

# SpinalColumn

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## Environmental bond programs come under fire

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As local leaders prepare to borrow money as part of the state's latest environmental bond initiative, a newly released report indicates that Michigan is already wracking up interest from two previous bond programs — raising questions about how efficient the newly passed proposal will be for the state's environment.

Late last fall, the Midland-based Mackinac Center for Public Policy released a report analyzing the 1998 voter-approved Clean Michigan Initiative (CMI) and another past environmental bond proposal to determine the effectiveness of the bond sales.

"Knowing how well or poorly the state has managed the bond fund, as well as understanding the consequences on Lansing's increased reliance on borrowing, is essential to guide future resource management decisions," said Diane Katz, the center's director of science, environment and technology policy. "Ultimately, the goal of this study is to enhance environmental quality for all Michigan citizens by determining whether the (CMI) constitutes effective policy and practice."

The Clean Michigan Initiative, a \$675-million bond sale plan overwhelmingly approved by state voters in 1998, was designed to fix state parks, improve water quality and clean contaminated sites throughout the state.

Documents, however, show that less

than one-fourth of that amount — or \$153 million in bonds — have been sold in three CMI series, and no bonds have been issued in more than a year.

While the approximate \$153.62 million has been raised from the three bond series, the state also owes bondholders an additional \$91.23 million in interest. Legal and administrative services related to the three bond issues cost an additional \$346,000. This, in turn, translates to the state having to repay about \$1.60 for every dollar spent on CMI projects.

"These added debt costs are all the more questionable given the substantial gains in environmental quality already achieved at substantial cost over the past three decades," the report states. "In the case of the Clean Michigan Initiative, this heavier debt load does not appear justified in that a substantial portion of (environmental general fund monies) is reserved for commercial, recreational and aesthetic improvements that will yield relatively minor environmental benefits."

According to the CMI Act, a general performance review audit is required every two years by the state's auditor general. A spokesman in the Office of the Auditor General, however, said a review has not been conducted because the \$389 million appropriated to date (between 1999 and 2001) is "too inconsequential an amount to justify the cost of an audit."

The report further states that a majority of the money is reserved for commercial, recreational and aesthetic improvements that "yield relatively minor environmental benefits."

Some of the those allocations include: \$47 million for 43 "innovative" waterfront development projects that

contribute to revitalizing neighborhoods and increased public access to lakes, streams and rivers; \$48 million for grants to local governments for improvements, which have been used to improve recreational amenities like swimming pools, tennis courts, ice arenas and skating rinks throughout the state.

The report also states that 7 percent of the CMI's overall funding goes to each waterfront redevelopment, recreational improvements and state park improvements, while 50 percent goes for brown-field cleanups, 13 percent goes for clean water initiatives and 3 percent goes to pollution prevention.

"In summary, the debt service on CMI bonds inflates program costs," the report states, "and far more CMI funds are being spent on questionable economic development, recreation and beautification projects rather than upon tangible environmental improvements."

Aside from the CMI, however, the study also shows the state hasn't sold all of the \$660 million in bonds approved by voters in 1988 to finance cleanups of contaminated

properties, improve water quality and upgrade sewer systems. The money was slated to endow an Environmental Protection Bond Fund.

According to the Mackinac Center report, DEQ documents indicate the state remains \$100 million short of meeting that commitment to Michigan voters.

The high cost of borrowing — for CMI and other bond initiatives — has troubled some lawmakers, especially since not all money is being spent.

State Sen. Alma Wheeler Smith (D-Salem Township), who was vice chairwoman of the Senate Appropriations Committee, pointed out the problems in September.

"The DEQ has repeatedly asked Treasury to sell bonds to finance Clean Michigan Initiative (CMI) and Environmental Protection Bond Fund program projects that have already been approved by the Legislature. Instead, the Engler administration has suspended all discretionary grants and projects and is refusing to sell bonds."

At the same time the DEQ is being forced to meet its contractual obligations with cash that has already been allocated but remains unspent. By the end of the fiscal year on Sept. 30, the DEQ will have overspent its bond proceeds by more than \$49 million. Smith contends that the administration is reluctant to go to the bond market

because the state's bond rating would be downgraded.

Even with this hesitation, however, the state is now authorized to borrow up to \$1 billion during the next decade — or \$10 million a year — through the Clean Water Bond initiative, which voters passed in November's general election. As the bonds are sold over the next 10 years, the money will be used to finance low-interest loans to counties and municipalities to finance sewage treatment work projects, storm water projects and water pollution prevention projects.

"Proposal 2 authorizes the state to sell bonds, but it doesn't require them to do that," said Ted Starbuck, a senior environmental planner for the Southeast Michigan Council of Governments (SEMCOG) familiar with the Clean Water Bond initiative. "It will be up to (the appropriate state government officials) to decide whether the state can afford to do that or not."

Referring to the past environmental bond issues, Starbuck affirmed the state's hesitation in selling bonds.

"I know that has been the case, and this is one of the reasons we're doing these programs, to educate people as to what they can do with the grant money. Hopefully that will create some momentum that will transfer to the recognition of the real need to do this." □