

SENATE BILL No. 1344

September 20, 2000, Introduced by Senator EMMONS and referred to the Committee on Finance.

A bill relative to the borrowing of money by municipalities and the issuance of certain obligations; to provide for tax levies and sinking funds; to prescribe powers and duties of certain departments, state agencies, officials, and employees; to impose certain duties, requirements, and filing fees upon political subdivisions of this state; to authorize the issuance of obligations to pay premiums or to establish funds to self-insure for losses; to prescribe penalties; and to repeal acts and parts of acts.

THE PEOPLE OF THE STATE OF MICHIGAN ENACT:

PART I

DEFINITIONS

Sec. 101. This act shall be known and may be cited as the "revised municipal finance act".

04158'99

JLB

1 Sec. 103. As used in this act:

2 (a) "Assessed value", "assessed valuation", "valuation as
3 assessed", and "valuation as shown by the last preceding tax
4 assessment roll", or similar terms, used in this act, any stat-
5 ute, or charter as a basis for computing limitations upon the
6 taxing or borrowing power of any municipality, mean the state
7 equalized valuation as determined under the general property tax
8 act, 1893 PA 206, MCL 211.1 to 211.157.

9 (b) "Debt retirement fund" means a segregated account or
10 group of accounts used for the payment of, interest on, or prin-
11 cipal and interest on an obligation.

12 (c) "Department" means, except as may be otherwise specifi-
13 cally provided, the department of treasury.

14 (d) "Fiscal year" means a 12-month period fixed by statute,
15 charter, or ordinance, or if not so fixed, then as determined by
16 the department.

17 (e) "Funded indebtedness" means all indebtedness, including
18 principal and interest, evidenced by obligations, bonds, refund-
19 ing bonds, notes, or certificates of indebtedness which are law-
20 fully issued or assumed, in whole or in part, by a municipality
21 as a general obligation of the municipality, are payable out of
22 special assessments, or will be evidenced by a judgment or decree
23 against the municipality based upon 1 or more of the obligations
24 of the municipality.

25 (f) "Governing body" means the county board of commissioners
26 of a county; the township board of a township; the council,
27 common council, or commission of a city; the council, commission,

1 or board of trustees of a village; the board of education or
2 district board of a school district; the board of trustees of a
3 community college district; the county drain commissioner or
4 drainage board of a drainage district; the board of the district
5 library; the legislative body of a metropolitan district; the
6 port commission of a port district; and, in the case of another
7 governmental authority or agency, that official or official body
8 having general governing powers over the authority or agency.

9 (g) "Municipality" means a county, township, city, village,
10 school district, community college district, metropolitan dis-
11 trict, port district, drainage district, district library, or
12 another governmental authority or agency in this state which has
13 the power to issue an obligation.

14 (h) "Obligations" means evidences of indebtedness such as
15 bonds, refunding bonds, notes, contracts or assessments for the
16 payment of bonds or obligations, and other similar instruments
17 issued or incurred by a municipality, that are general obliga-
18 tions of the municipality, or that, on their face, meet 1 or more
19 of the following requirements:

20 (i) Pledge the limited tax full faith and credit of the
21 municipality.

22 (ii) Are payable primarily or secondarily from taxes, or
23 special assessment, or both.

24 (i) "Serial obligations" means any series of obligations
25 maturing in 2 or more installments, or maturing in 1 installment
26 within 3 years from date of issuance.

1 (j) "Sinking fund" means a fund for the payment of principal
2 only of term obligations.

3 (k) "Taxable value" means the taxable value of the property
4 as determined under section 27a of the general property tax act,
5 1893 PA 206, MCL 211.27a.

6 (l) "Term obligations" means any series of obligations
7 maturing in 1 installment after 3 years from their date of
8 issuance.

9 Sec. 105. An obligation does not include any of the
10 following:

11 (a) A contract for the purchase of real or personal
12 property.

13 (b) A contract for the leasing of real or personal property
14 with or without an option to purchase.

15 (c) A contract, lease, note, or other obligation given in
16 connection with a contract described in subdivision (a) or (b).

17 (d) An emergency loan under section 1 of 1855 PA 105,
18 MCL 21.141, in conjunction with the emergency municipal loan act,
19 1980 PA 243, MCL 141.931 to 141.942, or qualified agricultural
20 loans under section 2a of 1855 PA 105, MCL 21.142a.

21 PART II

22 POWERS

23 Sec. 201. The department is authorized and directed to pro-
24 tect the credit of this state and its municipalities, and to
25 enforce the provisions of this act, and has the following general
26 powers:

1 (a) To aid, advise, and consult with any municipality with
2 respect to fiscal questions arising from and relating to its
3 proposed or outstanding indebtedness.

4 (b) To adopt rules as may be necessary to carry out the pur-
5 poses of this act. The rules shall be adopted in accordance with
6 the provisions of the administrative procedures act of 1969, 1969
7 PA 306, MCL 24.201 to 24.328.

8 (c) To examine the books and records of any municipality for
9 the purpose of ascertaining if such municipality is complying
10 with the requirements of the department, the statutes of the
11 state of Michigan, and its charter, ordinances, and resolutions,
12 in relation to its obligations, and for such purposes it may
13 require sworn statements from any officer or employee of such
14 municipality, or may require such municipality to furnish it with
15 a statement of its financial condition. The department shall
16 have full power in furtherance of its investigations, to examine
17 witnesses on oath, compel the attendance of witnesses, the giving
18 of testimony, and the production of books, papers, and records.
19 Witnesses may be summoned by said department by its process upon
20 the payment of the same fees as are allowed to witnesses attend-
21 ing in the circuit court of the county in which such hearing is
22 held. Any person duly subpoenaed under this section who shall
23 neglect to attend or testify at the place named in the subpoena,
24 served for such purpose, shall be guilty of a misdemeanor.

