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BILL ANALYSIS

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Senate Bill 353 (as introduced 3-24-05)

Sponsor: Senator Jud Gilbert, II

Committee: Economic Development, Small Business and Regulatory Reform

Date Completed: 5-3-05

### **CONTENT**

The bill would create a new act to provide that, in operating and administering the community development block grant program, to the extent allowed by law, the Michigan Strategic Fund (MSF) would have to require that at least 60% of the community block grant program funds be awarded for projects located in rural areas. Projects for water system development or sewer system development would have to be given priority.

The MSF could award community block grant program funds for projects not in rural areas if there were insufficient applicants for projects in rural areas as determined by the MSF.

For projects located in rural areas, the MSF could not require matching funds greater than 5% of the cost of a project.

The bill would define "community block grant program" as the federal community block grant program described in Title I of the Housing and Community Development Act of 1974, that is operated by the Michigan Strategic Fund. "Rural area" would mean a county with a population of 90,000 or less.

### **BACKGROUND**

The Michigan Strategic Fund originally was created under Public Act 270 of 1984 as an autonomous entity to assist in promoting economic development in the State. Executive Order 1999-1 transferred the MSF from the former Michigan Jobs Commission to the Department of Management and Budget and transferred all of the economic development programs into the MSF. Executive Order 2003-18 transferred the agency from the Department of Management and Budget to the Department of Labor and Economic Growth. Under the Urban Cooperation Act, the MSF entered into interlocal agreements with various local entities to create a separate autonomous entity known as the Michigan Economic Development Corporation (MEDC).

The MEDC administers the State's community development block grant funds received from the U.S. Department of Housing and Urban Development (HUD). These funds are used to provide grants to eligible counties, cities, villages and townships for economic development, community development, and housing projects. The grants are usually given to communities with populations of less than 50,000; larger communities receive block grant funds directly from the Federal government.

Each year, the State receives approximately \$40 million in community development block grant funds from HUD. The Michigan State Housing Development Authority uses 25% of the

funds for housing-related activities that assist low- and moderate-income individuals. The MEDC uses the remaining 75% of the funds to assist low- and moderate-income individuals through grants that address the following:

- Economic development infrastructure to facilitate business locations/expansions.
- Downtowns and gateways infrastructure.
- Economic development planning grants.
- Public works public infrastructure grants for low- and moderate-income communities.
- Unique innovative project needs.

Legislative Analyst: J.P. Finet

### **FISCAL IMPACT**

The bill could reallocate funds received by the State from the Federal Community Development Block Grant program. The State will receive approximately \$40 million in FY 2004-05 from the program. Michigan Economic Development Corporation staff indicates that the Michigan Strategic Fund board approves the grants, including the transfer of \$10 million to the Michigan State Housing Development Authority and \$4 million to the Broadband Development Authority for the Digital Divide Investment Program. The bill would require at least 60% of the grants to go to projects in rural areas.

The board typically requires matching funds of up to 10% of the grant amount. The bill would set 5% as the maximum matching requirement for projects in rural areas, in most cases reducing the amount of local match a municipality must demonstrate to qualify for a grant.

Fiscal Analyst: Elizabeth Pratt

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This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.