



**House
Legislative
Analysis
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SURPLUS FUNDS FOR WASTE MANAGEMENT

**Senate Bill 41 with House committee amendments
First Analysis (6-3-87)**

**Sponsor: Sen. Connie Binsfeld
Senate Committee: Natural Resources and
Environmental Affairs
House Committee: Conservation and Environment**

THE APPARENT PROBLEM:

Approximately 80 to 85 percent of Michigan's solid waste is currently disposed of in landfills. Although existing legal standards for landfills are designed to protect the public health and environment, some claim that serious problems with solid waste disposal still remain. Improper land disposal of solid waste, for example, has been blamed for approximately 13 percent of the known groundwater contamination problems in Michigan and 47 percent of the suspected problems. Further, many existing landfills are reaching capacity and it has become increasingly difficult to find new landfill sites because of the costs, public opposition, and lack of suitable locations at reasonable hauling distances from where solid waste is generated. In addition, many claim that the use of landfills means that millions of tons of valuable resources that could be used to provide energy and produce new products are wasted every year, and landfill sites continue to put valuable land to a low priority use.

The Department of Natural Resources (DNR), through the Clean Michigan Fund, has developed a statewide solid waste management strategy to help alleviate the waste disposal problems plaguing the state. The strategy involves a number of resource recovery alternatives that some say could reduce the state's dependence on landfills by up to 70 percent. Use of such alternative waste management technologies would necessitate the establishment of waste-to-energy, solid waste transfer, recycling and composting facilities throughout the state. Many of these facilities are more costly than landfills, and unless the capital costs can be lowered, it appears unlikely that many public agencies will be able or inclined to construct and operate the facilities. In order to encourage public efforts to establish the facilities and programs necessary to implement the DNR's waste management strategy, it has been proposed that the state provide for the disposition of state surplus funds to invest in municipal bonds that would assist local units of government in promoting resource recovery alternatives.

THE CONTENT OF THE BILL:

The bill would amend Public Act 109 of 1855, which regulates the disposition of state surplus funds, to provide for the investment of such funds in a financial institution, investment company, or other legal entity that would be entitled to receive an investment for the purpose of assisting in the development of waste-to-energy facilities, solid waste transfer facilities, and recycling and composting facilities. The bill would limit the amount of an investment to ten percent of the average balance of the common cash fund during the preceding 30 days, and it would also specify information an investment agreement would have to contain. The general fund would be credited with above average earnings on an investment, and reduced by the amount of below average earnings. The state treasurer

would be prohibited from investing additional surplus funds as provided in the bill if the voters approved the issuance of general obligation bonds, and at least \$250 million of the proceeds of the bonds would be used to promote solid waste management in the state.

Eligible Projects

Not less than 30 days before an investment was made, the director of the Department of Natural Resources or his or her authorized representative and the state treasurer would be required to prepare and submit to the members of the joint capital outlay subcommittee a list of projects that the director and the treasurer determined were eligible projects and the local units in which the eligible projects were located. Upon approval of the subcommittee, the treasurer could execute the investment authorized by the bill.

Under the bill the state treasurer and the director of the Department of Natural Resources would be required to approve "eligible projects"; a project could not be approved unless certain conditions were met. One of those conditions would be that the project was located in a county that had an approved solid waste management plan, and that the project was consistent with the plan. The project would have to have all of the permits required by state law that were applicable to the nature of the proposed project. Further, if the project were a waste-to-energy facility, the director would have to determine if the "best available control technology" was utilized, as that term is defined in the Federal Clean Air Act, and that the resultant ash was tested for toxicity and that appropriate ash disposal was assured. In addition, the project would have to include either the recycling of the recyclable portion of the project's projected waste stream, a recycling feasibility analysis or other available information. The analysis would have to indicate that recycling was not necessary or feasible, or was only necessary or feasible to a limited extent and that adding such a component would not be economically feasible.

The treasurer would determine that the project met the requirements of the bill and was economically viable. The director and the treasurer would be required to work together to assure that eligible projects were both economically viable and of assistance in developing and encouraging methods for the disposal of solid waste that were environmentally sound and maximized the use and reuse of valuable resources.

Investment Agreement/Earnings

Under the bill, the state treasurer could invest surplus funds under his or her control in a financial institution, investment company, or other legal entity that would be entitled to receive an investment. The investment could be in the form of a deposit, repurchase agreement, guaranteed investment contract, banker's acceptances, or other

S.B. 41 (6-3-87)

security evidencing an obligation of the entity receiving investments to repay an investment under the terms and conditions contained in the investment agreement, including the rate of return, if any. In addition to the terms and conditions prescribed by the investment agreement, the agreement would be required to provide for the term of the investment, character, extent, and nature of security necessary for the investment. Under the bill, the agreement would have to provide that the investment be loaned to the Michigan Municipal Bond Authority for the purpose of investing the proceeds in a manner that would be consistent with and pursuant to the Shared Credit Rating Act of 1985. The return of funds available to the authority could only be used for the purpose of structuring, assisting, or benefiting an eligible project or to pay principal and interest on any proceeds of the authority that would be used to benefit an eligible project.

