Funding Environmental Protection in Michigan: The Need for Change

September 2007
SEMCOG . . . Local Governments Advancing Southeast Michigan

Mission
SEMCOG’s mission is solving regional planning problems — improving the efficiency and effectiveness of the region’s local governments as well as the quality of life in Southeast Michigan. Essential functions are:

- providing a forum for addressing issues which extend beyond individual governmental boundaries by fostering collaborative regional planning, and
- facilitating intergovernmental relations among local governments and state and federal agencies.

As a regional planning partnership in Southeast Michigan, SEMCOG is accountable to local governments who join as members. Membership is open to all counties, cities, villages, townships, intermediate school districts, community colleges and public universities in Livingston, Macomb, Monroe, Oakland, St. Clair, Washtenaw, and Wayne Counties.

Responsibilities
SEMCOG’s primary activities support local planning through use of SEMCOG’s technical, data, and intergovernmental resources. In collaboration with local governments, SEMCOG has responsibility for adopting region wide plans and policies for community and economic development, water and air quality, land use, and transportation, including approval of state and federal transportation projects. Funding for SEMCOG is provided by federal and state grants, contracts, and membership fees.

Policy decision making
All SEMCOG policy decisions are made by local elected officials, ensuring that regional policies reflect the interests of member communities. Participants serve on one or both of the policymaking bodies — the General Assembly and the Executive Committee.

Prior to policy adoption, technical advisory councils provide the structure for gaining input on transportation, environment, community and economic development, data analysis, and education. This deliberative process includes broad-based representation from local governments, the business community, environmental organizations, and other special interest and citizen groups.
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Abstract
The long-term economic prosperity of Southeast Michigan hinges on a healthy and safe environment. While the undesirable state of the current economy and the state’s fiscal crisis are dominant issues, there is growing concern that the “system” for funding Michigan’s environmental protection efforts is flawed. Left unchanged, this could have adverse impacts on Southeast Michigan’s economic recovery and the future state of the environment. This report summarizes the current system of funding environmental programs. The growing dependence on fees paid by local governments and businesses is described. Finally, the report identifies the implications of continuing the current system for local government and for business. These implications are to be the basis of dialogue on how the current funding system should be reformed.
Acknowledgements

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# Table of Contents

List of Data Displays........................................................................................................................................iv
Executive Summary ................................................................................................................................................1
Introduction.......................................................................................................................................................2
Findings............................................................................................................................................................4
  General ........................................................................................................................................................4
  Fees............................................................................................................................................................4
  Federal Funding...........................................................................................................................................5
  Bond Funding.............................................................................................................................................5
Implications ....................................................................................................................................................7
Recommendations ............................................................................................................................................10
Future Outlook.................................................................................................................................................11
Appendix.......................................................................................................................................................12
  Brief Overview of the Michigan Department of Environmental Quality Structure .........................12
  State General Fund Impacts........................................................................................................................14
  MDEQ Funding Sources...............................................................................................................................15
  Federal Funding.........................................................................................................................................17
  Clean Michigan Initiative.........................................................................................................................17
List of Data Displays

Tables
Table 1  MDEQ Funding History, Fiscal Years 2000-2007 (millions of dollars) .............................. 15
Table 2  CMI Funding Summary (millions of dollars) ................................................................. 18

Figures
Figure 1  Big Three Market Share of U.S. Light Vehicle Sales (%) 2001-2007 ............................. 14
Figure 2  State General Fund Budget Allocations ........................................................................ 15
Figure 3  MDEQ Funding Sources ............................................................................................... 16
Figure 4  Total MDEQ Budget Allocations, FY 2007 .................................................................... 16
Executive Summary

Over the past four decades, environmental protection has evolved into a major public expectation and, as a result, a primary function of government. Numerous laws and regulatory programs designed to protect the environment have been established incrementally through governmental mandates, while funding to implement these mandates has been established incrementally through separate processes. Many of these environmental protection programs are predicated, both explicitly and implicitly, on local government support and action.

The State of Michigan’s budget is in a structural deficit, where the costs of running its programs are exceeding its revenues. This impact has and continues to force a change in the priority and allocation of funds to the various state departments, including the Michigan Department of Environmental Quality (MDEQ). The significant reduction in State General Fund dollars available to MDEQ is changing how environmental programs are funded in Michigan. This not only impacts state environmental agencies, but also local units of government, industry, the general public and, as a result, the overall health of the environment.

Economic conditions and other factors are stressing the state’s fiscal resources. Part of the response has been to shift an ever-increasing portion of financing needs to local governments and businesses. This trend is unsustainable. Furthermore, it may undermine Michigan’s long-term economic viability, which hinges on a competitive business climate, protection of its unique natural resources, retaining its current population, and enticing others to work and raise their families in Southeast Michigan.

