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*A Special Message from Governor Rick Snyder:
Ensuring our Future: Energy and the Environment*

To Michiganders and the Michigan Legislature:

I. Introduction

In Michigan, we care about energy and the environment because we care about our kids and their future. These areas don't lend themselves to "quick fixes." It takes a long time to see the effect of the choices we make. But the rewards of the right decisions are tremendous, as we know when we expand a Michigan business or play in our Great Lakes. We must ensure Michigan has the energy our kids need to thrive. We must ensure Michigan will be Pure Michigan for years to come – a place our kids will want to live, work and play.

How do we know what the right decisions are? The hard part is that we don't know exactly what our future will hold and what challenges to our energy and environmental futures we will face. But that is no excuse for standing still or failing to be proactive. What we need to do is identify those actions or decisions that are **adaptable**. These are solutions that are good for Michigan, not just in one possible future, but in many possible futures. We have a lot of opportunities to take action today – action that is "no-regrets" even if things turn out differently than we predict.

II. Energy

Adaptability has to be the foundation of every energy decision we make. Building on that foundation of adaptability, there are three pillars that every decision must stand on: excellent reliability, an affordable price and a protected environment.

First, we need to make sure that our energy supplies are reliable. We all depend on having the power stay on whether at home, at work or on the road. We saw just how vital power is to our lives while watching the aftermath of Hurricane Sandy. Our hearts went out to people trying to live without it for days. We remember 2003, when the electrical grid went down and Michigan residents suffered from a widespread blackout affecting the eastern United States. Our reliability challenge has only grown since then. We must take action to ensure this is an area of strength for all of Michigan today and in the future.

Second, our energy needs to come at an affordable price to our businesses and homes. Our prices are near the national average, but most states have lower prices. In fact, Michigan's electricity prices are the highest in the Midwest. That's actually normal for Michigan, because our neighbors have more coal resources than we do and existing

coal plants are hard to beat on cost. But of more concern is the fact that Michigan's energy prices have been on a fast rise over the last few years.

When Michigan revised its energy law in 2008, we didn't realize we were on the cusp of a major economic downturn. That meant fewer factories were running machines, and fewer people were flipping light switches on. We lost about 10 percent of our electric power demand, and the remaining 90 percent had to shoulder additional costs. Then Environmental Protection Agency (EPA) rules about coal plants started kicking in, requiring our utilities to spend about \$3 billion so far on new environmental controls to keep key coal plants running and to shut others down. That happened at the same time we were doing the smart thing and diversifying into renewable energy. That meant we were building nearly 10 percent new supply in renewable energy on one hand while losing 10 percent of our demand on the other hand. You can't do all those things in four short years and not have rates go up.

That's been very hard on our most vulnerable households, which spend about a quarter of their income on energy. Higher prices have also been hard on Michigan businesses that compete with companies in neighboring states. Affordability is critical for all of Michigan.

Third, we must make sure our energy choices always recognize our responsibility to protect Michigan's environment. Michigan's natural gas production has never once had an incident where groundwater was polluted from hydraulic fracturing, even though we've been doing it for decades. That's in part because Michigan has strict regulations on drilling and wastewater management. Those regulations have been no-regrets decisions. We have many successful companies that have safely produced oil and natural gas in Michigan, while protecting Michigan's waters. That's a great example of how Michigan has made protecting the environment a key part of our energy decisions in the past, and why it must be one of the pillars on which we make our decisions in the future.

Efficiency

These pillars will be used to guide our energy decisions – and a great example is energy efficiency. Energy efficiency doesn't mean doing less; it means doing as much or more but using less energy to get it done. Energy efficiency is the best example of a no-regrets policy Michigan can have. It makes us more reliable, more affordable and protects our environment.

The biggest threats to our electric reliability usually come on the hottest days of the summer, when we are all turning up the air conditioning at work and home. Because of that demand, those are the most expensive days to buy power, and that means power companies have to maintain plants we rarely need. And when we turn everything on, that is when we are burdening our environment the most.

How do we make Michigan even more energy efficient?

First, we can give people the tools they need to take advantage of lower power bills through efficiency. One way to do that is to make sure private dollars are available. We've already got a great public-private partnership that is successful at reinventing

energy efficiency in Michigan: Michigan Saves. This partnership, which was seeded with public funds, works with private lenders throughout the state to provide affordable financing to help homes and businesses save energy and money. Since October 2010, more than 1,700 Michiganders have used those funds to improve their homes and have saved about \$350 per year in energy costs. They've used local contractors to do the work, so they have supported local jobs. There's good news for lenders too: a default rate that is almost 30 times lower than similar consumer loans. This year, private financial institutions across the state will make more than \$68 million available for efficiency improvements in buildings. That's great news but that number needs to grow. Michigan Saves is expanding its program to businesses like small grocers and convenience stores. It is exciting to see this public-private partnership grow, and I look forward to seeing them meet their goal of \$150 million of investment in 2017.

There is another way we can empower the private sector and Michigan homeowners. When people are looking at buying a home, they receive an inspection report, telling them about the plumbing, the roof, and many things about the house that aren't visible to the naked eye. What they don't know is whether the house is energy efficient. Legislation that would add energy efficiency information to those reports is needed, and I encourage the Legislature to act on a bill in the new year.

There are other things we can do to enhance energy efficiency in Michigan. I have asked the Michigan Public Service Commission (PSC) to reinvent our existing energy efficiency programs to reduce paperwork and costs while increasing actual improvements. Already, the PSC has found ways to allow collaboration between smaller municipal utilities and cooperatives, which saves even more money.

This coming year, the PSC will look at how we can implement "geo-targeting." That means making smarter energy investments - spending on energy efficiency instead of new infrastructure in areas with reliability problems caused by high local demand. There are some great examples of possible places where this can be deployed - places like Ferndale in southeast Michigan, where increasing demand has been straining the existing substations but it's hard to find a place to put another one. And this week, the PSC will release its report on energy efficiency, noting a number of existing ways these efforts are lowering our bills and recommendations of how we can do more.

Four state agencies currently manage weatherization programs of one kind or another. Today I am directing the PSC, the Michigan Economic Development Corporation's (MEDC) Energy Office, the Department Human Services, and the Michigan State Housing Development Authority to work together and coordinate their know-how and efforts so the state can do some geo-targeting of its own.

