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

SFA BILL ANALYSIS

Telephone: (517) 373-5383
Fax: (517) 373-1986
TDD: (517) 373-0543

Senate Bill 1357 (Substitute S-1 as passed by the Senate)
Sponsor: Senator Bill Bullard, Jr.
Committee: Finance

Date Completed: 12-1-98

RATIONALE

Public Act 175 of 1952 authorizes cities and villages to borrow money and issue bonds in anticipation of future payments from the Motor Vehicle Highway Fund. Cities and villages may issue bonds for the purposes specified in the Act, and may refund any bonds issued; however, the Act specifically prohibits the sale of refunding bonds sooner than six months from the date that the bonds to be refunded may be redeemed. It has been pointed out that this provision restricts the ability of local units to refund bonds, and thus to take advantage of favorable bond market conditions when they occur. It has been suggested that the Act be amended to allow the sale of refunding bonds at any time; and to place some additional limits on the issuance of bonds or refunding bonds.

CONTENT

The bill would amend Public Act 175 of 1952 to specify that refunding bonds could be sold at any time to refund outstanding bonds, and to add regulations regarding the issuance and refunding of bonds.

The bill would prohibit a city or village from issuing or refunding a bond under the Act if the bond or authorizing resolution did any of the following: 1) provided that the bond proceeds were to be used for operational expenses of the city or village, other than engineering or design expenses related to the project for which the bond was issued; 2) provided that the weighted average maturity of the bond exceeded the useful life of the asset; or 3) provided that the bond, in whole or in part, appreciated in principal amount or was sold at a discount in an amount exceeding 10%.

The bill would prohibit the refunding of a bond unless the net present value of the principal and interest to be paid on the refunding bond (excluding issuance cost) would be less than the net present value of the principal and interest to be paid on the bond being refunded, as calculated by a method approved by the Department of Treasury.

The Act prohibits a city or village from pledging for annual debt service requirements more than 50% of revenues received from the Motor Vehicle Highway Fund during the fiscal year preceding the borrowing. The bill provides that debt service on any bonds that had been refunded could not be included in the calculation of annual debt service requirements.

MCL 247.701 & 247.704

ARGUMENTS

(Please note: The arguments contained in this analysis originate from sources outside the Senate Fiscal Agency. The Senate Fiscal Agency neither supports nor opposes legislation.)

Supporting Argument

The bill would remove the current restriction on the issuance of refunding bonds by allowing for issuance at any time, rather than within six months before a bond's maturity date. This would enable local units to refund bonds at times when market conditions were favorable, and thus to save money on interest costs. Further, the bill would tighten restrictions on the issuance and refunding of bonds, particularly by prohibiting bond proceeds to be used for the operational expenses of a city or village.

Legislative Analyst: G. Towne

FISCAL IMPACT

This bill would allow cities and villages to refund bonds at any time prior to maturity, which would reduce interest costs. The bill would have no State fiscal impact.

Fiscal Analyst: R. Ross

A9798\S1357A