This report summarizes the status of funding sources for environmental protection programs in Michigan. It also provides the following recommendations designed to stimulate discussion on possible changes to the existing structure for funding Michigan’s environmental protection efforts:

- The current funding structure for state environmental programs needs to be redesigned with less reliance on fees.
- General funding needs to account for a larger portion of administering the state’s environmental programs consistent with constitutional obligations to provide needed flexibility to the state’s changing environmental concerns.
- Funding to finance the programs previously paid for through the Clean Michigan Initiative (CMI) bond program must be identified. Options include a new bond proposal, allocation of General Fund revenues, or some other earmark.
- Michigan’s government and business leaders should partner with congressional representatives to ensure that new federal requirements are accompanied by the fiscal resources needed for implementation.
Introduction

There are varied sources of funding to support environmental protection measures which are not well understood. Moreover, the State of Michigan is undergoing unprecedented fiscal stress resulting in major changes in how programs are funded. These changes have enormous implications for local government and their ability to fund environmental programs and essential local services like police and fire protection. With a decline in the revenue sharing payments local governments receive from state government, increased local fees for state regulatory programs begin to compete for the same limited local funds used for essential services.

SEMCOG, the Southeast Michigan Council of Governments, represents over 150 local governments in Southeast Michigan. Funding for environmental protection programs impacts local governments in two primary ways. One is the impact of funding levels on the quality of the environment which, in turn, affects a community’s quality of life. Another is how state decisions on funding result in expectations for increased local government subsidization of environmental protection programs.

More specifically, local governments are increasingly relied on to pay fees that support several programs. In addition, local governments are taking more of a frontline role in implementing state and federal mandates. As state and federal budgets get tighter, there is likely to be a growing expectation that local governments will assume an even greater role. Unfortunately, local governments are also experiencing fiscal stress. Making matters worse, a major source of funding used by local governments to fund environmental efforts — the Clean Michigan Initiative Bond — is ending.

Furthermore, the recreational opportunities afforded by the region’s abundant water resources have the potential to be a major factor in luring new business and residents to the region. Environmental protection efforts are critical to promote, protect, and preserve Michigan’s natural resources. But the issue of funding environmental programs goes well beyond environmental protection. A key component of a brighter future is ensuring the region is a desirable place to live for young adults starting careers and families, as well as those shifting to retirement and contemplating where to reside. Both groups have a major impact on the regional economy and both will choose a location with a safe and healthy environment.

A recent SEMCOG report contains a sobering assessment of the region’s economic outlook\(^1\). An improved economy requires change. Part of the change needed to secure a more prosperous economic outlook for the region is to identify a dedicated, stable funding structure to support managing Michigan’s diverse environmental programs. While this is especially challenging in the current fiscal climate, the status quo will hinder improving the future fiscal climate. The current practice of supporting cuts in the State General Fund by increasing fees is not sustainable. Since 2000, State General Fund allocations to support environmental protection efforts have declined by 65 percent. Thus, environmental protection and economic development are interdependent goals.

The purpose of this report is to summarize the status of funding sources for environmental protection programs in Michigan and to stimulate discussion on possible changes to address problems with the existing structure.

\(^{\text{1}}\) SEMCOG. *A Region in Turbulence and Transition: The Economic and Demographic Outlook for Southeast Michigan Through 2035.*
The findings in this report are based upon research conducted with multiple stakeholders on the State of Michigan’s budget and the various revenue sources for the Michigan Department of Environmental Quality.
Findings

Economic conditions and other factors are stressing the state’s fiscal resources. Part of the response has been to shift an ever-increasing portion of financing needs to local governments and businesses. This trend is unsustainable.

General

- Michigan’s economy is changing primarily as a result of changes in the automobile industry. For example, domestic auto share of U.S. light vehicle sales was about 73 percent in 1995. As of writing this report (2007), it is just above 50 percent (Figure 1). The impacts of this decline are compounded by the fact that there is a 680 percent greater concentration of motor vehicles and parts manufacturing in Southeast Michigan as compared to the rest of the United States.

- Revenue to support programs implemented by MDEQ is currently derived from general funds (nine percent), restricted funds (53 percent), and federal funds (38 percent) (Figure 3).

- Total State General Fund revenues have declined sharply each year since 2000 ($9.5 billion to $7 billion for Fiscal Year 2008) (Figure 2).

- General Fund allocations to support environmental protection efforts have declined by 65 percent since 2000 ($96 million to $34 million for Fiscal Year 2007, unadjusted for inflation) (Figure 2).

