once again acknowledging the overarching challenge the DEQ faces: and that is securing sufficient, stable sources of funding to allow the Department to efficiently administer the environmental protection programs we are responsible for in a manner that preserves the high quality of life for Michigan's citizens and the ecological integrity of Michigan's great natural resources.
- Over the past decade, the DEQ's funding has been relatively stable – with this exception. We have seen General Fund support for the Department drop precipitously. True, some General Fund was restored in FYs 2008 and 2009, but not enough to meet our program needs. Consequently, we are again seeking fees to support the services we provide.
- We truly try to do the best we can with what we have. But this is increasingly more difficult to do. The Department presently is at one of its lowest staffing levels ever. In addition to the staffing and budget challenges here in Michigan these last five years, in the past ten years inflation has reduced the buying power of our budget by over \$140 Million. Add to this the fact that the U.S. EPA continues to impose major regulatory responsibilities on the states without providing increased funding support.
- As stakeholders directly impacted by the fees we are proposing today, we need your support as we move these fee packages through the Legislature. I know this is not an easy ask. And yet, we must work together to provide stable long-term funding for DEQ programs if the

Department is to adequately administer the environmental laws the Legislature has charged us with administering.

- I remain hopeful that working together we can accomplish this goal, and I look forward to your comments and suggestions throughout the entire day.
- Jim (DEQ Funding History)

Questions