

Great Lakes Water Quality Bond

The Great Lakes Water Quality Bond Proposal, (Proposal 2) overwhelmingly passed with 60% of the vote in November 2002.

The passing proposal did not impact the SRF Fiscal Year (FY) 2003 Project Priority List or the amount of money available in the fund that year. It is unclear whether any of the additional funds will be available for projects in the later fiscal years. Decisions about whether, when, and what volume of bonds to sell will have to be made in consultation with the Department of Treasury.

Three bills dealing with the State Revolving Fund (SRF) passed the Michigan House and Senate and were signed by Governor Engler on May 30, 2002. The bills took effect when a ballot question authorizing the sale of \$1 billion of general obligation bonds were approved by the voters on November 5, 2002.

These bills created a new revolving fund, provided a new source of money for the SRF, stipulate how the new funds can be utilized, and changed the existing SRF point scoring and planning process. The complete text of these bills can be found at:

<http://www.michiganlegislature.org/>

The bills became Acts 396, 397, and 398 of 2002. Following is a brief summary of these acts:

The Acts created a new revolving fund called the Strategic Water Quality Initiatives Fund (SWQIF). The SWQIF provides low-interest loans to municipalities for two specific kinds of projects that currently do not qualify for SRF assistance. Improvements to reduce or eliminate the amount of groundwater or storm water entering sanitary sewer leads or combined sewer leads. Upgrades or replacements of failing on-site systems that are adversely affecting public health or the environment, or both.

The SWQIF application, review, and approval process mirror those established for the existing SRF program (Part 53 of the Natural Resources and Environmental Protections Act, 1994 PA 451, as amended). Act 397 also included a *“finding”* that the program created by Part 52 (the new SWQIF) is a “public purpose and of paramount concern in the interest of the health, safety, and general welfare of the citizens of the state.” The significance of the SWQIF is that these funds can be used for work on wastewater facilities that remain in private ownership.

The Acts resulted in a new source of money for the SRF. The voters authorized the state to borrow up to \$1 billion by issuing general obligation bonds *“to finance sewage treatment works projects, storm water projects, and nonpoint source projects that improve the quality of the waters of the state.”*

The Acts placed limits on how the money for the SRF and SWQIF can be used and will be allocated. This \$1 billion will be an addition to the money the state already allocates to the existing SRF. The bond proceeds cannot be used to match annual SRF capitalization (cap) grants, except for those funds in excess of FY 2002 cap grant amounts. Ninety percent of the new money will be deposited into the SRF and 10 percent into the SWQIF. In addition, each year at least 2 percent of all available SRF funds must be allocated, to the extent needed, for nonpoint source projects.

Another restriction established the rate at which the debt can be incurred – no more than 20 percent of the bonds can be sold in any one year. Thus, this bond authorization will provide direct environmental assistance for a minimum of 5 years, and interest assistance well after this period as the funds “revolve.” The repayment if the bond is required to come from the general fund each year.

If the SRF has the capacity to lend \$200 million in a given year and the new bond fund contributes its maximum for that year \$200 million, as much as \$600 million in assistance (without additional leveraging) could be made available to municipalities. The money would be split up among the two funds this way: The SRF would have over \$500 million (\$10 million which would be available for nonpoint source projects); the SWQIF would have over \$20 million. If the new bond money is leveraged these figures would be even greater.

The Acts made changes to the existing SRF point scoring and planning processes. Three separate priority lists will be required each year: One for sewage treatment/storm water projects; one for nonpoint source projects; and one for the SWQIF. Proposal 2 amended the SRF priority system by adding two new (100) point categories. Projects that address on-site systems that are adversely affecting the public health/environment and are located in areas with soil/hydrologic conditions that are not suitable for on-site replacements; and Projects that include the construction of septage acceptance/treatment facilities.

In addition, Proposal 2 stipulated that the SWQIF will use the same priority system as the SRF, but without the population point category. Public Acts 511 and 562 of 2012 modified Proposal 2 as noted below:

Act 511 created a new grant and loan program called Stormwater, Asset Management, and Wastewater (SAW) in 2013. The SAW provides low-interest loans to municipalities to construct projects that are identified in an asset management plan and improve water quality. The SAW loan is similar to an SRF loan, yet does not include federal requirements.

The SAW grants are for these activities: planning and design of a stormwater or wastewater project to improve water quality, stormwater management plan, asset management plan for stormwater or wastewater, and the demonstration of innovative technology stormwater or wastewater projects. The grant maximum is \$2M. The first million dollars has a match of 10 percent and the second million-dollar match amount is 25 percent. If a municipality is determined to be disadvantaged, as defined in the statute, then the match requirement is waived. Communities have three years to complete grant activities from the date of award. \$450M is allocated for the SAW program.

Act 562 removed the limits on how money is allocated for SWQIF and SRF (see above). The billion dollar amount is split between the SWQIF (\$710M) and SRF (\$290M).

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Please note that these Acts do not impact the Drinking Water Revolving Fund in any way.