

No. 977

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### STATE BALLOT PROPOSALS - II

Four statewide proposals have been placed on the November 8th ballot, three of them by the state legislature. Proposal A, which deals with public funding of abortion, and Proposal B, the crime victims bill of rights, were discussed in **Council Comments** 974. Proposal C, which would authorize a \$660 million environmental bond issue, and Proposal D, which would authorize a \$140 million bond issue, are discussed below. In September 1988, the Legislature passed and the governor signed four bills into law (Acts 326, 327, 328 and 329) that place before the voters in the November election two general obligation bond issues.

The statutory program provides a maximum of \$67.5 million for economic development projects. Up to \$62.5 million of the environmental protection funds could be appropriated for economic development projects, including a requirement that \$17.5 million be used to promote research on resource recovery of solid wastes. From the recreation bond issue, \$5 million shall be used to turn abandoned industrial sites into open space and parks.

#### PROPOSAL C: ENVIRONMENTAL BOND ISSUE

The wording of Proposal C is as follows:

The proposal would:

- 1) Authorize the State of Michigan to borrow a sum not to exceed \$660 million to finance environmental protection programs that would clean up sites of toxic and other environmental contamination, contribute to a regional Great Lakes protection fund, address solid waste problems, treat sewage and other water quality problems, reuse industrial sites and preserve open space; and
- 2) Authorize the state to issue general obligation bonds pledging the full faith and credit of the state for payment of principal and interest on the bonds; and
- 3) Provide for repayment of the bonds from the general fund.

Act 328 establishes an environmental protection bond fund in the state treasury. The proceeds from the sales of general obligation bonds would be deposited in the fund. The bonds would be sold over a minimum of three years unless altered by the State Administrative Board, because amendments to the internal revenue code would impair the tax exempt status of the bonds. Bonds can be sold in less than the three years if the governor declares a toxic substance emergency that is concurred in by the legislature. Monies in the bond fund can be expended only after being appropriated by the

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legislature. There are the following four components to the environmental bond issue:

1. Environmental clean-up - \$425 million
2. Solid waste management - \$150 million
3. Wastewater treatment - \$60 million
4. Great Lakes protection - \$25 million

Up to 6 percent of the bond issue, exclusive of the \$60 million for wastewater treatment, may be appropriated to the Department of Natural Resources for administering projects associated with the bond issue.

**Environmental Clean-up.** Act 328 earmarks \$425 million for the clean-up of environmental contamination. Bond proceeds are to be expended in accordance with Act 307, Public Acts of 1982, the environmental response act. This act establishes a process to evaluate environmental contamination caused by the presence of hazardous substances at contaminated sites. The governor or his designee is responsible for annually identifying and evaluating the known contaminated sites in the state in order to assign priority for cleaning up the sites. The Natural Resources Commission has been designated by the governor to implement the provisions of Act 307. A report is to be submitted to the legislature in November of each year. Public hearings are held on the report, and a final report is submitted to the legislature in March which serves as the basis for environmental clean-up appropriations.

The report contains two lists. The first list identifies all known sites requiring further evaluation to determine if there is a potential hazard to the public health, safety, welfare, or to the environment. If this review indicates clean-up is warranted, the site is moved to list two, which contains the sites ready for clean-up. Priority is established through a numerical rating system. The 1988 report identifies 1,762 sites on the two lists, of which 1,736 are on list one and 26 are on list two. As of August, 1988, there were four sites where clean-up had been completed.

The federal government develops a national priorities list for use in allocating federal superfund monies to clean-up environmental contamination. The June, 1988 list contains 1,177 total sites in the nation including its territories. Michigan with 81 sites ranks fourth, with New Jersey (110 sites), Pennsylvania (97 sites), and California (88 sites) the three jurisdictions with more priority sites than Michigan. Fewer sites are on the federal list than the state list, because the federal government includes only those sites that pose the greatest threat to the environment and human health.

Based on 1986 estimates, the Department of Natural Resources estimates that approximately \$4 billion would be required to clean-up 900 sites. This includes 660 known sites and 240 projected new sites. The first appropriation under the Act 307 program was a \$12.1 million supplemental appropriation in 1984. The total amount appropriated through the 1988 fiscal year was \$58 million. In addition, \$37 million in federal superfund monies have been allocated to Michigan for environmental clean-up during the period 1984-85 through 1987-88.