The amount of any such investment could not exceed ten percent of the average balance of the state common cash fund during the 30 days preceding the date on which the list of eligible projects was submitted to the joint capital outlay subcommittee. The percentage would be calculated after other investments made under the bill had been deducted. Earnings from an investment in excess of the average rate of interest earned during the same period on other surplus funds, other than surplus funds invested in eligible municipalities, qualified corporations, and owner-operators of a farm in the production of agricultural goods, would have to be credited to the state general fund. If interest from an investment were below the average rate, the general fund would be reduced by the amount of the deficiency on an amortized basis over the remaining term of the investment. A loss of principal from an investment would reduce earnings on the general fund by the amount of that loss on an amortized basis over the remaining term of the investment.

Definitions

Under the bill the term "eligible projects" would mean one or more of the following projects of a local unit that had been approved by the DNR director and the state treasurer: 1) the construction, improvement, acquisition, or enlargement of a waste-to-energy facility; 2) the construction, improvement, acquisition, or enlargement of a solid waste transfer facility; 3) the construction, improvement, or enlargement of a recycling project or the acquisition of recycling equipment; and 4) the construction, improvement, or enlargement of a composting project or the acquisition of composting equipment.

The terms "composting project", "recycling project", "solid waste", "solid waste transfer facility", and "waste-to-energy" would be defined with reference to the Clean Michigan Fund Act.

MCL 21.143 et al.

HOUSE COMMITTEE ACTION:

The House Transportation committee adopted two amendments that would provide additional conditions which projects must meet before the DNR director and the treasurer could approve them. Further, the committee adopted an amendment to exempt local units within counties that had approved solid waste management plans and that operated recycling projects or received monies from the Clean Michigan Fund for recycling projects from the requirements of the bill.

FISCAL IMPLICATIONS:

According to the Senate Fiscal Agency, the bill would have an "indeterminate" impact on the state's general fund. There are three potential ways the Solid Waste Bonding program could have an impact. First, if an investment made from common cash did not earn as much interest

as the common cash fund did, then the general fund would have to make up the difference in interest income. Second, if an investment defaulted, then the amount lost would become an obligation of the general fund. Third, on the positive side, interest earnings on an investment made pursuant to this bill that were in excess of the average earnings on the common cash fund would be credited to the general fund. Estimates of potential impacts are not possible at this time. During fiscal year 1985-86 the average monthly balance in the common cash fund ranged from \$1.96 billion to \$2.52 billion, with an annual average of \$2.23 billion. (4-22-87)

ARGUMENTS:

For:

The bill would help facilitate statewide efforts to alleviate Michigan's waste disposal problems by promoting the development of alternative resource recovery technologies. It would help conserve energy and resources and reduce the incidence of air and water pollution in solid waste management practices. Market forces have not generated enough interest in creating solid waste treatment alternatives. The bill would authorize as much as ten percent of the average balance of the common cash fund (a figure that could be in the range of \$200 million) to be invested in municipal bonds that would provide an important impetus for local units of government to establish new and more ecologically efficient waste management alternatives.

Against:

The bill fails to specify how the funding would be shared among the various types of solid waste management alternatives outlined in the bill, or how much should be spent on a given project. Waste-to-energy facilities, for example, can be very expensive and could take up an inordinate share of available funding and preclude the development of recycling, composting, and other "low tech" solutions that help provide for a more comprehensive solid waste plan and in the future may be the most economically efficient method of solid waste resource recovery.

Against:

The bill contains no provisions that would enable private sector entities to get loans. There should be language outlining a way in which the private sector would be involved with the bill's eligible projects. The private sector could build and run these facilities more cheaply and efficiently than local governments could. They should be able to get direct loans under this program and be independent of municipalities instead of having to go through them. The private sector should not be put at a disadvantage by the public sector.

Response: The private sector already is running waste management projects, and could continue to do so under contracts with local units.

POSITIONS:

A representative of the executive office testified in support of the bill. (5-27-87)

A representative of the National Solid Waste Management Association testified in support of the bill. (5-27-87)

A representative of the Michigan Townships Association testified in support of the bill. (5-27-87)

A representative of the Michigan Association of Counties testified in support of the bill. (5-27-87)