25 (d) To enforce compliance with any provision of this act or
26 with any provisions of any law, charter, ordinance, or resolution
27 with respect to obligations subject to its jurisdiction including

1 the levy and collection of taxes for the payment thereof, and the
2 segregation, safekeeping, investment, and application of money
3 for the payment of debt. The department may institute appropri-
4 ate proceedings in the courts of the state, including those for
5 writs of mandamus and injunction.

6 (e) To render financial advisory, paying agent, registra-
7 tion, and transfer services and materials, including assistance
8 in the preparation and issuance of a municipality's obligations;
9 prepare explanatory manuals; conduct training seminars; and, upon
10 request of the municipality, assist a municipality in issuing its
11 obligations pursuant to this act. The department may impose a
12 fee upon municipalities requesting its services or materials,
13 which fee shall be limited to the cost incurred by the department
14 in providing the service. The paying agent, registration, and
15 transfer services authorized by this subdivision, if so elected
16 by a municipality, shall be performed solely by the department
17 with respect to the municipalities so requesting, including
18 school districts.

19 Sec. 203. If any municipality feels aggrieved by any deter-
20 mination of the department, it may notify the department and
21 appeal the determination of the department as a contested case
22 pursuant to the administrative procedures act of 1969, 1969
23 PA 306, MCL 24.201 to 23.328. This section does not permit the
24 issuance, amendment, or modification of any order of the depart-
25 ment in respect to the issuance of obligations, after the obliga-
26 tions have been issued, if that action would affect the
27 obligation contract adversely to the interests of the holders.

1 Sec. 205. Within 7 days of the issuance of an obligation
2 under this act, a municipality shall notify the department of the
3 details of the issuance on a form and in a manner determined by
4 the department.

5 PART III

6 GENERAL

7 Sec. 301. A municipality shall not borrow money and issue
8 obligations except in accordance with this act.

9 Sec. 303. (1) Obligations authorized by law to be issued by
10 a municipality may, notwithstanding the provisions of a charter,
11 bear rates of interest not to exceed a maximum rate established
12 by the governing body of the issuing municipality as set forth in
13 its resolution or ordinance authorizing the sale or issuance of
14 the obligation which rate shall not exceed 18% per annum.

15 (2) Obligations issued under this act shall not be sold at a
16 discount exceeding 10% of the principal amount of the
17 obligations. The amortization of the discount shall be consid-
18 ered interest and shall be within the interest rate limitation
19 set forth in this section.

20 Sec. 305. (1) Obligations of an authorized issue may be
21 sold at a public competitive sale or a public negotiated sale as
22 determined in the authorizing resolution.

23 (2) Obligations of an authorized issue to be sold at a
24 public competitive sale shall be sold only after notice by publi-
25 cation, at least 7 days before the sale, in a publication printed
26 in the English language and circulated in this state, which

1 carries as a part of its regular service the notices of the sale
2 of municipal obligations.

3 (3) Bids at a public competitive sale shall be selected on
4 the basis of the lowest total interest cost for the obligation.

5 (4) Bids for the purchase of obligations may be made in
6 person, by mail, by facsimile, by electronic means, or by any
7 other means authorized by the municipality.

8 Sec. 307. (1) Any obligation may be registrable as to prin-
9 cipal alone or as to both principal and interest under such terms
10 and conditions as may be determined by the governing body of the
11 issuing municipality.

12 (2) Any resolution, order, ordinance, or other proceeding
13 authorizing the issuance of any obligation may authorize the
14 obligation to be authenticated by a trustee or other authenticat-
15 ing agent. The authentication may be in lieu of manual signa-
16 tures of the officials of the issuing municipality.

17 (3) Signatures of officials and the seal of an issuing
18 municipality may be affixed in facsimile form if so authorized by
19 the governing body of the municipality.

20 (4) If authorized by the governing body of the issuing
21 municipality, ownership of an obligation may be transferred by
22 means of a recorded entry in a record maintained by the issuing
23 municipality, trustee, or other agent in lieu of printing and
24 transferring a new certificate. However, this subsection shall
25 not preclude a municipality from the delivery of, and a munici-
26 pality shall have the authority to deliver, new certificates as
27 evidence of the originally issued obligation.

1 (5) If an official of a municipality signs or affixes his or
2 her signature to an obligation under this act and that official
3 ceases to be an officer of that municipality before delivery of
4 the obligation, the obligation is valid the same as if the offi-
5 cial had remained in office until delivery of that obligation.

6 Sec. 309. If an obligation has become mutilated, then the
7 governing body of the municipality may by resolution provide for
8 the issuance of a new obligation with like terms, in exchange for
9 and substitution of the mutilated obligation. If an obligation
10 issued by any municipality is registered as to both principal and
11 interest, and the holder of the obligation requests the issuance
12 of a coupon obligation in lieu of a registered obligation, then
13 the governing body of the municipality may in its discretion, by
14 resolution, provide for the issuance of a coupon obligation in
15 exchange for and substitution of the registered obligation. A
16 new coupon obligation shall be of the same type as the obligation
17 replaced except for the changes as may be necessary because of
18 the conversion from registered to coupon form, or if such regis-
19 tered obligation replaced a former coupon obligation, then the
20 new coupon obligation shall be of the same type as the coupon
21 obligation for which the registered obligation was issued. A new
22 coupon obligation shall be executed in the manner provided in the
23 resolution authorizing its issuance, signed by the officers hold-
24 ing office at the time it is issued and contain a recital to the
25 effect it is issued in substitution for a certain obligation,
26 describing the obligation sufficiently to identify it, and is a
27 part of the obligation issue as the original obligation. In all

1 such cases the holder shall pay the reasonable expenses and
2 charges of such an exchange.