There are three potential sources for environmental clean-up. In addition to the federally funded sites and state funded sites, many sites are cleaned up by private businesses responsible for the contamination. For example, the state estimates that if the

current program is continued for 10 years there will be 218 full clean-ups, of which 109 will be funded by private monies. Assuming an additional \$425 million is available from bond proceeds, the 10 year estimate is 338 total sites would be cleaned up, of which 169 would be funded privately.

**Solid Waste Management.** Act 249 of 1986 established the clean Michigan fund. The fund was created to reduce dependence on landfills for solid waste disposal by supporting resource recovery alternatives. The Department of Natural Resources estimates that an average of 32,000 tons per day of solid waste is generated in Michigan. Bond proceeds would be used to promote waste reduction and alternative disposal systems including reuse, composting, recycling, and incineration with energy recovery.

The resource recovery technologies and management techniques that are advocated and the waste reduction goal for each area follow:

1. Landfilling is the major system for solid waste disposal at the current time. An estimated 85 to 90 percent of the current solid waste stream is deposited in land disposal facilities. The objective is to reduce this reliance to 10 to 20 percent by waste reduction, reuse, composting, recycling, and incineration.
2. Waste reduction is a practice that results in not creating or generating waste. The goal is to decrease the total solid waste stream 8-12 percent through waste reduction.
3. Reuse is reusing a product for its original purpose or another purpose. The goal is a four to six percent reduction in the total waste stream.
4. Composting is the natural decomposition of organic matter such as leaves, grass clippings, and small brush. The objective is to compost 8-12 percent of the total waste stream.
5. Recycling is the separation, collection, and processing of materials which would become solid waste for conversion into raw materials or new products. The goal is to recycle 20-30 percent of the solid waste stream.
6. Incineration or waste to energy is the incineration of solid waste at high temperatures under controlled conditions with energy recovery. The waste to energy goal is 35-45 percent of the waste stream.

These policy goals are consistent with Act 209, Public Acts of 1987, which require the director of the Department of Natural Resources to develop a plan that will reduce land disposal to "unusable residuals" by 2005.

There are varying costs associated with the above goals for waste reduction and each alternative disposal system. Waste reduction is the most direct and cost effective system. The associated costs primarily are educational. Reuse also has an educational cost. Many products can be reused at little additional cost. The estimated total capital cost for composting 2,900 tons per day is \$14 million, based on a per ton cost of \$4,700. This effort would deal with 10 percent of the waste stream. The estimated total capital cost to recycle 13 percent of the state's solid waste stream is \$84 million.

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This estimate is based on 4,160 tons per day, and a cost per ton of \$20,300. It also takes into account that 12 percent of the goal is being met through current recycling activities. By 1990, it is estimated that approximately 19 percent of Michigan's solid waste stream will be incinerated leaving an additional 21 percent to be incinerated by 2005. The estimated total capital cost for the 21 percent is \$773 million, based on 6,720 tons per day at a cost per ton of \$115,000.

The estimated costs include a mix of operating and capital costs. Incineration and recycling involve large capital costs, while waste reduction is an operating expenditure. It is anticipated that most of the \$150 million in bond- proceeds will be used for capital purposes. This is anticipated even though reduction of solid waste, and the reuse of materials are the top two priorities in the solid waste reduction program.

**Wastewater Treatment.** The federal government through the passage of the water quality act of 1987, Public Law 100-4, changed the federal role in funding wastewater treatment facilities, which had the effect of encouraging the state to modify its method of financial support for the construction of local facilities. Prior to the passage of the water quality act, federal funds were available through the Department of Natural Resources in the form of capital grants to municipalities.

Title VI of the water quality act calls for the states to implement a state revolving loan fund, which will be used to make low interest loans to communities desiring to build or rehabilitate municipal wastewater treatment facilities. The federal program provides capitalization grants to the states over a six year period. Grants will begin in fiscal year 1989, and continue through fiscal year 1994. The total amount the state is eligible for in the six year period is \$365 million. There is a 20 percent state match requirement, which necessitates state funds in the amount of \$73 million. The bond issue proposes to provide \$60 million of this need.

In order to provide a statutory basis for the revolving fund, two statutes were enacted in 1988. Act 316 amends Act 227, P.A. of 1985, the municipal bond authority act, to provide authority for the financial aspects of the revolving fund. This act authorizes the establishment of a state water pollution control revolving fund. The municipal bond authority is responsible for making loans through loan agreements that contain provisions relating to the length of a loan, repayment terms, and other necessary provisions.

