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BILL ANALYSIS

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House Bill 6619 (Substitute H-1 as passed by the House)
House Bill 6620 (Substitute H-1 as passed by the House)
Sponsor: Representative Joan Bauer
House Committee: Appropriations

CONTENT

House Bill 6619 (H-1) would amend Public Act 31 of the 1st Extra Session of 1948, which authorizes the creation of local building authorities, to specify that, for the purpose of defraying all or part of the cost of refunding capital appreciation bonds originally issued on May 17, 1990, an authority could issue its negotiable bonds in anticipation of the contract obligations of the incorporating unit to make cash rental payments to the authority under a full faith and credit obligation contract of lease dated November 14, 1989, and could pledge the receipts from the contract of lease for payment of bonds and interest on the bonds. If issued before January 1, 2011, the refunding bonds would not be subject to certain requirements of the Revised Municipal Finance Act. Refunding bonds issued under the bill could be payable through 2039.

Also, for the purpose of defraying all or part of the cost of acquiring a building or buildings to be used as a new performing arts facility, an addition to an existing convention and exhibition center building, and infrastructure improvements, after execution and delivery of a full faith and credit general obligation contract of lease, an authority could issue its negotiable bonds in an amount of up to $50.0 million in anticipation of the contract obligations of the incorporating unit to make cash rental payments to the authority. The authority could pledge the receipts from the cash rental payments for payment of the bonds and interest on them. The bonds would have to be issued before January 1, 2011, and would not be subject to certain requirements of the Revised Municipal Finance Act.

In each case, the authority could issue the bonds pursuant to a resolution adopted by a majority vote of the elected members of its commission (the authority's governing body).

House Bill 6620 (H-1) would amend the Tax Increment Finance (TIF) Authority Act to expand the definitions of "other protected obligation" and "qualified refunding obligation". Under the Act, a TIF authority may capture property taxes and specific local taxes attributable to the incremental increase in the value of property in an authority district. Revenue from the State education tax and local and intermediate school district property taxes may be captured only to repay obligations incurred before August 19, 1993, including eligible obligations, eligible advances, and other protected obligations.

The bill would include in the definition of "other protected obligation" an obligation incurred by a TIF authority that is a contract of lease originally executed on December 20, 1994, between the municipality and the authority to implement partially the authority's development plan and TIF plan, and that qualifies as an obligation under a current provision in the definition (involving an obligation issued or incurred after August 19, 1993, but before December 31, 1994, for a project described in a TIF plan approved by a municipality before

December 31, 1993, for which the municipality or authority entered into a contract for final design before March 1, 1994). This obligation could be amended to extend cash rental payments for up to 30 years, through 2039. The duration of the development plan and TIF plan would be extended to one year after the final date that the extended cash rental payments were due. The obligation could be amended to include additional cash rental payments by the authority from the municipality for lease of a building or buildings used as a new performing arts facility, an addition to an existing convention and exhibition center, building and infrastructure improvements financed under provisions that House Bill 6619 (H-1) would add.

The Act defines "eligible obligation" as an obligation incurred by an authority or by a municipality on behalf of an authority before August 19, 1993, and its subsequent refunding by a qualified refunding obligation. Under the bill, "qualified refunding obligation" would include a tax increment refunding bond issued to refund a refunding bond that is an other protected obligation issued as a capital appreciation bond delivered to the Michigan Municipal Bond Authority on December 21, 1994, if the authority authorized issuance of the refunding obligation before January 1, 2011, with a final maturity not later than 2039. The duration of the development plan and TIF plan relating to the refunding obligation would be extended to one year after the final date of maturity of the refunding obligation.

MCL 123.961 (H.B. 6619) Legislative Analyst: Patrick Affholter
125.1801 (H.B. 6620)

FISCAL IMPACT

House Bill 6619 (H-1) would increase both local unit revenue and expenses by an unknown amount. The changes would allow a local unit, under certain circumstances, to issue bonds for a larger amount and stretch the repayment terms over a longer period of time than is allowed under current law. The actual amount of the changes would depend upon the amount the bonds were issued for, the interest rate, and the time period of the repayment.

House Bill 6620 (H-1) would reduce State School Aid Fund and local unit revenue by an unknown amount, and increase School Aid Fund expenditures by an unknown amount. The bill would expand the definition of "other protected obligation". An authority may capture State education tax and local school district property tax revenue in order to repay an "other protected obligation". As a result, property tax revenue under the State education tax and to local school districts would be reduced. Any reduction in local school operating taxes would be offset by an increase School Aid Fund expenditures in order to maintain per-pupil funding guarantees. The magnitude of any changes would depend upon the specific properties affected by the bill and any relevant changes in their values.

The Department of Treasury estimated that revenue captured by tax increment financing authorities during FY 2007-08 totaled approximately $300.0 million.

Date Completed: 12-15-08 Fiscal Analyst: David Zin