3 Sec. 311. A municipality issuing obligations in anticipa-
4 tion of special assessments may, notwithstanding any charter or
5 ordinance provisions to the contrary, in order to pay principal
6 and interest on the obligations, charge a rate of interest on the
7 unpaid balance of the special assessments in excess of the
8 charter or ordinance limit on the obligation, but not in excess
9 of a rate of more than 1% above the average rate of interest
10 borne by the obligations.

11 Sec. 313. (1) A municipality in determining to issue obli-
12 gations may do 1 or more of the following:

13 (a) Authorize and enter into insurance contracts, agreements
14 for lines of credit, letters of credit, commitments to purchase
15 obligations, remarketing agreements, reimbursement agreements,
16 and any other transactions to provide security to assure timely
17 payment of any obligation.

18 (b) Authorize payment from the proceeds of the obligation or
19 other funds available, the cost of issuance, including, but not
20 limited to, fees for placement, fees or charges for insurance,
21 letters of credit, lines of credit, remarketing agreements, reim-
22 bursement agreements, or purchase or sales agreements or commit-
23 ments, or agreements to provide security to assure timely payment
24 of obligations.

25 (c) Authorize principal and interest to be payable from any
26 1 or more of the following:

- 1 (i) Taxes or other revenues of the municipality.
- 2 (ii) Proceeds of obligations.
- 3 (iii) Earnings on proceeds of obligations or other funds
4 held for payment of obligations.
- 5 (iv) Proceeds of any other security provided to assure
6 timely payment of the obligations.
- 7 (v) Any combination of subparagraphs (i) to (iv).
- 8 (d) Authorize or provide for an officer of the municipality,
9 but only within limitations which shall be contained in the
10 authorization resolution of the governing body, to do 1 or more
11 of the following:
 - 12 (i) Sell and deliver and receive payment for obligations.
 - 13 (ii) Refund obligations by the delivery of new obligations,
14 whether or not the obligations to be refunded have matured or are
15 subject to redemption prior to maturity on the date of delivery
16 of the refunding obligations.
 - 17 (iii) Deliver obligations partly to refund obligations and
18 partly for any other authorized purposes.
 - 19 (iv) Buy obligations so issued at not more than the face
20 value of the obligations.
 - 21 (v) Approve interest rates, variable interest rates, or
22 methods for fixing interest rates, prices, discounts, maturities,
23 principal amounts, denominations, dates of issuance, interest
24 payment date, redemption rights at the option of the municipality
25 or the holder, the place of delivery and payment, and other mat-
26 ters and procedures necessary to complete the transactions
27 authorized.

1 (2) If additionally secured as provided in this section, the
2 obligations may be made payable on demand or before maturity at
3 the option of the municipality or the holder only at the time and
4 in the manner as determined by the governing body as provided in
5 the resolution authorizing the obligations.

6 (3) The authority granted by this section may be exercised
7 notwithstanding any ordinance or charter provision to the
8 contrary.

9 Sec. 315. (1) For the purpose of more effectively managing
10 its debt service, a municipality authorized by statute or charter
11 to issue obligations may enter into an interest rate exchange or
12 swap, hedge, or similar agreement or agreements.

13 (2) In connection with entering into an interest rate
14 exchange or swap, hedge, or similar agreement, a municipality may
15 create a reserve fund for the payment of the exchange or swap,
16 hedge, or similar agreement.

17 (3) An agreement entered into pursuant to this section shall
18 comply with all of the following:

19 (a) The agreement is not a debt of the municipality entering
20 into the agreement for any statutory or charter debt limitation
21 purpose.

22 (b) The agreement is payable as a limited tax general obli-
23 gation from general funds of the municipality or, subject to any
24 existing contracts, from any available money or revenue sources,
25 including revenues that shall be specified by the agreement,
26 securing the obligation in connection with which the agreement is
27 entered into.

1 Sec. 317. Any county, township, city, or village, by
2 resolution of its governing body and without a vote of its elec-
3 tors, may issue its full faith and credit obligations for the
4 purpose of funding any part or all of a county or intercounty
5 drain special assessment made against the county, township, city,
6 or village at large under the provisions of the drain code of
7 1956, 1956 PA 40, MCL 280.1 to 280.630. The obligations
8 described in this section shall be serial obligations with annual
9 maturities, the first of which shall fall due not more than
10 2 years from the date of issuance and the last of which shall
11 fall due not more than 10 years from the date of issuance or not
12 more than 1 year after the due date of the last installment of
13 the special assessment, whichever shall be later. No maturity
14 shall be less than 1/2 of the amount of any subsequent maturity.
15 Obligations may be issued in 1 or more series and may fund 1 or
16 more drain special assessments. The principal amount of obliga-
17 tions that may be issued under this section shall not exceed the
18 principal amount of the special assessments to be funded under
19 this section. If any interest is to mature upon the obligation
20 prior to the time of the next county, township, city, or village
21 tax collection, then the governing body of the county, township,
22 city, or village shall make provision for the payment of those
23 obligations when due. Obligations issued under this section
24 shall not be an indebtedness of the county, township, city, or
25 village within the terms of any debt limitation, and any obliga-
26 tion issued under this section shall not be considered to be an
27 indebtedness of the issuing county, township, city, or village