Act 317 is a state clean water assistance act which is the enabling legislation for the Department of Natural Resources to administer a water pollution control program. This act requires the Department of Natural Resources to develop a priority list for loans. Two priority lists will be developed. The first is for sewage treatment works projects, and the second is for "nonpoint source projects." The second group involves pollution that occurs because of an activity away from a water system. For example, the use of fertilizers might cause pollution as they are washed into a water system. Priority will be established by criteria included in the act, or by administrative rules promulgated by the Natural Resources Commission.

In 1985 as part of the governor's report on Michigan's infrastructure, the Department of Natural Resources estimated the state's 10 year investment need in this area to be \$6.765 billion. This included \$1.1 billion identified as critical investment needs. In-

cluded was an estimated \$360 million required for compliance with federal waste water treatment requirements in 38 communities, \$640 million for communities under enforcement action, and \$100 million for sewer overflow problems in the Rouge River area. The Department of Natural Resources contends the situation is comparable three years later.

**Great Lakes Protection.** The \$25 million allocated to Great Lakes protection is available if a Great Lakes protection fund is established within two years after the effective date of Act 328. If this does not occur, the \$25 million will be available for environmental clean-up.

Act 128, Public Acts of 1985, established an Office of the Great Lakes within the Department of Natural Resources. The organization is designated as “the lead agency within state government for the development of policies, programs, and procedures to protect, enhance, and manage the Great Lakes.” Act 128 recognizes the importance of the Great Lakes for clean drinking water, the tourism industry, other commercial and industrial activities, and the quality of life in Michigan.

The governors of Michigan, Ohio, Indiana, Minnesota, Illinois, Wisconsin, New York, and Pennsylvania have agreed to work toward the establishment of a Great Lakes protection fund. The fund would be endowed with \$100 million for the purpose of advancing the cause of clean water. Each state will contribute to the fund based on its usage of water from the Great Lakes. Michigan’s contribution is estimated to be \$25 million. The fund will become operational when four of the eight states pass enabling legislation. Act 328 indicates the fund must be operational by November 30, 1990 in order to use bond proceeds for this purpose. To date, no state has passed enabling legislation.

It is anticipated that the fund will provide up to \$10 million annually to finance research related to protecting the Great Lakes. Two-thirds of the money will be expended at the regional level, and one-third will be returned to the states for research relating to the specific water problems of individual states. Research will be undertaken on topics such as economic, environmental, and human health effects of contamination; developing improved methods of measuring water quality; establishing a scientific basis for water quality management; and devising new clean-up techniques for toxic contamination.

#### **PROPOSAL D: RECREATIONAL BOND ISSUE**

The wording of Proposal D is as follows:

The proposal would:

- 1) Authorize the State of Michigan to borrow a sum not to exceed \$140 million to finance state and local public recreation projects; and
- 2) Authorize the state to issue general obligation bonds pledging the full faith and credit of the state for payment of principal and interest on the bonds; and
- 3) Provide for repayment of the bonds from the general fund.

A recreation bond fund is established by Act 329, and it includes many similar provisions to those found in the environmental program. For example, bonds must be sold over a minimum of three years unless altered by the State Administrative Board, because amendments to the internal revenue code would impair the tax exempt status of the bonds. Annual appropriation of bond proceeds is required, and no more than three percent of bond proceeds may be appropriated to the Department of Natural Resources for program administration. Of the \$140 million total, \$70 million shall be used to improve state parks. The \$70 million for grants or loans to local units of government including governmental authorities are for local public recreation projects (\$65 million), and to develop and reuse vacant manufacturing facilities or abandoned industrial sites for recreational facilities (\$5 million).

**State Parks.** Act 329 allocates \$70 million “to construct, expand, and develop recreational facilities at state parks pursuant to the 5 year capital outlay program published by the department and approved by the commission.” Funds may also be used for other state recreational facilities for which matching funds (presumably federal or private) are available. Michigan has a network of 94 state parks.

The five year capital outlay program as prepared by the Department of Natural Resources covers the fiscal years 1989-90 through 1993-94, and totals \$103 million. **Table 1** summarizes the five year capital outlay budget.

