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SFA BILL ANALYSIS

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Senate Bill 1314 (as reported without amendment)
Sponsor: Senator Joanne G. Emmons
Committee: Finance

CONTENT

The bill would amend the Revised Municipal Finance Act to regulate interest rate agreements entered into in connection with the issuance or proposed issuance of debt, or in connection with outstanding debt.

Currently, a municipality may enter into an interest rate exchange or swap, hedge, or similar agreement in connection with the issuance of debt or outstanding debt. An interest rate agreement must be payable as a limited tax full faith and credit pledge from general funds of the municipality or, subject to any existing contracts, from any available money or revenue sources, including revenues that must be specified by the agreement, securing the municipal security in connection with which the agreement is entered into. Under the bill, this would apply to an interest rate exchange or swap, hedge, or similar agreement entered into by a municipality in connection with debt that was not approved by the voters of the municipality, or in connection with a refunding of such debt.

If a municipality entered into an interest rate agreement in connection with debt that was approved by the voters of the municipality, or in connection with a refunding of voter-approved debt, the municipality's interest payment obligation would be considered to be additional interest on the debt, and would constitute an unlimited tax full faith and credit pledge of the municipality. The municipality would have to levy the full amount of taxes required or, in the case of a variable rate obligation, the amount reasonably estimated to be required, for the payment of: 1) principal and interest on the municipal securities without limitation as to rate or amount and in addition to other taxes that the municipality could be authorized to levy; and 2) the municipality's net interest obligation under the interest rate exchange or swap, hedge, or similar agreement.

A municipality could not enter into an interest rate agreement unless its had expressly approved the agreement and acknowledged the potential risks associated with it; the counterparty to the agreement had been assigned a rating of "A" or better, or other rating as the Department of Treasury determined, by a nationally recognized rating agency, at the time the agreement was entered into; and the length of the agreement did not extend beyond the final maturity date of the debt issued in connection with it. Further, a municipality could not enter into an agreement unless it had created a debt management plan and a swap management plan; and had not waived its right to a jury trial.

MCL 141.2317 Legislative Analyst: George Towne

FISCAL IMPACT

The bill would have no fiscal impact on State or local government.

Date Completed: 5-15-02 Fiscal Analyst: David Zin