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BILL ANALYSIS

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Senate Bill 719 (as introduced 12-10-13)
Sponsor: Senator Darwin L. Booher
Committee: Natural Resources, Environment and Great Lakes

Date Completed: 1-22-14

CONTENT

The bill would amend Part 196 (Clean Michigan Initiative Implementation) of the Natural Resources and Environmental Protection Act (NREPA) to allow the terms of an outstanding loan from the Clean Michigan Initiative Bond Fund to be renegotiated upon a demonstration of financial hardship by the loan recipient.

The Clean Michigan Initiative (CMI) Act requires the State to borrow up to $675.0 million and issue general obligation bonds to finance environmental and natural resources protection programs that would clean up and redevelop contaminated sites, protect and improve water quality, prevent pollution, abate lead contamination, reclaim and revitalize community waterfronts, enhance recreational opportunities, and clean up contaminated sediments in lakes, rivers, and streams. The proceeds of the sale of the bonds, any premium and accrued interest received on the delivery of the bonds, and any interest earned on the proceeds must be credited to the CMI Bond Fund for these purposes.

The Fund was created within the State Treasury under Part 196 of NREPA, which also provides for the allocation of the Fund money, including up to $335.0 million for use by the Department of Environmental Quality (DEQ) for response activities at facilities. Of that amount, $75.0 million must be used to provide grants and loans to local units of government and brownfield redevelopment authorities for response activities at known or suspected facilities with redevelopment potential. Of the $75.0 million, a maximum of $25.0 million must be used to provide loans for specified "eligible activities" pursuant to the CMI Revolving Loan Program. To receive loan funds, approved applicants must enter into a loan agreement with the DEQ. A loan made with Fund money must include the following terms:

-- The interest rate must be not more than 50% of the prime rate as determined by the administering State department as of the loan's approval date.
-- Recipients must repay loans in equal annual installments of principal and interest beginning within five years after execution of a loan agreement and concluding within 15 years after execution.
-- A recipient must enter into a loan agreement with the administering State department.
-- Upon default or the request of the recipient as a method to repay the loan, the Department of Treasury must withhold State payments from the recipient in amounts consistent with the repayment schedule in the agreement, depositing the withheld funds into the CMI Bond Fund, until the loan is repaid.

Under the bill, upon a loan recipient's request and a showing of financial hardship related to the project that was financed in whole or in part by the loan, the administering department could renegotiate the terms of any outstanding loan, including the length, interest rate, and repayment terms.

MCL 324.19612 Legislative Analyst: Julie Cassidy

FISCAL IMPACT

The bill would have a neutral fiscal impact on State government and a positive fiscal impact on local units of government. Under the bill, municipalities experiencing financial hardship related to a CMI project loan would be allowed to renegotiate terms of the loan. This would generally have a positive fiscal impact on municipalities that qualified, as interest rates, terms, and loan length could be favorably renegotiated. The DEQ receives CMI loan repayments from municipalities, which allows additional projects to be funded. To the extent that municipalities would renegotiate loan terms under the bill, future CMI loan repayments could be reduced. Reduced repayments would not have an administrative or operational impact on the DEQ, nor would they affect the Department of Treasury's ability to repay the original CMI bonds. The impact of reduced repayments would be a reduction in the amount of future CMI loans the DEQ could issue. The DEQ has indicated that it expects such a reduction would have a minimal impact on the CMI loan program.

Fiscal Analyst: Josh Sefton