- State-restricted (fee-based) revenue has increased by 78 percent ($88 million) since 2000 (Table 1).

- This 78 percent increase in restricted funds has been derived by a combination of increases in existing fees and creating new fees, many of which are paid for by local units of government, and greater reliance on state-restricted funds typically used for environmental cleanup programs.

- Thus, local governments are bearing an increased share of financing for state environmental programs.

Fees

- Increases in the number and levels of fees are not just driven by cuts in the General Fund. Some arise from the disconnect between a legal mandate for an environmental protection initiative and the subsequent consideration on how to fund implementation of the mandate.

- MDEQ administers over 50 different fee programs. How those fee programs are structured varies greatly. Some programs are based on level of service, some on levels of emissions, and some are flat rates. In addition, they also vary in the levels of revenue generated.

- There are differing timeframes for sunset provisions in several fee programs, many of which do not align with the state budget process. In fact, three major fee programs (air emissions, groundwater discharge, and solid waste) will sunset in October 2007 unless the legislature acts to extend them. (It should be noted that a presumed level of revenue from these fee programs is assumed in the state budget.)
• Cuts in the General Fund and increases in fees have impacted the administration of environmental programs. For example, MDEQ now administers over 50 different fee programs and almost every program has its own fee collection staff, which didn’t exist before the fees were created. These staff positions increase the cost of the programs and divert money away from direct effort on environmental protection.

Federal Funding

• Over 35 percent of the revenue to support MDEQ’s environmental programs is derived from the federal government. Thus, any cuts in federal funding have a major impact on the state’s programs (Figure 3).

• So far, levels of federal funding have been relatively stable (i.e., have not substantially changed between 2000 and 2007). However, budget cuts are an annual topic of discussion in the federal budget process.

• Whether the current level of federal commitment will be sustained is a policy matter that will be decided by parties outside of Michigan, most notably by Congress and the United States Environmental Protection Agency (EPA).

• Michigan is faced with ever-increasing unfunded federal environmental mandates. The actual allocation of revenue to support these new obligations is then left to the state budgeting process. When environmental programs must compete with all other state programs, including education, public safety, and public health, for a shrinking pot of dollars, the result can be a mismatch between legal environmental obligations and revenue available to administer those obligations. Recent examples of this include the new stormwater permit program, ozone standards, particulate matter standards, and mercury standards.

• In addition to increasing regulatory requirements, national environmental standards are becoming more restrictive. Examples of this include the ozone and fine particulate air quality programs, as well as protecting Michigan from invasive species. Complying with these tougher environmental requirements place great demands on the state’s fiscal resources.

• MDEQ administers a number of federally delegated programs. As federal funding is cut, or fails to keep pace with inflation, finding alternative sources of funding for essential programs becomes the state’s responsibility.

• Local governments often lack the fiscal capacity or experience to successfully undertake these programs. They are also experiencing reductions in revenue from taxes, cuts in state revenue sharing, and cuts in federal grants. In addition, there are many competing demands for day-to-day needs that are the cornerstone of local government services, most notably police and fire protection.

Bond Funding

• Michigan has utilized multiple bond funds over the years to fund environmental protection efforts at both the state and local level. These bonds are essentially spent or obligated with nothing to replace them.

• The Clean Michigan Initiative (CMI) bond was passed by Michigan voters in 1998 to address a number of unfunded needs related to the clean-up and protection of the state’s natural resources. A total of $675 million in funding from the bond program was targeted to support a wide range of activities considered necessary for protecting and improving the
state’s environment. These included cleaning up and redeveloping contaminated sites; protecting and improving water quality; preventing pollution; abating lead contamination; reclaiming and revitalizing community waterfronts; enhancing recreational opportunities; and cleaning up contaminated sediments in lakes, rivers, and streams (see Table 2).

- The CMI bond has been used successfully to implement hundreds of environmental projects throughout Michigan, at both the state and local level.

- At the state level, CMI funds a majority of the contaminated site clean-up program, which includes brownfields ($100 million), and the long-term water-quality-monitoring program ($90 million).

- CMI also funds nonpoint source grants, which are used by local governments to match federal funding (Clean Water Act 319 grants) and to assist communities in meeting stormwater requirements.

- In addition, CMI also funds local projects that would otherwise not happen. For example, local governments improve local parks and reclaim and dispose of household hazardous waste.

- In 2002, Michigan voters passed the Great Lakes Water Quality Bond, authorizing the state to borrow $1 billion to upgrade sewer infrastructure over a 10-year period. This bond money is used to finance low-interest loans to local government. In turn, repayment of the loans is used by the state as leverage for loans on new projects. State and local government financial obligations resulting from this bond program are significant.

