



**Senate Fiscal Agency**  
**P. O. Box 30036**  
**Lansing, Michigan 48909-7536**

BILL



ANALYSIS

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Senate Bill 540 (as reported without amendment)  
Sponsor: Senator Dave Honigman  
Committee: Local, Urban, and State Affairs

### **CONTENT**

The bill would amend the State Housing Development Authority Act to permit the Authority to use insurance policies, surety bonds, guarantees, or other security arrangements for capital reserve funds; and to revise purchase price limits on existing or newly constructed or rehabilitated housing units eligible for loans. Both of these changes would apply retroactively to October 29, 1993.

Currently, the Act provides that the purchase price of housing may not exceed the lesser of a specific dollar amount (\$80,000 for existing housing and \$99,000 for new housing) or "90% of the average area purchase price for existing housing". The bill would delete this alternative price limit based on percentage.

MCL 125.1432

Legislative Analyst: L. Arasim

### **FISCAL IMPACT**

This bill would permit the Michigan State Housing Development Authority to use a surety bond to fund the capital reserve fund required when issuing bonds. The capital reserve requirement for the recent issue of taxable bonds, equal to one year's debt service on the \$34,600,000 sale, totals \$3,375,000. To fund this amount with cash, the total issue would have been increased and the \$3,375,000 would have been invested in U.S. Treasury bonds. The difference in bond yield of 7.4% and the issue's interest rate of 8.5% would have led to a loss of 1.1% or \$1,113,750 over 30 years. If the retroactive approval provided in this bill to obtain a surety bond were provided, only \$67,500 would be needed. The saved \$3,307,500 would be available for housing assistance activities.

Date Completed: 5-22-95

Fiscal Analyst: K. Lindquist