In addition, we need to reinvent the delivery of low-income heating to focus on moving people toward self-sufficiency. That will mean reforms in the way the state and its non-profit partners deliver low-income heating assistance. I applaud the Senate for passing legislation that reforms the funding and delivery of these services. I urge the House to join this bipartisan effort by passing this package.

There are things that the state can do to be more efficient in its own energy use. The Department of Natural Resources (DNR) has already implemented a number of energy efficiency measures in our state parks, meaning it is spending more on our parks and less on power. In our state buildings, we have reduced our energy use by nearly 25 percent in the last 10 years, and we continue to invest in energy efficiency upgrades. Now it is time to look at whether we need to set new goals, and what they should be. I am directing the MEDC's Energy Office, the PSC, and the Department of Technology Management and Budget (DTMB) to partner on a benchmarking study of state buildings – comparing them to other states and private buildings. This study will also identify best practices so we document what is effective. In addition, we will offer local governments, schools and others assistance in identifying tools to help them achieve savings through energy efficiency contracting.

Production

Michigan is known for its innovation in many industries, but we don't talk often enough about Michigan's leadership in the energy field. MichCon literally invented the natural gas storage industry, and our state remains the indisputable national leader. That's a key advantage that Michigan needs to promote and grow. Michigan produces natural gas. It has a lot of places where natural gas can be stored. And it has pipelines built to help move that natural gas. That's a great advantage and an opportunity for the state of Michigan to do a little of its own economic gardening.

I have asked the DNR and PSC to work together to see if we can partner with private industry to develop a Strategic Natural Gas Reserve for Michigan. It's a simple concept – the state of Michigan owns many natural gas deposits. When a private company brings those into production, the state can either take its share in money or in natural gas. Until now, we have chosen to take the money. But if the state owns gas, and the state owns storage, it could make sense for us to store that gas and sell it later, when we could get a better price. We will look for private companies to partner with us in developing storage. By waiting to sell that gas on the private market to a Michigan company, we could create good news for both ratepayers and taxpayers, since long-term contracts can help keep winter heating prices down while ensuring Michigan gets a better return on its resources.

Any changes that we make will be built upon the legacy of innovation already present in Michigan's energy sector. For years, experts thought some of our old oil wells had reached the end of their lives, unable to produce any more. But it turns out that if you can get enough pure carbon dioxide into those wells, these wells can be productive again, and the carbon dioxide stays below the ground. A multi-generational family company in Michigan has successfully brought this new, exciting technology to our state. Bob Mannes, the head of Core Energy LLC, figured out that the carbon dioxide emissions from a local ammonia plant could be used to produce oil in Michigan. The experiment has been a success and is a great example of a win-win for the environment and the economy of Michigan.

We need to do more to make sure this industry, which is a great example of economic gardening, can grow in Michigan. To do that, I am asking the Legislature to enact a law that will grant carbon dioxide pipelines the same legal standing as other pipelines in Michigan to make sure our state laws are ready for this new industry.

Transmission Infrastructure

How else can Michigan adapt to any and all possible energy futures? We can make sure we have the ability to get the power where we need it, when we need it, at a superior level of reliability and at reasonable cost.

Michigan's electrical "superhighways" – its transmission system – are a tale of two peninsulas. In the Lower Peninsula, the reliability of our electrical superhighway is excellent. It's a tremendous asset, and we need to make sure our businesses and citizens understand the value of reliability. But in the Upper Peninsula, it's very different. There, we have nearly 12 "yellow alerts" a year – meaning that all it takes is for one more thing to go wrong and everybody's power could be out for days.

What does that mean for daily life? Whether it is a business engaged in just-in-time manufacturing, a data center providing computing services, a hospital with sensitive equipment, or a homeowner with insulin in the fridge, reliability is vital and valuable. You can't grow economically, or even hold your own, if the power isn't there reliably.

This has to change, and change in a way that is protective of our environment and of our wallets. The first step is to get enough backup transmission in place so that we can end all yellow alerts. The Midwest Interconnection System Operator (MISO), which runs our region's electrical highway system, recently fast-tracked approval of some lines that will address this reliability problem. Our state agencies have already pledged to help speed up siting and construction of those projects in an environmentally sensitive way.

The next step is making sure we have a major generating source in the UP, so we aren't entirely dependent on long transmission lines for power. Two utilities are leading the way on this front. I am thrilled to announce that this week, Wolverine Electric Cooperative and We Energies finalized a new venture that will install hundreds of millions of dollars of new pollution prevention equipment and keep the Presque Isle Power Plant in Marquette operating. Because of this deal, Michigan has a key building block in place to ensure the reliability and power supply we need. We will also retain a key contributor to the UP's tax base and 170 Michigan jobs. Moreover, We Energies' customers in Michigan and Wisconsin who were facing increases in costs to solve this problem will pay less, not more, to fix this problem.

Wolverine Power Cooperative and We Energies deserve to be commended for bringing this deal to fruition. In particular, Wolverine is increasing its commitment to Michigan's economic future, and it is making the right decision.

Those steps get us to where we need to be today. But they won't get us to where we need to be for Michigan 3.0 – a future that includes new data centers, new mining operations, new industries, and above all, more and better jobs. For that, we need to do something about the high power prices that Michiganders in the UP and northern Lower Peninsula pay. We need to make sure that new sources of power – whether they are natural gas, wind, or biomass – have a superhighway that can get their power to the places that need it.

To do this, we need to explore connecting Michigan's peninsulas electrically. Right now, there is a small electrical connection, and we have had to spend money making sure the peninsulas don't short each other out. We need a robust connection that gives us the potential to reduce the cost of moving power around in both places and creates opportunities to improve supply as well.

That is why I am encouraged by the recent actions of MISO. It is studying the costs and benefits of a strong interconnection. It is also looking at whether Michigan should partner with other states and provinces as part of a larger solution. Clearly we need a supply of reliable power and the ability to move power wherever it is needed throughout all of Michigan. I will continue to encourage MISO to recognize the unique needs of its largest customer – Michigan – with its two peninsulas.

