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SFA BILL ANALYSIS

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House Bill 5316 (Substitute H-1 as passed by the House)
Sponsor: Representative Jon Jellema
House Committee: Local Government and Urban Policy
Senate Committee: Natural Resources and Environmental Affairs

Date Completed: 5-2-00

CONTENT

The bill would create the "Safe Drinking Water Financial Assistance Act" to allow a governmental unit serving fewer than 10,000 people, by resolution, to issue notes or bonds for a community or noncommunity water supply; allow a governmental unit to pledge payments from the State to secure the notes or bonds; and allow a governmental unit to use proceeds of notes or bonds sold to the Michigan Municipal Bond Authority to purchase notes and bonds issued by any other governmental unit. The bill would take effect October 1, 2000.

"Governmental unit" would mean a governmental unit as defined in Section 3 of the Shared Credit Rating Act, that was eligible for reimbursement of project planning costs under Section 5404(3)(b) of the Natural Resources and Environmental Protection Act (NREPA). (Section 3 of the Shared Credit Rating Act defines "governmental unit" as county, city, township, village, school district, community college, public university, authority, district, any other body corporate and politic or other political subdivision, any agency or instrumentality of those entities, or any group self-insurance pool formed under Public Act 35 of 1951 (which governs intergovernmental contracts). For some projects, the term includes an Indian tribe. For purposes of a community water supply or a noncommunity water supply, "governmental unit" includes a community water supplier. Section 5404(3)(b) of the NREPA specifies that for a municipality serving fewer than 10,000 people, incurred planning costs related to a proposed waterworks project will be directly reimbursed by the Department of Environmental Quality upon completion and submittal of an approvable project plan by the municipality to the Department.)

Under the bill, a governmental unit could issue notes or bonds and use the proceeds to plan for the acquisition, construction, improvement, or installation of real or personal property comprising all or a portion of a community or noncommunity water supply, for the refunding or advance refunding of notes or bonds previously issued under the bill, and for the payment of the costs of issuing them.

For any governmental unit, the aggregate principal amount of all notes and bonds less the principal amount used by the governmental unit to purchase notes or bonds issued by another governmental unit could not exceed $100,000. Issuing notes or bonds would not be subject to any right of referendum, notwithstanding any other statutory or other charter provision to the contrary. The notes or bonds would not be subject to the Municipal Finance Act. Each governmental unit could use proceeds of notes or bonds that were sold to the Michigan Municipal Bond Authority to purchase notes or bonds issued by any other governmental unit.

Notes and bonds issued under the bill would have to be authorized by a resolution of the governing body of the governmental unit, which could pledge the full faith and credit of the governmental unit to the payment of the principal and interest on the notes or bonds. The governmental unit could establish interest rates or methods for establishing interest rates, prices, discounts, maturities, principal amounts, denominations, dates of issuance, interest payment dates, optional or mandatory redemption or tender rights, obligations to be exercised the governmental unit or the holders of the notes or bonds, the place of delivery and payment, and other matters and procedures necessary or desirable in connection with the issuing of the notes or bonds.

A governmental unit could secure the notes or bonds with additional security as determined by its governing body, including a pledge or assignment of any school aid payments, revenue sharing payments or similar payments to be received from the State, a letter of credit, a line of credit, or an insurance contract. In the authorizing resolution, the governing body of the governmental unit could provide that it was the duty of each officer and official of the governmental unit, who was charged with this duty, to include in the annual taxes levied an amount such that the estimated collections of those amounts would be sufficient to pay when due all payments of the principal of and interest on the notes or bonds due before the collection of the following year's taxes after taking into account money on hand or expected to be on hand for such payments from all sources. The governing body of the governmental unit would have to include in its budget and pay such sum or sums that could be necessary each year to pay the principal and interest on the notes or bonds, including overdue installments or maturities, when they became due.

The resolution also could authorize the governmental unit to enter into loan agreements, security agreements, pledge agreements, including the pledge of water supply revenues, mortgages, assignments, or other agreements determined to be necessary to issue notes or bonds and could authorize the governmental unit to use proceeds of the notes or bonds sold to the Michigan Municipal Bond Authority to purchase notes or bonds issued under the bill by any other governmental unit.

The bill specifies that it would have to be construed as cumulative authority for the exercise of the powers granted under the bill. The bill also states that its purpose would be to create full and complete additional and alternate methods for the exercise of these powers, and the powers conferred by it could not be affected or limited by any other statute or by any charter or incorporating document, except as otherwise provided in the bill. The bill, however, would not authorize the governing body of any governmental unit to levy taxes exceeding constitutional, statutory, or charter limitations without the approval of its electors.

Legislative Analyst: N. Nagata

FISCAL IMPACT

To the extent that the bill would facilitate the issuing of debt for certain local units of government, and to the extent that this would result in an increase in local indebtedness, the bill would result in an indeterminate increase in interest costs to local units of government that opted to issue bonds or notes under the bill. In most cases, a given local government would incur interest costs on an average note or bond of $25,000 to $30,000, the current average cost of planning for a water supply improvement project. Under some circumstances, however, the bill would allow a local unit of government to issue notes or bonds in excess of $100,000.

Fiscal Analyst: P. Graham