1 for purposes of computing obligation debt limits. No installment
2 or installments of a special assessment shall be funded under
3 this section unless payable in advance of the due date or due
4 dates, and if legal obligations of the drainage district have
5 been issued, an equal amount of obligations must be redeemable
6 within 90 days from the delivery of the funding obligations to
7 the purchaser of those obligations. The provisions of this chap-
8 ter together with the general provisions of this act shall govern
9 the issuance of obligations authorized in this section except
10 where inapplicable or inconsistent with this section. All obli-
11 gations issued under this section shall be the legal and valid
12 obligations of the municipality issuing the same, notwithstanding
13 any illegality in the special assessments funded by those
14 obligations.

15 Sec. 319. (1) A municipality by resolution of its governing
16 body or by entry into an intergovernmental contract pursuant to
17 section 5 of 1951 PA 35, MCL 124.5, or pursuant to an amendment
18 to a contract adopted and made effective in accordance with the
19 terms of the contract, and without a vote of its electors may
20 issue its full faith and credit limited tax obligations, which
21 shall not be considered debt of the municipality for statutory,
22 charter, or constitutional debt limitations, but which shall not
23 require or authorize the levy of taxes in excess of applicable
24 statutory, charter, and constitutional debt limitations, for the
25 purpose of either of the following:

26 (a) Paying premiums and other charges for coverages provided
27 by a pool established pursuant to 1951 PA 35, MCL 124.1 to

1 124.13, or evidencing fixed payment obligations or obligations to
2 make payments under specified contingencies pursuant to an inter-
3 governmental self-insurance pool contract approved by the state
4 treasurer, which contract is authorized under 1951 PA 35,
5 MCL 124.1 to 124.13.

6 (b) Establishing funds, reserves, or accounts in amounts
7 determined by the municipality to defray losses for which insur-
8 ance coverage could be provided by an insurer pursuant to the
9 insurance code of 1956, 1956 PA 218, MCL 500.100 to 500.8302, but
10 for which the municipality has determined to self-insure.

11 (2) Notwithstanding any provision of this act to the con-
12 trary, the obligations shall be issued for the period of time
13 determined by the governing body of the municipality or pursuant
14 to the contract, but not to exceed 30 years.

15 (3) An obligation authorized under subsection (1)(a), other
16 than an obligation to make payments under specified contingen-
17 cies, shall not be of a term exceeding the coverage provided in
18 consideration for receipt of the proceeds of the obligation. The
19 obligations, other than an obligation to make payments under
20 specified contingencies, may be serial or term obligations, or
21 both, with the first annual maturity for serial obligations or
22 redemption requirement for term obligations to fall due 10 years
23 or less from the date of issuance. Annual maturity or redemption
24 requirements, or a combination of both, of obligations other than
25 an obligation to make payments under specified contingencies,
26 after 10 years from the date of issuance shall not be less than
27 1/10 of the amount of any subsequent annual maturity or

1 redemption requirement, or combination of both. Obligations
2 issued pursuant to subsection (1)(b) shall be subject to the pro-
3 visions of this act relating to obligations. Obligations issued
4 or incurred under subsection (1)(a) shall be subject to this sec-
5 tion only and not to any other section or part of this act. The
6 self-insurance pool shall submit for approval by the state trea-
7 surer a copy of the intergovernmental contract pursuant to which
8 any obligations are to be issued or incurred under
9 subsection (1)(a) prior to the effectiveness of such
10 obligations.

11 Sec. 321. (1) When an obligation issued for the purpose of
12 defraying the whole or part of the cost of purchasing, acquiring,
13 constructing, improving, enlarging, extending, or repairing any
14 water supply or sewage disposal system is purchased at competi-
15 tive sale or negotiated sale by the federal government, and
16 applicable rules of the federal government so require, serial
17 obligations comprising the obligations may be delivered to the
18 federal government in installments. Installment deliveries shall
19 be made during the construction or improvement of the water
20 supply or sewage disposal system in an amount calculated to be
21 sufficient to defray expenses to be incurred prior to the next
22 scheduled installment delivery. Payment in an amount equal to
23 the aggregate par amount of obligations delivered in each
24 installment shall be made at the time of delivery of each
25 installment. If the federal government requires, interest cou-
26 pons representing interest due on the obligations from the date
27 of delivery to the first interest payment date may be adjusted,

1 from time to time, to reflect the amount of interest due from the
2 date of the delivery of the obligations.

3 (2) Section 611 does not apply to obligations used to refund
4 obligations described in subsection (1).

5 (3) As used in this section, "federal government" means the
6 federal government or any agency of the federal government.

7 PART IV

8 TAX ANTICIPATION OBLIGATIONS

9 Sec. 401. (1) A municipality may, by resolution of its gov-
10 erning body, and without a vote of the electors, borrow money and
11 issue its obligations in anticipation of the collection of the
12 taxes, revenue sharing payments under the Glenn Steil state reve-
13 nue sharing act of 1971, 1971 PA 140, MCL 141.901 to 141.921, and
14 other revenues prescribed by this part for its then next succeed-
15 ing fiscal year, or the taxes or other revenues for a current
16 fiscal year, in accordance with the provisions of this part.