We also need the ability to efficiently and safely move natural gas. Right now, there is a proposal before the Federal Energy Regulatory Commission to abandon a pipeline that supplies one-third of Michigan's natural gas. I have opposed that, as have many legislators, the PSC, MISO, and Consumers Energy. We will continue to fight any proposal that limits Michigan's energy future and are hopeful that in the near future, we can find a cooperative solution that will ensure Michigan's gas supply reliability. I am committed to ensuring that Michigan can take advantage of the reliability, affordability and environmental and economic benefits of natural gas, and that the rest of the country can benefit from our resources in that area as well.

Comprehensive Strategy

There is one more key ingredient to Michigan's energy future, and that's being part of a nation with a consistent plan. We want to work with our federal government and make sure that Michigan's plans for the future fit with where the country is going.

Unfortunately, what we face now is a hodgepodge of conflicting policies. Here are just a few examples:

- **Nuclear energy.** The federal government started out doing the right thing: building a long-term solution for nuclear waste. Many Michiganders have already paid money in their utility bills to help get Yucca Mountain's repository built. But then the federal government switched courses and abandoned those plans, requiring us to store waste near the Great Lakes. While such storage doesn't pose imminent threats, no one would say that the Great Lakes shoreline is a better place for nuclear waste than the Nevada desert. We badly need a national, thoughtful approach to this issue.
- **Electrical reliability.** The federal government has done the right thing by encouraging regional cooperation in operating our electrical grid and setting good standards for reliability. But now MISO has warned that the timeline of the EPA rules for coal plants create some real risks to our reliability – meaning that massive outages become more likely. I know people disagree about the new EPA rules for coal plants, but I think we can all agree it's not in the best interest of the environment or the country to risk massive outages to get there at a breakneck pace. We need the federal government, through cooperation between its own agencies, to broker a solution to this problem. We stand ready to do our part in that effort.

- **Natural gas.** A recent presidential order recognized the benefits of natural gas as a reliable, affordable, clean and domestic part of our energy future. The President got this right and we need him to follow through. We need timelines that will let us look seriously at transitioning existing plants to this fuel, a commitment to pipeline infrastructure and a stable, environmentally protective set of regulations that allow companies to create a business plan built around new natural gas supplies. Michigan has done what it can in leading the way on this issue. We will do whatever we can to help our federal partners develop and implement a consistent strategy in short order.
- **Energy independence for our most vulnerable.** Michigan receives federal funds to help vulnerable citizens when they can't afford their heat. This has allowed many Michigan families to stay in their homes and keep their kids in school in the winter. The federal government also subsidizes housing for some of these families. Unfortunately, there are some addresses in Michigan where family after family can't afford their heat. But under existing federal rules, the state can't say to a landlord that it won't keep subsidizing families' rent unless something is done to improve the insulation or other conditions that are causing families to need heating assistance. I encourage our federal agencies, partnering together, to enact the common sense reforms that we need.

Just like Michigan, the federal government needs an energy plan that is focused on adaptability, reliability, affordability and environmental protection. There is a lot we can do to put no-regrets policies into place in this country and state and Michigan is eager to do its part. During this campaign, President Obama pledged to take an "all of the above" approach to energy policy. That is heartening, because I believe it shows he already places high value on adaptability. I am hopeful that reliability, affordability, and environmental protection will also be incorporated as guiding principles into federal energy policy.

Until we see more of what the nation's energy policy will be, and what the effects are on Michigan, it would be a mistake to again change our energy framework. In 2015, we will be in a better position to know what effects federal policies are having on our reliability and on the markets for electricity. We will have reached our 10 percent goal for renewable energy, and will have well-established efficiency programs, so we will be in a good position to set higher goals in both these areas. We will need solid information about the effects of our policies and the energy marketplace to make good decisions. This coming year, I will invite the Legislature and Michigan citizens to tell me what information we will need to fairly evaluate our energy policies, and we will embark on an effort to collect and analyze those facts. Then, by 2015, we will all be able to implement new decisions about our energy framework that will enhance Michigan's adaptability, reliability, affordability and environment.

III. Environment

In the earliest days of statehood, Michiganders chose to extol the beauty of Michigan's peninsulas in its official motto – "Si quaeris peninsulam amoenam circumspice" (If you seek a pleasant peninsula, look about you). One hundred and seventy five years later, we're saying the same thing – only this time, not in Latin. Our Pure Michigan campaign is telling people about the beauty of Michigan, and it is working. It is working because we have a great story to tell about the good work we have done to keep the air, water and land in Michigan clean and beautiful.

Whether sledding in a neighborhood park, walking along a shore or riverbank, cross-country skiing through a forest, or sitting on a beach, in every season we can experience the reasons we love living here. Those are the reasons our kids and their kids will love living here, too. We need to think strategically about how to make sure those opportunities continue and grow.

Ecosystem Approach

In the past, we approached environmental protection in a reactive and relatively piecemeal fashion. While we have enjoyed some great results in a collection of public parks, forests, beaches and recreation areas, these assets do not necessarily work together ecologically and economically.

For instance, we have an extensive forest system that covers nearly 4 million acres, more than 10 percent of the state. That is not because we sat down and decided we needed a 4 million-acre system or where those forests would be. Instead, land that wasn't good for farming and had already been logged kept churning through our tax foreclosure system. We stopped that fruitless cycling by creating a state forest system. However, it is unclear if this collection of state owned lands is providing for the many collective values that Michiganders hope to receive: camping, hiking, hunting, fishing, sense of place, timber harvesting, forest products and biodiversity.

Other state resources, including some of our parks and recreation areas, came about with a similar lack of an overall vision – we've protected a beautiful place here, or a particular river or lake there, but we've never stepped back and tried to think holistically about what we do own, what we should own, where and most of all, why.

Science, and decades of data, can now help us look at things using an ecosystem approach. That means looking at all the functions and services our ecosystems provide to nature and people, like support of the great diversity of plants and animals, shade and cooling, purification of water and air, flood reduction, food, fiber and fuel, and providing us wondrous areas for recreation, to name a few. It means thinking about what services we will want from our environment now and well into the future. It means using data and knowledge to guide our decisions about investment in our state's ecological and natural assets. These systems form the basis of life and the basis of the quality of life that has defined us and the state since the beginning.

Land Management

An ecosystem approach guided the work of the State Parks and Outdoor Recreation Blue Ribbon Panel, and is guiding the work of the DNR.

