

## Bond issues carry extra costs

By DEANNA WENIGER  
Times Herald

As environmentalists and local governments cheer the November voter approval of borrowing as much as \$1 billion for sewer fixes, some wonder if voters really counted the financial cost.

The 20-year, \$1 billion Clean Water Bond will have at least an extra \$400 million to \$600 million in interest tacked on to it, said Joe Fielek, director of bond finance with the state treasury department.

A recent report by watchdog group the Mackinac Center for Public Policy in Midland said the state has a track record for borrowing

more than it can pay. Money earmarked for environmental projects goes toward cleaning up industrial waste, redevelop-



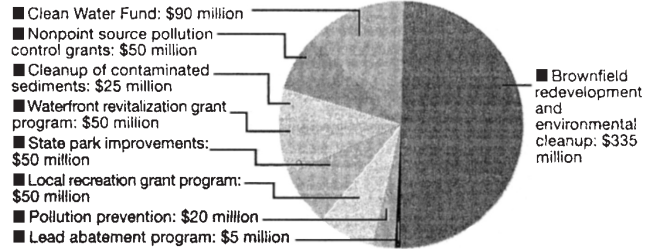
Robert Clegg

opening waterfront, improving recreation and parks, cleaning up sediment, educating on pollution prevention and cleaning waterways by separating sewers. Port Huron's 15-year, \$185 million sewer separation project benefits from this fund.

With so much money going toward environmental initiatives, some, such as state Rep. Paul

### Spending the Clean Michigan Initiative money

Michigan voters approved the Clean Michigan Initiative in 1998, authorizing the state to borrow \$675 million to spend on environmental cleanup and resource protection. Where the money has gone:



SOURCE: Michigan Department of Environmental Quality

Gielegem, D-Clinton Township, want to be sure the money is being used as it is intended.

He introduced House Bill 50-51, which would require comprehensive reports on the expendi-

tures for environmental efforts to be prepared and submitted to the

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legislature. The bill is in committee. The state usually reports on what money was doled out in grants, but does not always follow up on the success of those grants.

"We need to be asking the questions," Gielegem said. "We need to be saying, we've given you this money, we want to know what our money was used for, and we want to know what's left to do."

### Cost of borrowing

Environmental issues historically have gotten support from Michigan voters.

These initiatives have made Michigan a leader among other states in environmental investment. They also have added to the state's debt.

Diane Katz, researcher for the Mackinac Center, found selling general obligation bonds, as a method of borrowing money, increases by 60% the total cost of the initiative. To date, three environmental bond series through the Clean Michigan Initiative Act have been issued, raising \$153,620,000.

Besides repaying the \$153 million, taxpayers also owe bondholders an additional \$91,234,136 in interest.

Legal and other administrative services related to the three bond issues cost an additional \$346,000. Thus, taxpayers likely will repay about \$1.60 for every dollar spent on CMI projects.

Fielek said he did not have an exact breakdown on what the bonds eventually would cost but said Katz's estimates sounded reasonable.

Gielegem said, "This is like paying rent with a credit card."

In 1980, Michigan was rated third in the nation for state debt per capita, according to the U.S. Bureau of the Census. That

### LOCAL PROJECTS

#### CLEAN MICHIGAN INITIATIVE GRANTS OR LOANS

##### 2001

- St. Clair County Drain Commission: Evaluation of Emmett's failing septic system, \$12,500
- St. Clair County Drain Commission: Sewage treatment system in Avoca, \$411,329
- St. Clair County Drain Commission: To look for leaking septic, \$297,629
- St. Clair County Health Department: To look for leaky septic, \$297,718
- St. Clair County MSU Extension: Water monitoring in Black River, \$7,865
- St. Clair and Sanilac counties

number dropped to 36 by 1990, but inched up in 1997 to 24.

### Cost of spending

Katz said it's not so much the borrowing for a good cause that bothers her, but the state's inability to discipline its spending habits.

She likens it to buying a house.

"Very few people could come up with the cash at one time. It makes sense to borrow. But in order to afford the mortgage, they adjust their budget. My spending isn't going to be able to stay the same," she said. "We should be reducing our spending at the rate we are increasing our debt."

Katz recommends a performance review of all CMI spending, something required by the CMI act but not done.

She also recommends restricting bond sales to completing current projects, at least until the state's debt burden is decreased substantially.

health departments: Beach monitoring, \$25,000

##### 2000

- St. Clair County Drain Commission: Mill Creek volunteer monitoring report, \$7,123
- Marine City: Downtown riverwalk construction, \$558,660
- Marlette: Plugging abandoned water wells, \$14,500
- Brown City: Plugging abandoned water wells, \$12,000

##### 1999

- St. Clair County Drain Commission: Work on the Pine River bank, \$71,103
- Port Huron: Prepare industrial site for development, \$1,100,000
- Sanilac Conservation District: Study Cass River livestock pollution, \$462,926

Finally, she said any future bond authorizations should require a corresponding budget cut to offset the costs of bond interest and legal fees.

The Engler administration is trying to cut spending by way of \$337 million in cuts announced last week. Michigan residents could see college tuition increases, reductions in local police and firefighting forces and trims in state programs and services.

The budget cuts are needed because the languishing economy has been a drag on state tax receipts. Also, a series of previously approved tax reductions has sliced into revenues.

"Simply put, we cannot spend more than we have in available resources," State Budget Director Don Gilmer said. He said revenues were down to levels not seen since 1996.

The fear among municipalities before the Clean Water Bond passed was the state would not have enough matching funds to

### ONLINE

#### A CLOSER LOOK

- Mackinac Center for Public Policy report: [www.mackinac.org/4765](http://www.mackinac.org/4765)
- Michigan Department of Environmental Quality: [www.michigan.gov/deq](http://www.michigan.gov/deq)

qualify for federal dollars, said Robert Clegg, Port Huron's director of public works. He is happy to see the Clean Water Bond passed since it means more state money will be available for the city to borrow.

### Cost of waiting

Why not wait until the money is collected and then launch environmental initiatives?

"If it wasn't done today, it would have to be done by the next generation," Clegg said. "Does it ever get cheaper? No."

Doing it now also allows those who paid for the project to benefit from the project, he said.

The fund in 2002 loaned municipalities about \$200 million, but the demand for loans was about \$350 million, and it is expected to increase to about \$500 million annually in the next two decades.

Some said the financial cost will be worth the gains made in pollution prevention.

"Based on our research ... we discovered over 52 billion gallons annually of raw and partially treated sewage along with industrial chemicals and other contaminants were overflowed into the state's waterways," said Cyndi Roper, Michigan director for Clean Water Action out of Grand Rapids.

"The problem is huge, and it's embarrassing. The problem is getting worse."

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