17 (2) A municipality may, by resolution of its governing body,
18 and without a vote of the electors, borrow money and issue a
19 single series of obligations in anticipation of the collection of
20 the taxes for its then next succeeding fiscal year and the taxes
21 for the current fiscal year, if the taxes for the next succeeding
22 fiscal year and the taxes for the current fiscal year are both
23 levied in the same calendar year. The portion of the series of
24 obligations issued pursuant to this subsection representing bor-
25 rowing against taxes for the next succeeding fiscal year shall
26 comply with the requirements of section 403 for that borrowing,
27 and that portion of the series of obligations representing

1 borrowing against taxes for the current fiscal year shall comply
2 with the provisions of section 405 for that borrowing.

3 Sec. 403. (1) If the money borrowed is for operating
4 expenses, the money shall be used only for the purpose of paying
5 the necessary operating expenses of the municipality which could
6 not reasonably have been foreseen and adequately provided for in
7 the tax levy for the then current fiscal year; for the payment of
8 an expense in the then current fiscal year which cannot be funded
9 because of a delay in or failure of receipt of budgeted revenue;
10 or for the payment of budgeted expenses in the then current
11 fiscal year that precede budgeted revenues. The amount permitted
12 to be borrowed for these purposes shall not exceed 50% of the
13 operating tax levy for the current fiscal year, or if the operat-
14 ing tax levy for the next succeeding fiscal year is determined,
15 then 50% of the levy for the next succeeding fiscal year. The
16 authorizing resolution shall provide that from the first collec-
17 tions of the operating taxes for the next succeeding fiscal year,
18 there shall be set aside in a special fund to be used for the
19 payment of principal and interest on the tax anticipation obliga-
20 tions, a portion of each dollar which is not less than 125% of
21 the percentage that the principal amount of the obligations bears
22 to the amount of the operating taxes until the amount set aside
23 is sufficient for the payment. If a municipality collects its
24 taxes in installments and issues obligations in anticipation of
25 more than 1 installment, the requirements of the preceding sen-
26 tence shall apply to each installment of taxes. The collection
27 of the taxes to be set aside shall not be used for any other

1 purpose. If the municipality determines that issuing obligations
2 for this purpose will result in a deficiency in the funds avail-
3 able to pay the necessary operating expenses of the next succeed-
4 ing fiscal year, the municipality shall levy additional taxes in
5 the future from within constitutional, charter, and statutory
6 limits to prevent a continuation of the deficit from year to
7 year.

8 (2) If the money borrowed is for capital improvements, the
9 money shall be used only for the payment of 1 or more capital
10 improvements which can be legally and properly provided for in
11 the budget of the municipality for the fiscal year. The amount
12 permitted to be borrowed for this purpose shall not exceed the
13 sum set forth in the authorizing resolution to be levied for the
14 improvement. The authorizing resolution shall provide that from
15 the first collections of the taxes for the next succeeding fiscal
16 year, there shall be set aside in a special fund to be used for
17 the payment of principal and interest on the tax anticipation
18 obligations, that percentage of the collections which the tax
19 levied for capital outlay bears to the total levy, and until the
20 amount set aside is sufficient for the payment, collection of the
21 taxes to be set aside shall not be used for any other purpose.

22 Sec. 405. (1) If the borrowing is made in anticipation of
23 the collection of the taxes for a current fiscal year, the pro-
24 ceeds of the borrowing shall be used only for the payment of
25 operating expenses, debt service charges, or capital improvements
26 as set forth in this section.

1 (2) If the money that is borrowed as provided in
2 subsection (1) is for the payment of operating expenses or debt
3 service charges, the amount which may be borrowed shall be
4 limited to 75% of the amount of the debt service taxes, if the
5 borrowing is to pay debt service charges, or 75% of the amount of
6 the operating taxes, if the borrowing is to pay operating
7 expenses, as provided for in the budget of the current fiscal
8 year and which remains to be collected at the time of passage of
9 the authorizing resolution. However, if the resolution is passed
10 before the day upon which taxes for such year become due and pay-
11 able, the loan shall not exceed 50% of the tax levy made for debt
12 service or operating expenses, respectively, for the preceding
13 fiscal year. The authorizing resolution shall provide that, from
14 the date of the authorizing resolution, from the collections of
15 the taxes remaining to be collected for the current fiscal year
16 there shall be set aside in a special fund, to be used for the
17 payment of principal and interest on the obligations, a portion
18 of each dollar of taxes remaining to be collected for the current
19 fiscal year not less than 125% of the percentage that the princi-
20 pal amount of the notes bears to the amount of the tax levied for
21 debt service or operating expenses, respectively, which are
22 remaining to be collected from the date of the authorizing reso-
23 lution until the amount so set aside is sufficient for such
24 payment. The collections of these taxes to be so set aside shall
25 not be used for any other purpose.

26 (3) If the money that is borrowed as provided in
27 subsection (1) is for the payment of a capital improvement, the

1 sum borrowed shall be used only for the payment of 1 or more
2 capital improvements which are legally and properly provided for
3 in the tax levy of the current fiscal year. The amount permitted
4 to be borrowed for this purpose shall not exceed the anticipated
5 collection, based on the delinquency in collections of the levy
6 of the preceding fiscal year, of the sum included in the tax levy
7 for that purpose and remaining unpaid at the time of the passage
8 of the authorizing resolution. The authorizing resolution shall
9 provide that from the collections of the taxes for the current
10 fiscal year there shall be set aside in a special fund to be used
11 for the payment of principal of and interest on the obligations
12 that percentage of such collections which the tax levied for cap-
13 ital outlay bears to the total levy, and until the amount set
14 aside is sufficient for that payment, collections of such taxes
15 to be so set aside shall be used for no other purpose.