- The Environmental Protection Bond Implementation Act was passed in 1988 which allocated $425 million towards cleanup of sites contaminated with hazardous waste. It also included $45 million to help local governments remediate contaminated sites and spur development. Virtually all available funds under this bond issue have been spent or are dedicated toward completing previously approved projects or grants.
Implications

The current structure for financing the state’s environmental programs is flawed. These programs are increasingly supported by parties in need of a permit and who are required to pay whatever fee is attached to that permit. In addition, economic realities in Michigan are likely to result in continued pressure to reduce General Fund allocations to support environmental programs. Similarly, federal budget deficits and increasing national debt are likely to create pressures for reductions in federal funds. In turn, federal agencies are likely to respond by cutting allocations to states. This will increase the burden on fee payers in business and local government. Finally, this situation is compounded by the exhaustion of a $675-million-dollar bond program, with no replacement in sight.

- Michigan’s ability to retain and attract new business in a globally competitive environment could be hindered by continued increases in fee programs.
- Strained state resources are likely to result in increased expectations that local governments will financially support or implement environmental protection programs. Yet local governments also are experiencing fiscal stress and are struggling to continue providing basic services such as police and fire protection.
- An over reliance on fees for service limits MDEQ’s ability to meet the broad constitutional requirements that go beyond environmental services for Michigan. Michigan’s Constitution states, “The conservation and development of the natural resources of the state are hereby declared to be of paramount public concern in the interest of health, safety and general welfare of the people. The legislature shall provide for the protection of the air, water and other natural resources of the state from pollution, impairment and destruction.” Many of these constitutional obligations (e.g., enforcement and environmental monitoring) cannot be met in the process of performing specific fee-related services.
- Some fees may be challenged on the basis of a Michigan Supreme Court Decision (Bolt v. City of Lansing) that identifies specific criteria to be used in distinguishing a fee from a tax.
- There are substantial differences in the policy basis of the assessed fees. Some fee programs are evaluated on a particular level of service, others are based on levels of emissions, and still others are based on flat rates. The legitimacy (and perhaps the legality) of these differences may be called into question because higher and higher fees increase the likelihood that they will be challenged.
- Furthermore, fee programs have varying sunset provisions. The policy differences underpinning different fee programs, combined with the variability in sunset provisions (inconsistent with the state budgeting cycle) has resulted in a cloud of uncertainty about the degree to which programs will be implemented.
- Higher fees and the broader use of fees are increasingly contentious for at least three reasons:

1. Fee payers in the business community feel they are paying twice for services, once in taxes and again in fees.
2. It is often difficult to quantify the cost of actual service associated with a fee-related activity as accurately as payers would like.

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2 State of Michigan Constitution, Article IV, Section 52.
3. Fee increases have been generally driven by cuts in the General Fund, not an increased level of service to fee payers.

- Administering new fee programs is often time consuming for MDEQ staff, resulting in having less staff available for other environmental protection programs. This situation detracts from carrying out the core mission of the agency.

- Scarce financial resources and increases in fees create more demand for efficiency in how MDEQ performs its duties. MDEQ environmental programs need to be run as efficiently as possible to ensure confidence that allocated resources are being used wisely and are necessary. (An example of a program that recently increased in efficiency is the air-permitting program where program output increased with a corresponding decrease in the cost of service.)

- On the other hand, no matter how much efficiency improves, fee payers will always seek the lowest possible fee. Thus, fee payers and MDEQ will always be at odds over the structure and the level of imposed fees.

- Complicating the issue further, adopted state budgets often contain presumed revenue from fees that are not yet established as part of state statute or rules. This process raises serious questions. The level of fees tends to be driven by the extent of cuts to the General Fund instead of the real costs of administering any particular program. It tends to shift discussion of revenue necessary to administer a program from a legislative process to an adversarial process involving the fee payer and the regulatory agency needing the money to replace general revenue cuts.

- One possible result of the current structure and trend is for the state to respond to federal cuts and continued General Fund cuts by increasing its reliance on local government to fund, implement, and maintain new programs. It will also result in higher fees for local government and businesses.

- The CMI bond is essentially depleted. Since a replacement strategy does not exist, all of the programs supported by the bond program are in jeopardy of ending by the close of fiscal year 2008. One glaring example is the contaminated site cleanup and redevelopment program, which MDEQ estimates costs about $100 million per year and benefits local governments and local economies. Less widely understood is that the state’s water-quality monitoring program is heavily dependent on this bond funding.

- Nonpoint source grants from the CMI bond help communities meet stormwater requirements by providing the local match required for federal 319 nonpoint source grants. Without the CMI grant money available, local governments will bear all of the costs of meeting the federal requirements.