**Table 1**

**Five Year Capital Outlay Budget for the State Park System  
(Dollar amount in thousands)**

| <u>Year</u> | <u>Amount</u> |
|-------------|---------------|
| 1989-90     | \$ 13,055     |
| 1990-91     | 13,954        |
| 1991-92     | 20,005        |
| 1992-93     | 34,280        |
| 1993-94     | <u>21,245</u> |

Total \$102,539

Source: Michigan Department of Natural Resources

The five year plan includes three new state parks (Coldwater, Grand Valley, and Thompson’s Harbor), and \$5 million is included for each site for initial development.

A three part priority system has been developed by the Department of Natural Resources for the allocation of bond proceeds. They are:

1. Allocations for environmental matters to ensure that park sewage systems and public water supplies are consistent with current environmental and health standards.
2. Funds for renovation of existing park infrastructure including upgrading roads, buildings, electrical systems, beaches, and other facilities that have deteriorated over time.
3. Monies for the expansion of existing park facilities and the development of new parks.

**Local Public Recreation.** Act 329 defines a broad range of public recreation projects that would be eligible for a grant or loan. It is difficult to envision any local recreational activity that would not qualify as a potential project except those projects specifically excluded. Funds may not be used for land acquisition; "sports facilities, arenas, or stadiums intended as the primary home of a professional sports team; commercial theme parks; or casino gambling."

For allocating the \$65 million, the state is divided into three regions and each region is allocated \$6.50 per capita based upon 1985 census figures as reported by the Senate Fiscal Agency. Region 1 is the 15 counties in the Upper Peninsula. Region 2 includes Saginaw County and 33 counties north of Saginaw except Oceana, Mecosta and Newaygo Counties are in region 3, which is the balance of the state. Individual local units of government within each region may make application for a grant or loan based on criteria included in administrative rules to be promulgated by the Natural Resources Commission. Any funds remaining, after the per capita allocation, shall be used for regional parks, as defined by commission rules. It is estimated that region 1 would be allocated \$2.1 million, region 2 would receive \$7.2 million, and region 3 a total of \$49.8 million for a state total of \$59.1 million. The remaining \$5.9 million would be available for regional parks. Any grant requires a 25 percent match by the local unit of government. Clearly, one of the objectives of the local recreation program is to have the funds expended in all areas of the state.

### **Existing State Debt**

Section 15 of Article 9 of the Michigan Constitution provides the constitutional authorization for general obligation full faith and credit borrowing. These general obligation bonds must be approved as to amount, purpose, and method of repayment by a two-thirds vote of each house of the legislature and by a majority of the public voting on the issue at any general election. As of September 30, 1987, Michigan had \$157.7 million in general obligation debt (see **Table 2**), which will be retired by September 30, 1999.

**Table 2**  
**General Obligation Debt (As of September 30, 1987)**  
**(Dollar amount in thousands)**

| <u>Issue</u>                  | <u>Total<br/>Authorization</u> | <u>Total<br/>Issued</u> | <u>Outstanding<br/>Balance</u> |
|-------------------------------|--------------------------------|-------------------------|--------------------------------|
| School Loan Bonds             | <sup>1</sup>                   | \$139,000               | \$ 20,700                      |
| Water Pollution Bonds         | \$335,000                      | 335,000                 | 120,000                        |
| Public Recreation Bonds       | 100,000                        | 100,000                 | 2,000                          |
| Vietnam Veterans' Bonus Bonds | 205,000                        | 190,000                 | 15,000                         |
|                               |                                | \$764,000               | \$157,700                      |

Source: Michigan Department of Treasury; <sup>1</sup> No limit established by law

There also are special purpose bond issues and bonds issued by various state authorities, both of which are secured by specific revenues. Such debt is not a general obligation of the state, but is a state-related debt. As of September 30, 1987, the total non-general obligation amount outstanding was \$6.7 billion.

Based on U.S. Bureau of the Census data for 1986, Michigan's per capita long-term debt was \$775, and the average for the United States was \$1,030. There were 32 states with more total per capita long-term debt than Michigan. In terms of long-term full faith and credit debt, Michigan's per capita figure was \$68, which compares with a national average of \$269. Using this measurement, there were 34 states with more debt.

The state probably will issue bonds for a 20 to 30 year period. Payments are made from state general fund revenues, which then are not available for other public purposes. In fiscal year 1988, the principal and interest payment due on the existing \$157.7 million debt was \$36.9 million.