The Blue Ribbon Panel, which recently completed an excellent report with recommendations regarding the future of Michigan's parks and outdoor recreation, recognized that our parks are regional economic drivers, protect unique ecological resources, improve our health and well-being and help define the Michigan experience. I am excited about many of their recommendations, which include the need to connect trails and integrate green infrastructure in our urban areas.

The DNR is taking a similar approach when looking at our public lands. There are a number of things we need from our public lands. We need rich outdoor recreation and tourism opportunities. We need the tangible products they provide as well: wood from Michigan trees to build and repair our homes; Michigan minerals that build the cars we drive and the wires that deliver our power; oil and gas that get us to work and keep us warm. In short, we need a land management strategy that protects the character and productive capacity of Michigan's wide array of natural resource assets for future generations. We are reinventing our planning process by being more strategic about what we own, and why we own it. We need to continue to protect the truly unique places that provide habitat or other natural resources that make them irreplaceable. We need to make sure the high-value recreational experiences that we have will be available and attractive now and in the future. We need to have an opportunity to enhance those when appropriate. But most of all, we need a strategy for making sure we aren't hampered in these goals by responsibilities for other land that doesn't advance any particular purpose. We must be willing to rebalance our land portfolio – to acquire lands that meet these goals and to get rid of lands that don't fit within our strategy.

Having this kind of strategic plan in place will also tell us what kind of long-term sustainable funding we need. We will know if a lack of recreation in a certain area is because we don't have the right space for it, or because we have underinvested in the places we do own.

We must have a complementary strategy for timber resources. The timber industry is an economic asset to our state, especially in rural communities, contributing \$14 billion annually to the state's economy and directly employing 26,000 citizens. Whether it is furniture making, timber for homes, paper mills, biomass facilities, or a combination of those using different parts of the resource, the state has an opportunity to provide for responsible growth. As it undertakes the planning efforts described above, I am directing the DNR – working with the Timber Advisory Council, MEDC and the Michigan departments of Agriculture and Rural Development (MDARD) and Transportation (MDOT) – to prepare a business plan for the future of the state's timber industry. The plan will identify and prioritize opportunities for growing this important part of our economy. As part of this effort, I am also directing DNR to convene a Timber Industry Summit in April 2013.

While putting these strategies in place is key, there are also actions we know we won't regret under any plan, and we need to take those now.

Trails

Michigan has more total trail miles than just about any other state. Much of the credit goes to volunteers who have shoveled, raked, trimmed and groomed these trails on their own time and often at their own expense. This shows the real appetite Michiganders have for quality trails, and points to the opportunity we have to be the number one trail state.

We can reach that goal much faster together. I am directing the DNR, Michigan Snowmobile and Trail Advisory Committee, Michigan Natural Resources Trust Fund, the MEDC, the MDARD and the MDOT to align and prioritize their efforts to support and create trail connections. All these entities will reach out to local communities as partners, helping them to maximize the economic return from trail use. We can and will seek to make Michigan *the* Trail State.

As the Trail State, we will need a showcase trail that celebrates these efforts and pulls together private and public trails into a signature Pure Michigan experience. With the addition of approximately 200 miles of additional trails in the Lower Peninsula and the UP, we could hike or bike from Belle Isle to the Wisconsin border. Today, I am directing DNR to focus on connecting those trails, through cooperation with private and non-profit partners and the use of their own resources.

Rural Development Fund/Severance Tax

There is real economic development potential from mining expansion in the UP. We need to make sure that these short-term economic gains help us build a solid foundation for long-term business growth. To that end, I have proposed a Rural Development Fund, which we will create while reforming a confusing and outdated mining tax structure.

Michigan's taxes need to be simple, fair and efficient. The current tax system on non-ferrous metals is none of these. Our system requires the state geologist to guess what the value of the ore will be over the entire life of the mine, and turn that into a property value. That's a tax system that is complicated, uncertain and burdensome. Instead, we should switch to a severance tax, which means we can stop trying to guess what the ore might be worth and instead get a share of what the ore really is worth.

We will take that money and make sure we are reinvesting it in infrastructure for our rural areas, so we will have the foundation for economic growth in place after the mine is gone. I ask the Legislature to enact a severance tax and create the Rural Development Fund. That will let us welcome more commerce today, and lay the foundation for our rural communities to flourish tomorrow.

Natural Resources Trust Fund

Third, we need our Natural Resources Trust Fund to better work with our communities to realize their visions for Pure Michigan and align with local visions. We can take the first step today. I am directing the DNR to require a resolution of support from local government before funding any project from the Michigan Natural Resources Trust Fund.

I believe this step will help enhance the admirable work of the Natural Resources Trust Fund. Since 1976, the Trust Fund has made significant investments in both the protection of Michigan's special places and in the development of important recreational assets in our state. Nearly \$1 billion has been invested, with projects in every county in Michigan. By investing \$435 million in local grants and \$492 million in state grants, some 199,552 acres of land has been permanently protected. We have created places that will keep and attract the next generation of Michiganders. Because of the wisdom of those who created the Trust Fund 36 years ago, it will continue its contribution to the reinvention of Michigan, creating access to the places that matter in the 21st century.

Better Planning for Natural Disasters

Fourth, natural disasters can have a significant impact on local communities and state resources. The state must have the capacity to respond to these emergencies and ensure that communities receive assistance quickly. To address this need, I am calling on the Legislature to create a Disaster and Emergency Contingency Fund. This fund would enable rapid emergency response in the protection of both state resources and private property in the event of a major natural disaster like the forest fire that recently occurred near Duck Lake in Luce County. This fund will be part of my upcoming budget plan in February, and I urge the Legislature to enact this needed change.

Urban Public Lands

For too long Michigan has thought about public lands as if those words were just another way to say "up north." They aren't. We must not ignore the other side of the coin – our urban public lands.

Just like it did in the early part of the last century, Michigan is again seeing a huge property churn based on repeated tax foreclosures. This time, though, it's in our urban areas. Our communities are falling prey to speculators who allow blighted properties to destroy the investments of neighbors who love their communities and care for their homes. Our system for getting these properties back into the hands of responsible owners – a system that we set up in 1917 – is doing the opposite. And various governments are ending up holding a lot of land they don't have a clear plan for and don't have the resources to maintain.