- Bond funds have the advantage of generating larger amounts of revenue to support environmental protection efforts than could be achieved from General Fund allocations. Their disadvantage is that they impose a long-term debt and repayment obligation on the state.

- The current funding process incorrectly assumes that the costs associated with administering environmental protection programs are aligned with revenues generated from fees, the General Fund, and the funding decisions of the federal government. In reality, funding decisions are usually made in separate processes.

- Heavy reliance on federal funding creates vulnerability since agencies outside of Michigan, most notably Congress and the EPA, determine these resource levels. This puts decisions crucial to the state’s environment and business success in the hands of federal regulators with little accountability to Michigan.
• Absent change in the funding structure, the state will be forced to terminate certain programs or return their responsibility to the federal government.

• Because of the current structure for funding environmental protection, new programs resulting from tougher environmental standards will cause a shift of resources from current programs.

• The current structure for funding environmental programs is increasingly unpredictable for the following reasons:

  1. **Steady allocations from the general fund are unlikely.** Less than one percent of the State General Fund is allocated to MDEQ, the Michigan Department of Natural Resources, and the Michigan Department of Agriculture combined. Because of economic realities, significant increases in this allocation are highly unlikely. Further reductions are more likely.

  2. **Revenues from the Clean Michigan Initiative Bond are essentially spent or obligated.** The brownfields program is mainly funded by the CMI Bond and will end at the close of fiscal year 2008 if a replacement is not identified.

  3. **Continued increases in fees increases the likelihood that fee payers will mount challenges, both legal and political.** For example, there is an expectation that many of the programs being financed by fees are to support “the public good” and are more equitably financed from State General Funds.
Recommendations

The current funding structure for state environmental programs needs to be redesigned with less reliance on fees.

General funding needs to account for a larger portion of administering the state’s environmental programs consistent with constitutional obligations to provide needed flexibility to react to the state’s changing environmental concerns.

Funding to finance programs previously paid for through the CMI bond program must be identified. Options include a new bond proposal, allocation of General Fund revenues, or some other earmark.

Michigan’s government and business leaders should partner with congressional representatives to ensure that new federal requirements are accompanied by the fiscal resources required for implementation.
Future Outlook

The recovery of General Fund dollars is unlikely without major restructuring of the state’s revenue base. Current General Fund levels cannot support legislatively mandated environmental programs, creating a need for alternative sources of funding. To date, this has been accomplished by raising or creating fees, many of which are borne by local governments.

This shift of fiscal responsibility to municipalities begins to put pressure on other essential services provided by local units of government, such as police and fire protection and road maintenance. Michigan’s over reliance on fees and federal funding leaves communities and environmental protection efforts vulnerable to future funding reductions.

Continued federal support is in jeopardy due to reductions in national programs and the inconsistency of appropriations to state programs at the federal level.

The current approach is not sustainable economically or environmentally. To create a better future for Michigan the status quo must change.
Appendix

Information in this report is a result of research conducted on the State of Michigan’s budget and, the various revenue sources for the Michigan Department of Environmental Quality (MDEQ). Much of the data were gathered from state-authored documents ranging from fiscal year end funding reports to statute appropriation bills. The specific financial data has been verified by MDEQ.

Brief Overview of the Michigan Department of Environmental Quality Structure

The Michigan Department of Environmental Quality was created by Executive Order No. 1995-18, which transferred environmental regulatory programs from the Michigan Department of Natural Resources to the newly created department.

MDEQ is comprised of eight divisions, which work with business, industry, governmental agencies, and the general public to help maintain compliance with environmental regulations and minimize adverse impacts on human health and the environment. Programs include monitoring for air and water quality, providing financial incentives and education assistance, providing technical assistance and oversight in wetlands and other riparian resources, as well as issuing permits and licenses for work that may impact environmental resources. In addition, the Office of the Great Lakes addresses Michigan’s Great Lakes issues and policy. Following is a brief description of the responsibilities of each division:

**Air Quality Division (AQD)**
Specific programs include: air emission control programs, air monitoring, control strategy planning, permit issuance, and inspection of air emission sources.

**Environmental Science and Services Division (ESSD)**
ESSD oversees a number of outreach and assistance services with emphasis on pollution prevention. The seven main areas in ESSD are compliance assistance, environmental assistance, financial assistance, incentive programs, laboratory services, pollution prevention, and training.

**Financial and Business Services Division (FBSD)**
FBSD is responsible for providing consistent financial and administrative controls, policy direction, and general operational support. FBSD consists of three offices: Office of Business Services, Office of Financial Management, and Office of Human Resources.

