

HOUSE BILL No. 6737

November 19, 2008, Introduced by Rep. Mayes and referred to the Committee on Banking and Financial Services.

A bill to amend 2001 PA 34, entitled "Revised municipal finance act," by amending section 305 (MCL 141.2305).

THE PEOPLE OF THE STATE OF MICHIGAN ENACT:

1 Sec. 305. (1) A municipal security authorized by law to be
2 issued by a municipality may, notwithstanding the provisions of a
3 charter, bear no interest as provided in this section or a rate of
4 interest not to exceed a maximum rate established by the governing
5 body of the issuing municipality as set forth in its resolution or
6 ordinance authorizing the issuance of the municipal security, which
7 rate shall not exceed 18% per annum or a per annum rate determined
8 by the department at the request of the municipality, whichever is
9 higher. In making its determination, the department shall establish
10 a rate that shall bear a reasonable relationship to 80% of the

1 adjusted prime rate determined by the department under section 23
2 of 1941 PA 122, MCL 205.23. Except as otherwise provided in this
3 section, the rate determined by the department shall be conclusive
4 as to the maximum rate of interest permitted for a municipal
5 security issued under this act.

6 (2) Except as provided in subsection (3) **OR (9)**, a municipal
7 security issued under this act shall not be sold at a discount
8 exceeding 10% of the principal amount of the municipal security.
9 The amortization of the discount shall be considered interest and
10 shall be within the interest rate limitation set forth in
11 subsection (1).

12 (3) A municipal security may be sold at a discount exceeding
13 10% of the principal amount of the municipal security only if 1 or
14 more of the following conditions apply, as determined by the
15 department:

16 (a) The sale will result in the more even distribution for the
17 municipality of total debt service on proposed and outstanding
18 municipal securities.

19 (b) The sale will result in an interest cost savings when
20 compared to the best available alternative that does not include a
21 municipal security being sold at a discount exceeding 10% of the
22 principal amount.

23 (c) The issuance is based on the availability of specific
24 revenues previously pledged for another purpose and lawfully
25 available for this purpose.

26 (d) The municipal security is issued to this state or the
27 federal government to secure a loan or agreement.

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1 (4) A municipal security issued in accordance with subsection
2 (3) (a), (b), or (c) shall be rated investment grade by a nationally
3 recognized rating agency or have insurance for payment of the
4 principal and interest on the municipal security to the holders of
5 the municipal security.

6 (5) Notwithstanding any other provision of this section, a
7 municipal security meeting the requirements of subsection (3) that
8 is a refunding security shall not have a maturity that exceeds the
9 maturity of the existing municipal security.

10 (6) Not more than 25% of the total principal amount of any
11 authorized issue of a municipal security shall meet the
12 qualifications under subsection (3) (a), (b), and (c).

13 (7) A municipal security may bear no interest if sold in
14 accordance with a federal program by which the holder of the
15 municipal security, as a result of holding the municipal security,
16 may declare a credit against a federal tax.

17 (8) A municipal security may bear no interest and appreciate
18 as to principal amount if it meets the requirements of subsections
19 (3), (4), ~~and (6)~~, **AND (9)**. The accreted principal amount of a
20 municipal security shall be considered interest and shall be within
21 the interest rate limitations provided in subsection (1).

22 (9) **[FOR PURPOSES OF MORE EFFECTIVELY MANAGING ITS DEBT SERVICE,**
AND PURSUANT TO A WRITTEN DEBT MANAGEMENT PLAN, A] MUNICIPAL SECURITY
23 **MAY BE SOLD AT A DISCOUNT EXCEEDING**
10% OF THE PRINCIPAL AMOUNT OF THE MUNICIPAL SECURITY IF THAT
24 **MUNICIPAL SECURITY IS ISSUED BEFORE DECEMBER 31, 2012.**