Draft for Consideration by SRF Policy Group (submitted by Hersey)

The purpose of this short briefing is to guide the group's discussion on the overarching policy that should guide our deliberations. That policy basis emerges from answering the fundamental question: what are we trying to do with this program?

Bulleted Background

- The federal government ends massive sewer grants program and replaces it with low interest loan program (1980s)
- Assets from initial construction and investments under grants program continue aging. Level of investment slows as reflected by relative quantity of funding leveraged in loan program.
- Concern prompts study by SEMCOG with its members documenting huge gap in needs versus funding. (2000)
- Similar results are seen nationally, as various studies have shown that there is insufficient investment in infrastructure, thereby eroding our existing investment.
- Representative Patterson presents study with a proposed bill for a bond to stimulate more investment in sewer programs. Original proposal for 2 billion is reduced to 1 billion. Legislation passes authorizing Proposal 2 of 2002 which passes handily. (Interestingly, all other ballot proposals failed---I think—adding strength to the public support for the bond)
- Great recession hits and all the gory details do not need to be reported but for one: the total loss of taxable value in southeast Michigan will be around 33% when it bottoms out. Proposal A and Headlee essentially cap taxable value where it bottoms out because growth in TV is the LESSER of growth or inflation, i.e. purchasing power is stagnant. The perception of fiscal solvency at the local level is highly dependent on taxable value creating anxiety about pursuing loans and incurring debt.
- Thus, the demand for SRF loans is far more limited than anticipated.
- Some efforts to stimulate projects are made, but do little to make big changes in demand. Very little of the 2002 bond authorization is tapped.
- During legislative debate in 2010 on diverting some bond funds to Brownfield cleanup, several report that underutilization of the fund in its current form will continue for at least a couple reasons: economic recovery will be slow, the gap between market rates and SRF rates are not enough of an incentive, and the application and reporting process are complex and difficult.
- The exception to changing demand is the release of 40 million dollars under S2 (about 2005 or 2006) using a grant split of 90/10. The 40 million is tapped quickly and resulted in many projects moving forward that would otherwise have languished.

Where we stand today

Given this backdrop, the Brownfield reform package provided for an initial release of bond funds for use in clean ups with a second release contingent on reforms to the SRF program that accomplished 3 outcomes. The first outcome, argued as the overriding outcome in debate in formulating the legislation, is increasing the level of investment in sewage collection and

treatment systems. Our workgroup is to provide advice on how to achieve these outcomes so the second release of funds to the Brownfield program can move forward.

In between, the new Governor is taking several steps aimed at improving the business climate in Michigan. While not required by statute, one could argue that the work of our group could also be evaluated in the broader context of how proposed reforms fit or do not fit with this improved business climate and other emerging state policies.

As was done in the legislative debate, this paper puts forward two different policies to be considered as the overall principal guiding our debates on reform proposals. One is preserving the long term fiscal capacity of the program. The other is stimulating a greater rate of investment.

There is no reason to believe that minor reforms to the current structure of the program would stimulate any increase in investment. In fact, given the depth of fiscal stress in Michigan communities, even aggressive reforms may not produce the magnitude of change we hope for.

The plain language of the statute makes the intended outcome clear. It is NOT long term fiscal solvency of the fund. It IS stimulating investment.

Furthermore, the legislative language is arguably far more consistent with the bigger picture polices unfolding in state policy. That is because good infrastructure systems are a magnet for economic development, job creation, and quality environmental assets, i.e. clean water. More significantly, the focus is on efficient delivery of public services, a prime example of which is tying revenue sharing to best practices. Underinvestment in sewer collection and treatment systems increases costs and is inefficient. This is because many projects not moving forward would have prevented infrastructure from deteriorating from fair to poor condition leading to much higher costs.

Proposal: We validate that the overarching policy we will use to assess the merits of various recommended program reforms is the extent to which they stimulate investment in sewer collection and treatment systems.