16 (4) Any outstanding obligation made under section 403 of
17 this part shall be deducted from the sum permitted to be borrowed
18 under this section.

19 Sec. 407. Where the borrowing is in anticipation of the
20 receipt of revenue sharing payments under the Glenn Steil state
21 revenue sharing act of 1976, 1971 PA 140, MCL 141.901 to 141.921,
22 for the current or next succeeding fiscal year, the proceeds of
23 the borrowing shall be used only for the payment of operating
24 expenses. The authorizing resolution shall provide that from the
25 first receipts of such payments for that fiscal year in anticipa-
26 tion of which the municipality is borrowing, there shall be set
27 aside in a special fund to be used for the payment of principal

1 and interest on the obligations a portion of each dollar which is
2 not less than 125% of the percentage that the principal amount of
3 the obligations bears to the amount of payments remaining to be
4 collected, until the amount set aside is sufficient for the pay-
5 ment of principal and interest on the obligations. The amount so
6 set aside shall be used only for the payment of the principal and
7 interest on the obligations until the obligations are paid as to
8 both principal and interest.

9 Sec. 409. Obligations issued pursuant to this part shall
10 bear interest at a rate not to exceed that provided in part III
11 and shall be payable not later than the estimated time of collec-
12 tion of an amount sufficient for their payment out of the taxes
13 pledged for those obligations, as determined by the governing
14 body of the municipality.

15 Sec. 411. The money in each special fund required by this
16 chapter shall be deposited in a bank account separate from any
17 other money of the municipality and shall be used for no purpose
18 other than to retire the loans for the payment of which the spe-
19 cial fund was established.

20 PART V

21 GENERAL OBLIGATIONS

22 Sec. 501. (1) Except as otherwise provided for by law, or
23 as otherwise provided in part VI, obligations issued by a munici-
24 pality and qualified as obligations under this act shall not be
25 issued for a longer time than the estimated period of usefulness
26 of the property or improvement for which issued.

1 (2) In addition to the requirements of subsection (1),
2 obligations shall not be issued for a longer time than the
3 following:

4 (a) Obligations issued in anticipation of special assess-
5 ments, 2 years from the time fixed by law for the payment of the
6 last installment of the assessments from which the obligations
7 are payable.

8 (b) Emergency obligations for relief from fire, flood, or
9 other calamity, 5 years.

10 (c) Obligations for payment of judgments against the munici-
11 pality, except judgments in condemnation proceedings, and obliga-
12 tions for the purchase of personal property, other than material
13 for permanent construction, machinery for public utilities, or
14 original furnishings and equipment of new buildings, 10 years.

15 (d) Obligations for sewage disposal, water, or transporta-
16 tion systems, or for the construction, opening, widening, or
17 improvement of bridges, 40 years.

18 (e) Obligations for the construction, opening, widening, or
19 improvement of highways, streets, roads, or alleys, 30 years.

20 (f) All other obligations, 30 years.

21 Sec. 503. (1) The obligations shall be serial obligations,
22 term obligations, or both term and serial obligations with matu-
23 rities as fixed by the governing body of the municipality. If
24 serial obligations only are issued, there shall be annual maturi-
25 ties, the first of which shall fall due not more than 5 years
26 from the date of issuance, and a maturity after 4 years from date

1 of issuance shall not be less than $\frac{1}{5}$ the amount of any
2 subsequent maturity.

3 (2) Obligations issued as term obligations only, which have
4 a maturity more than 5 years from the date of issuance, shall be
5 subject to redemption before the maturity date as fixed by the
6 governing body of the municipality. However, the first redemp-
7 tion date shall fall due not more than 5 years from the date of
8 issuance, and the principal amount of term obligations to be
9 redeemed each year after 4 years from the date of issuance shall
10 be not less than $\frac{1}{5}$ of the principal amount of term obligations
11 required to be redeemed in any subsequent year or payable on the
12 final maturity date of the term obligations, after deducting from
13 the amount payable on the final maturity date the principal
14 amount of term obligations required to be redeemed before the
15 final maturity date.

16 (3) If the obligations are issued as both term obligations
17 and serial obligations, the obligations shall have the maturi-
18 ties, which shall be annual as to serial obligations, as fixed by
19 the governing body of the municipality. However, the first
20 annual maturity of serial obligations or the first redemption
21 date of term obligations shall be not more than 5 years from the
22 date of issuance, and a combination of annual maturities of
23 serial obligations and principal amount of redemption of term
24 obligations after 4 years from the date of issuance shall not be
25 less than $\frac{1}{5}$ the combined amount of any subsequent maturity of
26 serial obligations and the principal amount of term obligations
27 required to be redeemed in any subsequent year or payable on the

1 final maturity date of the term obligations, after deducting from
2 the amount payable on the final maturity date the principal
3 amount of term obligations required to be redeemed before the
4 final maturity date.

5 (4) The governing body of the municipality may provide that
6 the redemption of term obligations may be satisfied in whole or
7 in part by the purchase and cancellation of term obligations oth-
8 erwise required to be redeemed. For purposes of this act, term
9 obligations shall be considered to mature in the amounts and on
10 the dates on which they are required to be redeemed before their
11 maturity.

12 (5) The obligations of any series, or any part of a series,
13 within the scope of this part, may be made redeemable on the
14 terms and conditions as provided by ordinance or resolution of
15 the governing body. A premium shall not be paid on an obligation
16 exceeding 3% of its par value.