**Land and Water Management Division (LWMD)**
LWMD provides technical assistance and regulatory oversight on activities such as dredging or filling wetlands, streams, inland lakes, and the Great Lakes; constructing or dismantling dams; constructing marinas, seawalls, or docks; building in a designated critical sand dune, wetland, or floodplain; and protecting underwater shipwreck resources.

**Office of Geological Survey (OGS)**
OGS oversees locating, drilling, operating, and plugging wells used for exploration and production of oil, gas, brine, and other minerals, including wells for underground storage and waste disposal.
Office of the Great Lakes (OGL)
OGL is the lead agency within state government charged with developing policies and programs to protect, enhance, and manage the Great Lakes ecosystem. OGL focuses on toxic pollution, nonpoint source pollution, aquatic invasive species, reviewing diversions of water, and restoring and protecting habitat.

Remediation and Redevelopment Division (RRD)
RRD administers Part 201, Environmental remediation; Part 213, Leaking underground storage tanks; and Part 215, Refined Petroleum Fund of the Natural Resources and Environmental Protection Act, 1994 PA 451, as amended.

Waste and Hazardous Materials Division (WHMD)
WHMD issues licenses and oversees operation of hazardous and solid waste disposal areas, regulates the activities of hazardous waste and liquid industrial waste generators and transporters, oversees solid waste planning, regulates the hauling and disposal of scrap tires, and operates a grant program for scrap tires. Radiological protection programs monitor radioactive materials used in various facilities. The storage tank program oversees underground and above-ground storage tanks.

Water Bureau (WB)
MDEQ water programs establish water quality standards; assess water quality; provide regulatory oversight for public water supplies; issue permits to regulate the discharge of industrial and municipal wastewaters; and monitor state water resources for water quality, the quantity and quality of aquatic habitat, the health of aquatic communities, and compliance with state laws. WB also oversees soil erosion and sedimentation control programs and plan review and approval for various facilities, including wastewater collection and treatment facilities.
State General Fund Impacts

In order to understand the state’s system for funding environmental programs, it was necessary to first review the status of the State’s General Fund. A recent SEMCOG report documented that, on average, Southeast Michigan is almost 700 percent more concentrated in automobile manufacturing than other parts of the United States. That report also documented the sharp decline of Big Three U.S. light vehicle sales (Figure 1). Combined, the concentration of the auto industry and the decline in market share has contributed significantly to the loss of revenue in Michigan’s General Fund. The report also demonstrates that this downturn is not a short-term change in the state’s economy, but a structural problem that needs long-term solutions³.

Figure 1
Big Three Market Share of U.S. Light Vehicle Sales (%) 2001-2007

![Big Three Market Share chart](chart.png)

Unadjusted for inflation, the total amount of revenue in the State General Fund was nearly the same in 2007 as in 2000 (Figure 2). However, the allocation of revenue from the General Fund to the different state departments has changed substantially. For example, Corrections accounted for approximately 15 percent of General Fund allocation in FY 2000, but accounted for over 20 percent in FY 2007. These increases, coupled with the lack of overall growth in the state budget, have forced the reduction of General Fund allocations to most other programs. From 2000-2007, MDEQ’s share of the General Fund decreased 65 percent, from $96 million to $34 million, while state restricted funds (fees) have increased by $87 million, or 78 percent, over the same period.

³ SEMCOG. *A Region in Turbulence and Transition: The Economic and Demographic Outlook for Southeast Michigan Through 2035.*
MDEQ Funding Sources

MDEQ receives funding from three primary sources: the State General Fund, the federal government, and other state restricted funds (fees, oil and gas revenues, bond funds, etc.). Table 1 shows the funding received in each of these categories in recent years.

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<th>FY 02</th>
<th>FY 03</th>
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</tbody>
</table>

Source: MDEQ

Over the past seven years, the share of total MDEQ funds coming from each of these categories has noticeably shifted. Figure 3 shows that the portion of revenue coming from the State General Fund has declined from 29 percent to nine percent. Conversely, the share coming from state restricted funds (or fees) has increased from 23 percent to 53 percent. Proportionately, the federal funding share has remained the same.
Figure 3
MDEQ Funding Sources

Source: MDEQ

Figure 4 shows the FY 2007 allocation of funds to various functions. The interdependency of state and local governments in protecting the environment is reflected in the 38 percent of funding to grants to locals for cleanup and pollution prevention efforts.

Figure 4
Total MDEQ Budget Allocations, FY 2007

Source: State of Michigan Executive Budget FY 2007
Federal Funding

In examining funding to support the state’s environmental activities, Michigan depends extensively on funding support from federal programs. In fact, federal funding accounts for about 38 percent of MDEQ’s budget while General Funds account for only nine percent.