We can't let that continue. There are several legislative efforts underway to reform aspects of that 1917 property tax act, and I am eager to make them law. Those efforts should begin by banning tax evaders and slum lords from acquiring more property for pennies on the dollar at our foreclosure auctions, as called for in my Special Message to the Legislature on Public Safety. But that is only a starting place. Our antiquated laws dealing with blight and foreclosures are in need of serious reinvention. There are a number of good bills pending in the Legislature now to reduce blight, and I will be proposing additional measures for consideration in January. I pledge to work with the Legislature on these important reforms.

Similarly, there is another law that is being applied to circumstances we never foresaw – our Right to Farm Act. I will vigorously defend Michigan's vital agricultural interests from encroachments of all kinds. That was good policy in 1981, and it's good policy now. But Michigan's firm defense of that policy has meant that our biggest cities – where no one ever expected there would be enough land to have anything bigger than a kitchen

garden – now fear they need to ban agriculture altogether, or risk allowing animal facilities in their city. We need to find a solution to the concerns of both sides. I know that for years, the MDARD has worked with urban communities, agriculture interests and others to understand the problem and develop options. That work is done. We understand the issues. We understand the options. It's time to move forward. 2013 needs to be the year we implement a solution.

Common Urban and Rural Public Land Issues

Our rural and urban areas have more in common than we may recognize. In fact, in many cases, they need the same solutions.

In our urban areas, a single street may have lots owned by the city, county and state. That creates a lot of confusion for people who just want to buy the lot next door, or for those who want to consolidate several parcels for economic development or recreational opportunities. Similarly, in our rural areas, the federal and state governments own a patchwork of properties, making it harder to connect trails, manage wildlife habitat or create a sensible timber harvest plan. I have directed the state Treasurer to lead an effort to work with governments at all levels to facilitate property swaps or joint management agreements. We need to consolidate public ownership so that our federal, state, county and local governments do not just create a plan, but execute it.

Second, both types of areas need the capacity and the resources to be better stewards. In the urban case, we assume we can fund maintenance like grass mowing and demolition of blight with property sales. That model is not working today, and it has left the state in the position of being a bad neighbor. In the rural case, we have often underfunded certain resources, in part because we may be trying to take care of too much land in some places and not enough in others. In both cases we need to fix that, and these priorities will be reflected in my next two budgets. I ask the Legislature to support these priorities and work with me to make sure that when we own property, we fulfill our obligations.

Brownfields

Of course, we can't forget the other tools we have to rebuild and reinvent Michigan's land policy. One of the most important issues for our reinvention is brownfield redevelopment. Some have claimed that the loss of a single brownfield tax credit means Michigan isn't focused on redeveloping brownfields anymore. Nothing could be further from the truth.

First, we are looking at programs with a long record of success and making sure that success can continue and grow. The proposed amendments to the Brownfield Redevelopment Financing Act would allow the Michigan Strategic Fund and the DEQ to receive between \$1.5 million and \$4 million annually to provide funding for new brownfield redevelopment projects. I ask the Legislature to enact those changes quickly.

Similarly, the state is still committed to supporting brownfield revitalization as part of its reinvention. My budget for FY '14 will also continue to invest \$25 million into the MEDC's efforts. In FY '12 alone, our state investments leveraged \$412.9 million in

private investment into brownfields. This amount includes projects approved under the Michigan Community Revitalization Program, the Brownfield Redevelopment Tax Increment Finance program and the DEQ's grant and loan program. The Michigan Community Revitalization Program is designed to accelerate private investment on these brownfield sites and foster the redevelopment of brownfield or historic properties, reduce blight and protect the natural resources of this state. One great example of the success of this program is the redevelopment of a nearly century-old 20,000-square-foot building in downtown Benton Harbor into a modern, mixed-use commercial building.

We are also thinking creatively about helping people realize that it can be cheaper to reuse a site than to build a new building. I am excited to announce a new public-private effort between many of our utilities and the MEDC that will help businesses know the value that existing energy infrastructure can provide. Right now, when a new business with large energy needs is shopping for a new space or weighing an expansion, it is hard to get a ballpark number for how much it will cost them to get the kind of energy they need for their development. This can be a multi-million dollar economic development question – so it's important to get decision makers timely information about the real value of a brownfield site.

Starting today, all investor-owned utilities operating in Michigan will have a dedicated phone number that will let businesses get that ballpark estimate of the rates, connection costs and necessary infrastructure upgrades for up to five sites within five days or less. This significant improvement in the customer service process will provide a streamlined, transparent and consistent method to determine potential costs for upgrades as well as offering the possibility of reducing these costs. Michigan is the only state to offer this service to site selectors. We have the sites, we have the infrastructure and we will work together to power our progress and reinvent Michigan.

Additionally, for companies locating or expanding in an area, we need to make sure our policies are encouraging new investments, not penalizing them. Recently, the PSC, working with our two largest utilities, approved a change that resulted in a consistent and clear policy on the contributions companies may need to make for new electrical infrastructure. Their service territories will now have consistent charges and new customers will no longer subsidize existing infrastructure. In other words, opening or expanding a business in Michigan that needs a lot of electrical power is now simpler and clearer.

Water

Water, and especially Great Lakes water, has always been essential to Michigan. It defines us. We have one-fifth of the world's freshwater supply. We have more coastline than any state except Alaska. And with our local communities leading the way, water is central to our placemaking efforts across the state.

You can't go anywhere in Michigan without seeing communities reconnecting with their waters. In the UP, you can enjoy Houghton and Marquette's waterfront revitalizations. You can visit the Thunder Bay National Marine Sanctuary in Alpena, as I did this year. On the west side, I am excited to support the effort to "put the rapids" back in Grand Rapids. In southwest Michigan, eight coastal communities which stretch along the shoreline of Lake Michigan – Michiana, Grand Beach, New Buffalo, Union Pier,

Lakeside, Harbert, Sawyer and Three Oaks – along with the support of the Pokagon Band of Potawatami Indians, have successfully promoted themselves as the tourism destination “Harbor Country.” And of course, the fabulous work on the Detroit Riverfront – driven by a public-private partnership between the state, city, the Detroit RiverFront Conservancy and GM – has already transformed the relationship Detroiters and downtown workers have with the city’s namesake river. That is the power of private and public partnerships – their progress is nothing short of spectacular.

