Legislative Analysis

HOUSE FISCAL AGENCY
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REFUNDING BONDS

House Bills 6619 and 6620
Sponsor: Rep. Joan Bauer
Committee: Appropriations

Complete to 12-3-08

A SUMMARY OF HOUSE BILLS 6619 AND 6620 AS INTRODUCED 11-20-08

House Bill 6619 would amend 1948 PA 31 (1st Extra Session), which authorizes the creation of local building authorities, to specify that an authority may issue bonds for the purpose of defraying all or part of the costs of refunding capital appreciation bonds issued on May 17, 1990 in anticipation of the receipt of certain contract obligations (i.e. rental payments) under a contract between the building authority and the authorizing local unit entered on November 14, 1989. The new bonds issued by the authority could be secured by the future receipts under the contract, and could be payable through 2039, the provisions of the existing contract notwithstanding. If the new bonds are issued prior to January 1, 2011 they would not be subject to the following provisions of the Revised Municipal Finance Act, 2001 PA 34.

- Section 305(2), MCL 141.2305(2): Prohibiting municipal securities from being at a discount above 10%.
- Section 305(3), MCL 141.2305(3). Permitting municipal securities to be issued at a discount above 10% if the sale (1) evens the distribution of annual debt service; (2) saves interest costs; (3) the sale is based on specific revenue previously pledged for another purpose; or (4) the security is issued to secure a loan or agreement from the state or the federal government.
- Section 305(5), MCL 141.2305(5): Prohibiting refunding obligations under Section 305(3) from having a maturity date beyond the maturity date of the existing security.
- Section 305(6), MCL 141.2305(6): Limiting the amount of a security issued in accordance with Section 305(3) to 25% the total principal amount of any security.
- Section 501, MCL 141.2501: Placing certain time limits on the final maturity date of a municipal security. Generally this limit is 30 years, although for property or improvements the maturity can not be beyond the "estimated period of usefulness" for that property or improvement.
- Section 503, MCL 141.2503: Placing certain time limits on the first maturity dates of a bond issue. Generally, the first maturity date must be within five years after date of issuance.
- Section 611, MCL 141.2611: Prohibiting a municipality from issuing a refunding (refinancing) security if there is no overall benefit to the municipality (e.g. issuing a refunding bond that today costs less than current bond issue, but costs more over the life of the bond issue).

Additionally, the bill provides that a building authority could also issue up to $50.0 million in bonds related to the acquisition of a building used as a new performing arts center and an addition to an existing convention and exhibition center. The bonds would be secured by the anticipated contract obligations (i.e. rental receipts), and would have to be issued before January 1, 2011. The bonds would not be subject to those portions of Section 305 and Section 503 of the Revised Municipal Finance Act listed above.

House Bill 6620 would amend the Tax Increment Finance Authority Act to expand the definition of "other protected obligation" to include an obligation of a TIFA that (1) is a contract or lease executed on December 20, 1994 between a municipality and a TIFA to partially implement the TIFA's development plan and tax increment financing plan and (2) a obligation issued or incurred by a TIFA (or by a municipality on a TIFA's behalf) between August 19, 1993 and December 31, 1994 to finance a project approved in a tax increment financing plan by a municipality before December 31, 1994 (pre-proposal A). However, that obligation may be amended to extend rental payments for up to 30 years, through 2039. The duration of the development plan and the tax increment financing plan would be extended to one year after the final date on which rental payments are due. Additionally, the obligation would be amended to include additional rental payments from a municipality to a TIFA for lease of a building used as new performing arts facility, or an addition to an existing convention and exhibition center financed by a local building authority under 1948 PA 31 (1st Extra Session), as provided in HB 6619.

FISCAL IMPACT:

The bill would have no direct fiscal impact on the state. Reportedly, this would only affect the City of Lansing. The Lansing Tax Increment Finance Authority pays approximately $5.0 million in debt service payments related to various parking facilities in the city, the Lansing Center convention and exhibition facility, and the courthouse. In recent years, the Lansing TIFA received approximately $5.0 million in captured property tax revenue. Reportedly, the TIFA is facing a loss of property tax revenue of approximately $1.2 million. Because the original bonds are pledged by the full faith and credit of the city, the city is obligated to make up that lost tax revenue to make the required debt service payments. The bills forestall that need, by providing the city an expanded authority to issue refunding (refinancing) bonds to pay off the existing bonds (those related to the city's parking facilities and the Lansing Center), and to receive additional revenue to be used to finance other projects in accordance with the city's tax increment financing plan. By extending the repayment of the bonds until approximately 2039, the city would be allowed to reduce annual debt service. Early estimates are that restructuring existing debt would save approximately $1.9 million in expenses initially, although any actual savings is predicated on the results and structure of the bond sale.

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