These federal funds are used to support a broad range of the state’s environmental activities including air quality, water quality, waste and underground storage tanks management, and contaminated site clean up. This makes Michigan’s environmental programs vulnerable to the funding priorities of the federal government. Examples of that vulnerability are beginning to surface. Both the federal 2008 fiscal year president’s budget proposal and the U.S. EPA budget proposal contain cuts that may negatively impact MDEQ's budget. The president’s budget proposal reduces Michigan’s share of the State Revolving Loan Fund by $17 million. This reduction will also impact local governments' ability to use these funds for low-interest sewer loans.

Furthermore, U.S. EPA is cutting grants to Michigan that support air-quality-monitoring activities. In response, MDEQ has made cuts to the state’s air pollution monitoring program.

Despite these proposed cuts, the general trend is for federal regulatory requirements to increase. Some examples of these new requirements include:

- Clean Water Act – Concentrated Animal Feeding Operations (CAFO) requirements have resulted in the need for additional full-time staff.
- Clean Water Act, Nonpoint Source 319 requirements – U.S. EPA has stipulated additional program conditions and reporting requirements.
- Safe Drinking Water Act – New drinking water standards will require more full-time staff and an estimated cost of $2.25 million.
- Clean Air Act – U.S. EPA published new ambient air-quality monitoring requirements that will require additional equipment and sites. U.S. EPA has also tightened the standard for fine particular matter and has proposed tightening the ozone standard.
- Clean Air Act – U.S. EPA published the Clean Air Interstate Rule affecting coal-fired electric generators in the state. MDEQ is developing rules that will require state regulatory oversight.

Clean Michigan Initiative

Overview
The Clean Michigan Initiative (CMI) is a $675 million bond approved by Michigan voters on November 3, 1998, to improve and protect Michigan’s environmental and natural resources. The MDEQ, Michigan Department of Natural Resources (DNR), and Michigan Department of Community Health (DCH) administer the programs funded by this bond, which include:

- Brownfields
- Local and state parks
- Waterfronts
- Clean water fund
- Contaminated sediments
- Lead
- Pollution prevention
- Nonpoint source
CMI funds have been used in environmental projects for both state and local governments. At the state level, CMI enabling legislation allows three percent of the funds to be used for department costs associated with project completion. Beyond this three percent, CMI funds provide a significant portion of the contaminated site cleanups, nonpoint source pollution mitigation, and long-term water quality monitoring programs for the state.

At the local level, CMI funding has been used by communities to implement federally mandated programs, including elements of the Phase II stormwater requirements. In fact, over $1.5 million was awarded to Southeast Michigan communities to implement their illicit connections programs.

In addition to assisting in meeting federal mandates, CMI is used by local governments to implement natural resource protection programs that might otherwise not be implemented. For example, over $140 million has been approved for work at 585 sites across the state in order to remove structural or environmental obstacles to redevelop brownfield sites. Many, perhaps most, of these sites would not have been cleaned up without CMI funds.

**CMI Funding Amounts**

Almost half of the $675 million is allocated to Brownfields programs, followed by $90 million to the Clean Water Fund, and $50 million to various programs.

Southeast Michigan communities have been awarded over $120 million, or 21 percent, of the CMI fund. Table 2 summarizes the amounts allocated and awarded for each category, as well as the amount awarded to Southeast Michigan communities. Essentially, the remaining funds have been obligated, meaning no new projects can be considered under this bond.