We need to continue that success with another partnership involving the state, city and the Belle Isle Conservancy – the restoration of Belle Isle. Belle Isle is a Detroit jewel that could be the talk of the country, but it badly needs polishing. It is vital that the Detroit City Council approve the agreement that will allow the state to begin making improvements that will allow Detroiters —and all Michiganders—to fall in love with the Belle Isle experience all over again.

To these and all the other communities in Michigan that are connecting to their waterways, I commend you for doing the important work of placemaking that will keep your community vibrant for years to come. The state is supportive of your efforts. Our state’s water resources permeate all facets of Michigan’s economy as well as the lifestyles that Michiganders enjoy. Water envelopes us and is in the ground below us.

While we are celebrating and enhancing the deep connections Michiganders have to their water, we also need to have a comprehensive water management plan, just as we will have an integrated land management plan. The development of this water plan will be led through Michigan’s Office of The Great Lakes. By identifying our priorities and moving forward with resolve and purpose, we can safeguard our precious resources while creating a better place for our families.

Great Lakes

Of course, every discussion of water in Michigan should begin with the Great Lakes. I am proud to be assuming leadership of the Council of Great Lakes Governors, because there is no state whose future is more intertwined with the Lakes than ours. I will invite the eight Great Lakes States’ governors, and their Canadian counterparts, to Mackinac Island for a summit, because we have a lot of work to do and there’s no better place to be reminded of how important this work is than on that beautiful island.

The biggest issue we face in the Great Lakes is aquatic invasive species – plants and animals - like phragmites (a giant reed that is spreading across our shoreline), zebra mussels and Asian carp. These harmful species are tearing at the health and fabric of our beloved shoreline and lakes. They spread, reproduce and wreak havoc on natural systems, on coastal zones, on beaches and in the aquatic food web. They spoil our view of the water, crowd out native vegetation and harm valuable fish. Because they come into the lakes in a stealthy manner and from many sources, we almost never know who is responsible for the pollution and who should be paying for the mess it creates. The paper plant that’s now paying nearly \$2 million to remove zebra mussels from its facility can’t go find the ocean-going ship that brought the mussels here and demand payment. Our utilities pass on to their customers the millions they spend on the same activity. And everyone who has tried to enjoy a beach with phragmites or an

algal bloom or anyone who has caught a lake trout with a lamprey scar knows firsthand that every Michigander will pay the price if we get this wrong.

This is not an issue on which Michigan can afford to sit idly by, even when others ignore the costs. This is not an issue where we can wait and see if the risks are worth it. We know there are measures we could be taking today to reduce the risk of new invasive species entering the Great Lakes. We can and we must manage the ones that are already here so they do not devastate our precious Lakes.

The threat of invasive species is not just a threat we encounter in the water, but is experienced on land too. MDARD has been proactive about fighting agricultural pests, and has some notable successes. As we develop management plans we will utilize what we've learned in both arenas to prevent and better manage invasive species.

Michigan cannot address the invasive species issue alone. The Lakes are connected and thus we are connected to our neighbors and their actions, too. We must work with our neighbors, and with the federal government, to do the right thing.

There are three steps Michigan should take:

1. Remain a leader on ballast water standards by encouraging control mechanisms that will prevent introducing species – not just lower the risk. We've seen enough to know that allowing even a small risk of introducing species is a guarantee that we'll be spending millions to fight the next zebra mussel.
2. Create a strong "unwanted list" that puts a trading ban on invasive species.
3. Aggressively defend the Great Lakes against the spread of Asian carp and other invasive fish species.

The threat of Asian carp in the Great Lakes is real and imminent. One of our biggest obstacles to strengthening our defense against an Asian carp invasion has been the reluctance of the federal government to act as aggressively as this threat warrants. Michigan's officials have pushed hard to protect the Great Lakes from this threat. A bipartisan coalition of Michigan's representatives in Washington worked mightily and managed to secure some funding and some action on this issue. The Attorney General has pushed long and hard through the courts. Nevertheless, the federal government has already started backsliding on its promises and missed too many deadlines. We need new barriers up on **all** routes identified as probable carp entry points. We need enforcement help on the trading bans for these organisms.

If the federal government won't protect Michigan's commerce and the integrity of the Great Lakes, then we will remind it of its obligations. The federal government is required, under the federal Endangered Species Act, to take actions that protect Michigan's native mussels and other endangered species from invasive species that can harm them. If the Asian carp enter our Lakes, they will adversely affect not just the Lakes' ecosystem as a whole, but these protected species. Legally, this is not an obligation that can be avoided because it costs a lot or is inconvenient. With the

Attorney General, I am sending a letter that will put the U.S. Fish and Wildlife Service on notice that it has an obligation that it needs to fulfill.

Michigan is prepared to take all necessary steps we need to protect the Great Lakes. I am hopeful that this time, we will get the federal government to really listen to what every Michigander knows – stopping the Asian carp is something we need the federal government to get as serious about as Michigan is.

Water Strategy

Michigan's waters encompass far more than just the Great Lakes. That's why, in addition to the number one priority I've already discussed– aquatic invasive species – there are four components that I am asking my quality of life agencies to put front and center in their efforts to create a comprehensive water strategy for water quality and use for the state. They are improvements to: our water withdrawal system, our storm water and sewer systems, our wetlands system, and finally, continuing the good work we already do restoring Michigan's waterways. Our Great Lakes continue to experience water quality issues. Harmful algal blooms in Lake Erie, beach closings and muck on our beaches and marinas mean that we can't enjoy the Great Lakes as we should. We have done a good job controlling what comes out of our pipes; we need to do even better while addressing pollution from weather-related and non-point source discharges to improve the water quality in our Great Lakes.

Water Use

People may not agree about why climate change is happening, but it is certainly affecting Michigan. Historically low – maybe all-time low – water levels in Lake Michigan and Lake Huron, last year's drought and limited winter ice cover, and overall changing weather patterns across the country have stressed our lakes and groundwater. Water is in demand by farmers for irrigation use, and by Michigan residents and businesses who want clean, safe water, 100 percent of the time. Climate change will make Michigan's water resources all the more valuable – and we need to be ready.

Michigan has created an innovative and simple-to-use system for water withdrawal as part of its obligations under the regional water management compact agreement with the other Great Lakes states.