17 (6) An obligation may be made redeemable at any time as
18 authorized in the authorizing resolution.

19 Sec. 505. The total amount of special assessment obliga-
20 tions of any township, city, or village pledging the limited tax
21 full faith and credit of the municipality shall at no time by
22 reason of future issues, other than issues of refunding obliga-
23 tions, exceed 15% of the taxable value of the taxable property in
24 the municipality; nor shall those obligations be issued in any
25 calendar year in excess of 5% of the taxable value unless autho-
26 rized by majority vote of the electors, or by a larger vote as
27 may be provided by statute or charter.

1 Sec. 507. Interest which may accrue on an obligation issued
2 during the first 3 years after the date of the obligation may be
3 paid from the proceeds of the sale of the obligation. In addi-
4 tion, a reserve fund, in an amount not exceeding 15% of the prin-
5 cipal amount of the obligation issued, may be established from
6 the proceeds of the sale of the obligation and shall be held
7 solely for the payment of principal of, and interest on, the
8 obligations.

PART VI

REFUNDING

11 Sec. 601. (1) Subject to this act, a municipality may, by
12 resolution of its governing body and without a vote of its elec-
13 tors, refund all or any part of its funded indebtedness by issu-
14 ing refunding obligations.

(2) Refunding obligations may be issued whether the obligations to be refunded have or have not matured, are or are not redeemable on the date of issuance of the refunding obligations, exceed the original estimated period of usefulness, or are not subject to redemption before maturity, and may be issued to pay principal, interest, redemption premiums, or any combinations of principal, interest, or redemption premiums of the obligations to be refunded. Obligations which refund outstanding obligations may include the payment of interest accrued, or to accrue, to the earliest or any subsequent date of redemption, purchase, or maturity of the obligations to be refunded, redemption premium, if any, and any commission, service fee, and other expense necessary to be paid in connection with the obligations to be refunded.

1 Proceeds of refunding obligations may also be used to pay part of
2 the cost of issuance of the refunding obligations, interest on
3 the refunding obligations, a reserve for the payment of princi-
4 pal, interest, and redemption premiums on the refunding obliga-
5 tions, and other necessary incidental expenses, including, but
6 not limited to, placement fees and fees or charges for insurance,
7 letters of credit, lines of credit, or commitments to purchase
8 obligations to be refunded. To the extent provided by the pro-
9 ceedings authorizing the refunding obligations, principal, inter-
10 est, and redemption premiums on the refunding obligations shall
11 be secured by and payable from any or all of the following
12 sources:

13 (a) Taxes or special assessments pledged for payment of the
14 obligations being refunded.

15 (b) The proceeds of the refunding obligations.

16 (c) The reserve, if any, established for the payment of the
17 principal of, or interest and redemption premiums on, the refund-
18 ing obligations or the obligations to be refunded.

19 (d) The proceeds of any insurance, letter of credit, or line
20 of credit acquired as security for the refunding obligations.

21 (e) The proceeds of any obligations issued to refund the
22 refunding obligations.

23 (f) Investment earnings or profits on any of the sources
24 described in subdivisions (a) to (e).

25 Sec. 603. (1) Any outstanding funded indebtedness of a
26 municipality which has been assumed in part by another

1 municipality may be refunded by the municipalities as to their
2 respective liabilities.

3 (2) This act shall not be construed to prohibit a municipal-
4 ity from refunding any of its outstanding funded indebtedness
5 even though some other municipality may have become obligated to
6 contribute to the payment of that indebtedness, and that refund-
7 ing is hereby expressly authorized; but no such refunding shall
8 relieve any other municipality from its obligation to make such
9 contribution.

10 Sec. 605. The refunding obligations and the tax levies used
11 to repay those refunding obligations shall not be deemed to be
12 within any statutory or charter limitation of tax rate or of
13 funded indebtedness, but shall be deemed to be authorized in
14 addition to any statutory or charter limitation of tax rate or
15 funded indebtedness.

16 Sec. 607. (1) Debt service money on hand applicable to the
17 retirement of obligations to be refunded, or from proceeds of
18 debt service taxes for these purposes, or both, shall be applied
19 as provided in the authorizing resolution.

20 (2) The proceeds of refunding obligations and other avail-
21 able funds may be applied to payment of the principal, interest,
22 or redemption premiums, if any, on the refunded obligations at
23 maturity or on any prior redemption date or may be deposited in
24 trust for use to purchase and deposit in trust direct obligations
25 of or obligations the principal and interest on which are uncon-
26 ditionally guaranteed by the United States, or other obligations
27 the principal of and interest on which are fully secured by the

1 foregoing, and the principal and interest on which when due,
2 together with other available money, will provide funds suffi-
3 cient to pay principal, interest, and redemption premiums, if
4 any, on the refunded obligations as the refunded obligations
5 become due, whether by maturity or on a prior redemption date, as
6 provided in the authorizing resolution.

7 Sec. 609. Refunding obligations issued to refund drainage
8 obligations issued under the terms of the drain code of 1956,
9 1956 PA 40, MCL 280.1 to 280.630, shall be obligations of the
10 same character as the obligations refunded and shall be construed
11 to be a continuation of the former obligations. Also, refunding
12 obligations issued to refund former obligations secured by a
13 pledge of unlimited taxes shall be secured by an unlimited tax
14 pledge. All other refunding obligations issued under this sec-
15 tion shall, unless otherwise provided, be the general obligation
16 of the issuing municipality and the issuing municipality's full
17 faith and credit shall be pledged to payment of these refunding
18 obligations.