### Table 2

**CMI Funding Summary (millions of dollars)**

<table>
<thead>
<tr>
<th>CMI Program</th>
<th>State Allocated</th>
<th>State Awarded</th>
<th>State Available*</th>
<th>Southeast MI Awarded</th>
<th>% Awarded</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brownfields</td>
<td>$335</td>
<td>$290.9</td>
<td>$44.1</td>
<td>$77.5</td>
<td>26.6%</td>
</tr>
<tr>
<td>Local Parks</td>
<td>$50</td>
<td>$50.0</td>
<td>$0.0</td>
<td>$3.0</td>
<td>6.0%</td>
</tr>
<tr>
<td>State Parks</td>
<td>$50</td>
<td>$50.0</td>
<td>$0.0</td>
<td>$1.0</td>
<td>2.0%</td>
</tr>
<tr>
<td>Waterfronts</td>
<td>$50</td>
<td>$50.0</td>
<td>$0.0</td>
<td>$13.1</td>
<td>26.2%</td>
</tr>
<tr>
<td>Contaminated Sediments</td>
<td>$25</td>
<td>$12.3</td>
<td>$11.0</td>
<td>$3.3</td>
<td>26.8%</td>
</tr>
<tr>
<td>Lead</td>
<td>$5</td>
<td>$5.0</td>
<td>$0.0</td>
<td>$0.7</td>
<td>14.0%</td>
</tr>
<tr>
<td>Pollution Prevention</td>
<td>$20</td>
<td>$17.9</td>
<td>$2.0</td>
<td>$1.0</td>
<td>5.6%</td>
</tr>
<tr>
<td>Nonpoint Source</td>
<td>$50</td>
<td>$31.8</td>
<td>$17.0</td>
<td>$6.6</td>
<td>20.8%</td>
</tr>
<tr>
<td>Clean Water Fund</td>
<td>$90</td>
<td>$58.0</td>
<td>$29.2</td>
<td>$15.9</td>
<td>27.4%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$675</strong></td>
<td><strong>$565.9</strong></td>
<td><strong>$103.3</strong></td>
<td><strong>$122.1</strong></td>
<td><strong>21.6%</strong></td>
</tr>
</tbody>
</table>

*All "available" funds are in the process of being obligated (2007)*

Source: MDEQ

18- Funding Environmental Protection in Michigan: The Need for Change
Program Specific Information

Brownfields
The Brownfields Program has been allocated $335 million from CMI and was administered by MDEQ Remediation and Redevelopment Division and Environmental Science and Services Division. The Brownfields Program was used to fund the following types of activities:

- Cleanup of contaminated sites for redevelopment (585).
- Grants and loans (45 projects which created 7,699 permanent jobs and leveraged $803,562,800 of private investment dollars).
- Funding to local units of government for landfill projects.
- Cleanup of acute sites (210), which were endangering public health, safety, and the environment.

Local Parks and State Parks
Local and state parks programs each were allocated $50 million to provide grants to local governments to develop and renovate public recreation facilities. A total of 221 grants were awarded to 215 communities to develop sports fields, nature centers, and water access features.

Waterfronts
With $50 million, the CMI bond funded 44 waterfront redevelopment grants and lighthouse grants to reclaim and revitalize waterfront property throughout the state to maximize its economic and public value and provide waterfront access to the general public.

Contaminated Sediments
MDEQ's Water Bureau for the Contaminated Lake and River Sediments Program was allocated $25 million. The program's purpose was to remediate contaminated lake and river sediments, with a focus on bioaccumulative toxins such as polychlorinated biphenyls (PCBs), mercury, and DDT in certain lakes and rivers. As a result, three remedial projects removed approximately 300,000 cubic yards of contaminated sediment in three Great Lakes Areas of Concern. In fact, about $11.6 million in funding from this program was used to obtain approximately $15 million in additional federal funds.

Lead
A total of $5 million was allocated to the Department of Community Health, Lead and Healthy Homes Section to administer Lead Hazard Remediation Program and Childhood Lead Poisoning Prevention. The objective was to make homes throughout the state lead-safe for young children, and abate lead-based paint hazards in seven high-risk counties. Funding was used in the abatement of homes with lead-poisoned children and to obtain additional funding from the U.S. Department of Housing and Urban Development (HUD).

Pollution Prevention
$20 million was allocated for pollution prevention activities, which included 14 grants to local governments resulting in the reclamation and proper disposal of over 650,000 pounds of household hazardous waste. It also included the development of environmental education materials and training for educators.

Nonpoint Source
The CMI bond allocated $50 million for nonpoint source pollution projects; 79 grants resulted in massive pollutant reductions of sediment, phosphorous, and nitrogen. In Southeast Michigan, this includes numerous implementation projects along the Rouge River, Clinton River, and River Raisin.
Clean Water Fund
CMI allocated $90 million to the Clean Water Fund, which primarily funds surface water quality monitoring and water pollution control activities.

MDEQ received $3 million per year (for 15 years) to implement its surface water quality monitoring strategy. The Clean Water Fund has also been used to support volunteer monitoring through the Michigan Clean Water Corps and provide grants to local governments for beach monitoring, local water quality monitoring, and emerging issues monitoring.

In addition, the fund has been used to implement several other water pollution control programs including locating and plugging abandoned wells (1,450 wells have been identified and plugged) and providing state match for incentives to farmers through the conservation reserve enhancement program. (Over 2,000 acres of riparian buffer strips, 33,500 acres of filter strips, 17,300 acres of wetland restorations, and 1,700 acres of windbreaks have been implemented.)

Some local governments have received funding to implement stormwater management programs including the identification of illicit connections. As a result, over 1,300 illicit connections have been identified.
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2007-2008

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