Legislative Analysis

Mitchell Bean, Director
Phone: (517) 373-8080
http://www.house.mi.gov/hfa

EMERGENCY MUNICIPAL LOAN ACT

House Bill 5449 without amendment
Sponsor: Rep. Bert Johnson
Committee: Intergovernmental, Urban, and Regional Affairs

First Analysis (12-03-07)

BRIEF SUMMARY: The bill, which applies only to the City of Highland Park, would revise the eligibility criteria under the Emergency Municipal Loan Act that allow a municipality to submit a loan application to the Department of Treasury Local Emergency Financial Assistance Loan Board, and increase the maximum loan to any one municipality in any one fiscal year from $1 million to $3 million.

FISCAL IMPACT: See detailed fiscal impact statement in Fiscal Information.

THE APPARENT PROBLEM:

The City of Highland Park, a community of 16,700 bordered by the cities of Detroit and Hamtramck, is rich in heritage. In the early 1900s Henry Ford chose the then rural farming community 6 miles north of Detroit as the site for his first factory. The Ford plant, completed in 1909, featured a moving assembly line—hence the city describes itself as the "birthplace of mass production." Thousands of immigrants came to Highland Park for an unprecedented $5 per day wage. The village of Highland Park was incorporated as a city in 1918. The city's population peaked at 52,959 people in 1930. Since that time the number of people residing in Highland Park has fallen more than 75 percent.

The Ford Motor Company closed the Highland Park automobile plant in the late 1950s, and the city's population and tax base declined dramatically over the next five decades. The city's leafy neighborhoods and stately public buildings—including the McGregor Library—fell into bad repair. In June 2001, because of the city's mounting fiscal crisis, an appointed an emergency financial manager was appointed, Ramona Pearson. In June 2005, Arthur Blackwell, II, was appointed as the city's second emergency financial manager by officials in the Michigan Department of Treasury. Mr. Blackwell, who works without pay, assumed many of the powers previously vested in elected officials.

In April 2005, the city had a cash balance of $10,000, and a growing $17 million debt with an annual $13 million budget. According to committee testimony, that $17 million debt has been reduced to $4 million in the past 30 months; however, the city continues to incur an annual operations deficit of $1 million. To reduce the debt, the emergency financial manager has negotiated to have debts forgiven; reduced the workforce by 60 percent; audited worker's compensation claims; reduced the city's annual legal fees by hiring in-house counsel; renegotiated pensions and health care plans for police and firefighters; and found greater efficiencies in the water department. In addition the City of Highland Park has sought loans from the State of Michigan Municipal Emergency Loan Board--loans that are secured by the city's revenue sharing payments. See Fiscal Information.

There are now indications that the City of Highland Park—home to over 300 businesses—has stabilized, and begun to reinvest in its infrastructure. For example, an annual citywide clean-up spruces up parks and streetscapes, more than 100 blighted properties have been removed, and renovations have been made to the library, municipal building, field house, and parks. Two new businesses have recently located in Highland Park: Coca Cola, and Visteon.

The Municipal Emergency Loan Board authorizes loans of up to $1 million annually for struggling communities, if they are experiencing little or no growth in their income tax collections. Highland Park has met that criterion and was granted two separate loans in 2003 and 2006. Generally, to be eligible, a community's income tax growth rate must fall below .90. In the most recent two years of collections, Highland Park's growth rate was 1.24—a level of improvement that is too high for the city to qualify for another loan.

Legislation has been introduced to revise the eligibility criteria for municipal emergency loans so that Highland Park could again qualify for state assistance.

THE CONTENT OF THE BILL:

The bill would amend the Emergency Municipal Loan Act (1) to revise the eligibility criteria that allow a municipality to submit a loan application to the Department of Treasury Local Emergency Financial Assistance Loan Board and (2) to increase the maximum loan to any one municipality in any one fiscal year from $1 million to $3 million.

Eligibility Criteria. Under the current law, a municipality must meet one or more of the following conditions:

1) Its income tax revenue growth rate must be .90 or less.
2) Its local tax base growth rate must be 75 percent or less of the statewide tax base growth rate.
3) The state equalized valuation of real and personal property within the municipality at the time the loan application is made must be less than the state equalized valuation of real and personal property within the municipality in the immediately preceding year.

House Bill 5449 would retain these (and other eligibility criteria) in the act, but expand the first criterion to read: Its income tax revenue growth rate must be .90 or less, *or the municipality has two or more emergency loans outstanding at the time its application is submitted and its income tax revenue growth rate is 1.3 or less.*

Loan Cap. Currently under the law, the board may authorize loans to any one municipality in an amount not to exceed $1 million in any one fiscal year, and a municipality is not eligible to receive loans in more than five fiscal years in any 10-year period. House Bill 5449 would increase the annual loan cap to $3 million.

MCL 141.934 and 141.935

BACKGROUND INFORMATION:

For more information about Highland Park, visit the community's website at http://cityofhighlandparl/us/profile.htm

FISCAL INFORMATION:

Because available surplus funds (common cash) would be invested in an emergency municipal loan, rather than the other short-term investment tools available to the department (e.g., prime commercial paper or certificates of deposit), the bill would negatively impact the state's cash position during the time the loan is outstanding.

The City of Highland Park is the only local unit that would qualify for a loan under the revised criteria under the bill. In the past, the city was eligible for a loan under the act because its income tax growth rate was less than 0.9. (It has never met the eligibility criteria based on its local tax base growth rate or state equalized valuation of property within the city.)

The city is no longer eligible for a loan because its growth in income tax collections between 2005 and 2006 was 124%, according to the Department of Treasury. (Thus, its "income tax growth rate" under the act is 1.24.)

The city received two loans of $1.0 million on May 2003 and September 2006. Under the terms of both loan agreements the city is required to pay interest on the loans, payable beginning one year after the city received the loan, at a rate generally equal to the common cash earnings rate (on an annualized basis) during the first quarter of the fiscal year. Principal payments of $100,000 are payable beginning 10 years after the city received each loan.

ARGUMENTS:

For:

As the City of Highland Park has begun to stabilize its decline under the austerity plan implemented by its emergency financial manager, a loan from the Municipal Emergency Loan Board is needed. The community's recent improved income tax collections—while a positive development—have had the effect of making the city ineligible to apply for an emergency loan. Despite some promising indicators of economic recovery, the city of Highland Park continues to require state loan assistance. The repayment history on previous loans has been good, and the state incurs little to no risk since each municipal loan is secured by the city's annual revenue sharing payment. This legislation would amend the Municipal Emergency Loan Act to make Highland Park eligible for the loan program.

Against:

Although there is considerable evidence that the City of Highland Park has implemented a comprehensive recovery program, some people believe more information is needed from city officials, in order to better understand the austerity plan that has been put in place—most especially how employee and retiree wages, benefits, and pensions are paid.

POSITIONS:

The Michigan Department of Treasury supports the bill. (11-28-07)

The City of Highland Park supports the bill. (11-28-07)

Legislative Analyst: J. Hunault
Fiscal Analyst: Mark Wolf

■ This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.