19 Sec. 611. Except as provided in section 321, a municipality
20 shall not refund all or any part of its funded indebtedness by
21 issuing refunding obligations if the net present value of the
22 principal and interest to be paid on an obligation issued by the
23 municipality to refund an obligation incurred under this act,
24 including the cost of issuance, shall be less than the net
25 present value of the principal and interest to be paid on the
26 obligation being refunded as calculated using a method approved
27 by the department of treasury.

PART VII

TAX LEVIES, DEBT RETIREMENT, AND SINKING FUND

1 Sec. 701. (1) Subject to subsection (3), if a municipality
2 has obligations outstanding, or with the approval of its electors
3 has authorized the issuance of or has incurred obligations to be
4 paid from collections of its next tax levy, an officer or offi-
5 cial body charged with a duty in connection with the determina-
6 tion of the amount of the next taxes to be raised or with the
7 levying of the next taxes, shall include in the amount of taxes
8 levied each year:

9 (a) An amount such that the estimated collections will be
10 sufficient to promptly pay, when due, the interest on all obliga-
11 tions and the portion of the principal falling due either at
12 maturity of the obligations or, in the case of term obligations,
13 by the prior redemption or maturity of those obligations, before
14 the time of the following year's tax collection.

15 (b) An amount, if there are outstanding term refunding obli-
16 gations, sufficient to provide the sum required to be deposited,
17 by the ordinance or resolution authorizing the issue, into the
18 sinking fund for that purpose before the time of the following
19 year's tax collection.

20 (c) An amount, if there are outstanding term obligations
21 other than refunding obligations not required to be redeemed in
22 annual amounts before the maturity of the outstanding term obli-
23 gations, which if deposited annually into a sinking fund will,
24 with the existing sinking fund pertaining to the obligations and
25 26

1 the increment of the obligations, be sufficient to pay the
2 obligations at maturity.

3 (2) Subsection (1) shall not limit the amount required to be
4 levied in a year for the purposes prescribed in that subsection,
5 by the terms of an ordinance or resolution authorizing the issu-
6 ance of the obligations.

7 (3) If the obligations were authorized or incurred before
8 December 23, 1978, or were approved by the electors of a munici-
9 pality, the full amount of taxes required by this section for the
10 payment of the obligations shall be imposed without limitation as
11 to rate or amount and in addition to other taxes which the munic-
12 ipality may be authorized to levy. If the obligations were
13 authorized or incurred by a municipality after December 22, 1978,
14 and were not approved by the electors of the municipality, the
15 municipality shall levy and collect ad valorem taxes as required
16 by this section for the payment of the obligations as a first
17 budget obligation. However, the ad valorem taxes shall be
18 subject to applicable charter, statutory, or constitutional
19 limitations.

20 (4) If there is surplus money on hand for the payment of
21 principal or interest at the time of making an annual tax levy,
22 and provision has not been made in the authorizing resolution for
23 the disposition of that money, the annual levy for principal or
24 interest may be reduced.

25 (5) Money remaining in a debt retirement fund from the levy
26 of a tax or an account within a debt retirement fund from the
27 levy of a tax after the retirement of all obligations payable

1 from that fund shall be used for the following in the following
2 order of priority:

3 (a) To pay any other funded indebtedness of the
4 municipality.

5 (b) Once all funded indebtedness of the municipality is paid
6 under subdivision (a), to any other debt of the municipality.

7 (c) Once all other debts of the municipality are paid under
8 subdivision (b), for the general fund of the municipality.

9 (6) As taxes are collected, there shall be set aside that
10 portion of the collections which is allocable to the payment of
11 the principal and interest on the obligations. The portion set
12 aside shall be divided pro rata among the various sinking funds
13 and debt retirement funds in accordance with the amount levied
14 for that purpose. These tax collections paid into a debt retire-
15 ment fund, if the fund is for the payment of more than 1 issue of
16 obligations shall be allocated on the books and records of the
17 municipality between the various issues in accordance with the
18 amounts levied for that purpose.

19 (7) An officer who willfully fails to perform duties
20 required by this section shall be personally liable to the munic-
21 ipality or to a bondholder for loss or damage arising from his or
22 her failure.

23 Sec. 703. If taxes, special assessments, or both, have been
24 levied for or pledged to the payment of obligations, all money on
25 hand or thereafter received by reason of these taxes, special
26 assessments, or both, shall be applied as prescribed by the
27 authorizing resolution and as may be approved by the department.

1 Sec. 705. (1) Debt retirement funds shall be kept separate
2 from other money of the municipality and shall be used only to
3 retire the funded indebtedness of the municipality.

4 (2) When any municipality shall have completed the retire-
5 ment of outstanding obligations, or accumulated sufficient funds
6 in the debt retirement fund for the retirement of the obliga-
7 tions, the governing body of the municipality shall certify that
8 the obligations are retired or that the debt retirement fund is
9 of sufficient amount to retire the obligations to the county
10 treasurer of the county in which the municipality is located, and
11 the county treasurer shall no longer be required to recognize a
12 levy for the obligation issue.

13 Sec. 707. Any municipality issuing term refunding obliga-
14 tions under the provisions of part VI shall provide a sinking
15 fund or funds for the retirement of those obligations, and there
16 shall be deposited in each such sinking fund annually such
17 amounts as shall be sufficient to pay the principal of such obli-
18 gations at or before maturity. All sinking fund money for the
19 retirement of refunding obligations shall be kept separate from
20 each other and from all other money of the municipality and shall
21 be used for no purpose except for the payment or purchase of such
22 refunding obligations.