We need to take the next steps regarding the state's surface water use (lakes, rivers and streams) in Michigan. We will establish a Water Use Advisory Council to refine the Water Withdrawal Assessment Tool and to evaluate situations where large quantity water withdrawals adversely affect other users or the health of the aquatic system. By having this council monitor large surface water users, we can simultaneously support expanding agricultural production and rural development and avoid impacts on water quality and ecological health. We also need to make sure that any conflict resolution system that works for surface water users takes into account groundwater users. This proactive approach can assure that when we have a drought and need to make choices, we will be able to make them fairly and quickly.

Water Quality

Weather-related water runoff has a big impact on the pollution levels in our waterways and lakes. These are expensive problems to fix, and for too long, the only solution the state would look at was more concrete. It's time for that to change. Green infrastructure is one area where an investment can resolve a water-related problem and create recreational space, all at the same time. It also helps address non-point source pollution – pollution that doesn't come out of a pipe, but affects our waters. We need to focus on creating and recreating green spaces – parks, rain gardens and even swales and ponds – that can absorb stormwater. This will lower our costs while protecting our beaches and the health of the Great Lakes – a real win-win. Our grant and loan programs must incentivize these projects, not block them. I have directed DEQ to undertake reforms to make sure that happens.

Wetlands

Michigan, with more than 5 million acres of wetlands, has a great resource that protects our water quality and provides great habitat for ducks and other waterfowl. That's why Michigan has taken charge of its own wetland program instead of depending on Washington to determine the state's policies. We need to make sure we keep that authority by implementing hard-negotiated changes that satisfy federal and state requirements. We need consistency in the fee structure so that it is fair to all applicants. But most of all, when existing wetlands are converted for development or agriculture use, we need to make sure that we replace them with high quality wetlands. Right now, when a construction project eliminates an existing wetland, Michigan law focuses too much on putting replacement wetlands on the same site. A better way is to expand our use of wetland mitigation banks. In a wetland bank, high quality, spectacular wetlands can result from many different developers choosing to pool their resources and collectively replace their wetlands. I am calling on DEQ to reinvent our wetland mitigation banking system to make sure that Michigan will end up not just with average or good replacement wetlands, but with the best wetlands and wetland systems in America – all at the same or lower cost to our business community and residents.

Continue Restoration

The important ongoing efforts to address historical pollution and to restore many of Michigan's coastal regions and waterways must continue, and will be part of any restoration plan that is put forward. For example, this past year, we took an important step by putting funding associated with underground storage tanks toward cleanups. My budget priorities will continue to reflect sustainable funding for restoring Michigan's environment.

Hydraulic Fracturing

Hydraulic fracturing, or "fracking," has received increased attention lately. This technology is being used in combination with horizontal drilling to reach some natural gas and other resources that otherwise could not be developed. This innovation is already benefitting Michigan in the form of unusually low natural gas prices and additional money from state leases that goes to our public lands and our parks. But some have expressed concerns about what these technologies mean for Michigan's environment.

Neither fracking nor horizontal drilling is a new technology—they have been used in Michigan for many decades. None of the fracking that has been done in Michigan has resulted in a single water quality problem. In fact, fracking's deeper wells likely pose less risk to our groundwater than the shallower wells we are more used to. With our water withdrawal statute, as well as our strong regulatory history of natural gas drilling, we are better prepared – more adaptable – than most other states.

That said, it's important that our citizens understand what fracking is really all about. That's why the University of Michigan's Graham Sustainability Institute is undertaking an evaluation of fracking. At their invitation, the state is participating in the steering committee for this effort alongside environmental and industry groups. At the end of the process, the public will have well-reasoned, objective explanations of what this technology is and is not. We will also have a Michigan-focused evaluation of the various implications of fracking. This is a great example of collaboration and a public university serving the needs of the state, and I am looking forward to seeing the results.

Integration

We need to remember that our ecosystems are all interconnected, and the best environmental solutions can solve more than one problem. A great example of this is recycling. When we can redirect trash to productive use, we reduce the impact on our lands, air and water. And that's why this is an area in which we need to do better.

As a state, we have one of the lowest recycling rates in the Midwest. We need to look beyond our recycling of cans and plastic bottles and creatively figure out what we can do to reduce our waste overall. This year, my administration will examine possible options to get Michigan to where it needs to be on recycling, and I'll be coming back to you with a comprehensive plan in 2014.

As anyone who runs a business or a farm can tell you, environmental issues don't come in neat packages called "water" or "air" – and it can be hard for people to know what the right thing is to do. I think most Michiganders want to do the right thing, but are often unsure about asking for help. We need to make sure those with good intentions can get the assistance they need. I am calling on the DEQ to increase its compliance assistance efforts throughout their regulatory programs – but I think it's important to recognize two great ways they are already doing that.

DEQ's award-winning Retired Engineer Technical Assistance Program, or RETAP, sends technical experts to help citizens and businesses figure out ways to prevent pollution and reduce their energy costs. We know our retirees are engaged and vital and make a difference to this state, and this program is a great example of the way some of them are doing just that. In fact, I will be encouraging retired engineers and scientists, who would like to work with companies trying to do the right thing while growing their business, to consider joining the RETAP program.

The second example of a program providing great customer service and environmental benefits is the Michigan Agriculture and Environmental Assurance Program. This is a voluntary, proactive program designed by a coalition of farmers, agricultural commodity groups, state and federal agencies and conservation and environmental groups to reduce food producers' legal and environmental risks. The response from the

agricultural community has been terrific. We are already more than meeting our goals for participation.

And finally, for those who are worried about falling into an endless pit of red tape, I want to promise you that isn't the case. Since April 2011, a total of 105 unnecessary DEQ rules have been taken off the books, including regulations that were outdated, had excessive reporting requirements, or were related to inefficient government programs. Michigan's quality of life agencies – DEQ, DNR and MDARD – have all improved in timeliness even while their staff levels have gone down. These agencies will continue to work closely with applicants that have complicated issues, making certain that their reviews are data driven and focused on bad actors that need more watching.

In addition, the Office of Regulatory Reinvention, in conjunction with DEQ and stakeholders, has developed and issued recommendations to ensure that Michigan's environmental regulations are simple, fair and efficient. The DEQ has developed a plan to implement those recommendations, and has made considerable progress in following through on that plan. I encourage DEQ and the Legislature to continue working toward implementing these recommendations.

IV. Conclusion

There is a long list of things we need to do to support and enhance our efforts to protect our environment and ensure our energy future. But the best thing Michigan has going for it – by far – is our ability to adapt. We are committed to reinventing Michigan, and with the help of both the Legislature and the people, we are seeing results. Michigan is the comeback state of the nation. Our ability to adapt will ensure that, no matter what the future holds, Michigan will be ready.

We will work to set up the kind of environmental protections that allow us to adapt to changing conditions, and make sure our environment is healthy and resilient. Then we will enjoy watching our kids keep up the spirit of relentless positive action that reinvented the state they know, love and call home.

Appendix A

Readying Michigan to Make Good Energy Decisions

Summary: As the message indicates, Governor Snyder is requesting that members of the Legislature, as well as interested Michiganders, communicate what information they believe is needed to make good decisions regarding our energy choices in 2015. The state will need to look at new goals in energy efficiency and renewables, and make decisions regarding the future of electric choice as well. This appendix summarizes the process the administration will put in place and complete in 2013 to ensure that this information is available in a timely fashion.

Process Description: The administration will convene a series of public participation opportunities, which will be co-chaired by the Chair of the Public Service Commission, John Quackenbush, and the head of the Michigan Energy Office, Steven Bakkal. These opportunities will offer a chance for both written and oral submission from legislators and the public. Additionally, this process will include identifying existing information, as well as suggestions for areas where further development of information is needed. Suggestions for the process and best experts for developing this information would be accepted. In addition to the areas of efficiency, renewables and choice, the identification of any additional areas that should be part of later decision making will be encouraged.

Following the input from the public, the chairs will develop an outline of what information needs to be compiled or developed, and will identify any needed expertise and arrange for the generation of information as needed. They will then oversee the creation of the reports, and make them available for public input prior to finalization. The resulting reports will be strictly informational and will not advocate for or recommend any particular outcome or policy.

Timeline:

January: Initial description of process and outline of opportunities for public comment.

February-April: Public participation process regarding existing and needed information.

May-June: Decisions from chairs outlining reports in each program and laying out plan for development of information that is not yet available.

July- September: Compilation/development of information.

October-November: Release of draft reports for public feedback.

November-December: Finalize reports and release final versions.

Appendix B

Public Land Management Plan Development

An essential component of the governor's priority to grow Michigan's resourced-based industries is to prepare a Public Land Management Plan. The Department of Natural Resources (DNR) has embarked upon an expedited process to complete such a plan by the spring of 2013. The goals of the planning process are:

- Educate the public/opinion leaders about public lands and their value
- Establish collaborations with MEDC regions utilizing public lands to assist in regional economic prosperity initiatives
- Address the requirements of Act 240 of 2012
- Establish strategic objectives for land acquisition and disposal

The expedited planning process involves four basic steps:

1. Prepare background information and draft strategic performance goals- Completion Date: December 2012

Currently, the DNR is preparing background on public land ownership, the history of public land ownership, maps to inform the public about the location of public lands and the resources, infrastructure and outputs from state owned lands, the value of those outputs over time and draft goals for public lands by regions.

The DNR is also conducting literature reviews on the value of public lands, and summarizing and comparing the goals and priorities developed in recent statewide planning efforts such as the Governor's State Parks and Outdoor Recreation Blue Ribbon Panel recommendations, the draft State Trail Plan and the 2013-18 Statewide Comprehensive Outdoor Recreation Plan.

2. Vet background information and draft performance goals with key state-level stakeholders- Completion Date: March 2013

By the end of the month, the DNR director will appoint a 10-15 person advisory group of statewide leaders consisting of representatives from the economic development, conservation, resource extraction, recreation, community development/placemaking and natural resource management communities. The purpose of this advisory group will be to provide feedback on the background information, draft land management goals, criteria for land acquisition and disposal activities, review and provide input on the feedback provided by regional leaders, identify ways to better connect state lands with economic development and review final drafts of the Land Management Plan.

The DNR will also seek feedback on draft goals, background information and land acquisition and disposal criteria from other committees that provide advisory assistance to the department, including the Natural Resources Commission, Timber Advisory Committee, State Parks Advisory Committee, the Waterways Commission and Michigan Snowmobile and Trails Advisory Committee, Forest Management Advisory Committee,

the Upper Peninsula Citizens Advisory Committee and the Fishery Citizens Committees.

Public Sector Consultants will support the department in the public engagement process. They are seeking support from the foundation community to pay for their work. Specifically, the department is seeking assistance from PSC in conducting a stakeholder engagement process that will:

- Help the state and stakeholders better understand the portfolio and benefits of state land holdings and their relationship to local prosperity
- Solicit input from stakeholders on existing statewide and regional plans and priorities related to the state's management of public lands
- Identify regional assets and opportunities that affect public land use and acquisition needs
- Provide opportunities to educate stakeholders about the value of Michigan's public land assets
- Assist in obtaining information about the value of public lands to business and industry in the state.

The department, with the assistance of Public Sector Consultants, will hold a one-day workshop with state level leaders to ensure that draft state-level goals and criteria for acquisition and disposal are on target and that the public educational materials are useful.

Presentations with an opportunity for feedback are also tentatively planned for the Michigan Economic Developers Association Capitol Day meeting as well as other appropriate meetings of statewide organizations.

3. Collaborate with MEDC regions on identifying regional public land goals – *Completion Date: April 2013*

With the assistance of Public Sector Consultants, the department will identify regional leaders from each of the state's Collaborative Development Council regions who will be asked to provide input on their regional assets, priorities and goals, and to identify how the state's public lands help (or hinder) their ability to achieve regional priorities. The regional leaders will also be asked to help define regional strategic performance goals for state lands and feedback on draft criteria for acquisition and disposal. They will help define a collaboration process for implementation of the Land Management Plan in their regions.

As with the statewide advisory group, the regional leaders group will include representatives from the economic development, conservation, resource extraction, recreation, community development/placemaking and natural resource management communities.

The regional leaders will be invited to one of five facilitated meetings, in the Upper Peninsula, northern, mid, southeast and southwestern Michigan. A webinar will be held prior to the meeting to provide regional leaders with background information and

homework assignments so that they will be fully prepared to participate in the regional meetings.

4. Prepare plan- *Completion Date: May 2013*

Based upon the input received through the public engagement process, the department will prepare the Land Management Plan and submit it to the appropriate committees of the Michigan Legislature.