

Legislative Analysis



LOCAL GOVERNMENTS AS LOANING AGENTS

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

House Bill 4744 as enrolled

Public Act 108 of 2009

Sponsor: Rep. Darwin Booher

House Committee: Intergovernmental and Regional Affairs

Senate Committee: Local, Urban, and State Affairs

Second Analysis (1-27-10)

BRIEF SUMMARY: The bill would allow cities, villages, townships, and counties that receive a loan from a federal agency as part of an intermediary re-lending program to enter into agreements with the federal government (or an agency of the federal government) concerning the repayment of principal and interest on the federal loan.

FISCAL IMPACT: The bill would have no effect on state revenues or expenditures. The bill would have an indeterminate impact on, depending on the nature of the loans and the use made of loan proceeds.

THE APPARENT PROBLEM:

Officials in the City of Big Rapids applied to the United States Department of Agriculture Re-lending Program in 2006, and after revising their application twice were awarded a \$300,000 loan (matched by \$50,000 in local contributions) in 2008. That loan is now pending.

Although the USDA Re-lending Program is open to all communities with fewer than 25,000 people, Big Rapids is the first community in Michigan to apply for such a loan. The city's volunteer loan review committee (made up of a lawyer, a financial accountant, two bankers, a businessman, and two government officials) intends to use all of the funds from the federal loan to award small loans—generally ranging between \$15,000 and \$60,000—to local downtown businesses. The committee's intent is to ensure that the downtown remain lively and livable.

Generally, the USDA Re-lending Program works as follows: the department loans funds to a participating agency with the requirement to repay the principal and 1 percent interest; the participating agency re-lends these funds at a low rate (in Big Rapids, that rate is 1-1/2 to 3 percent above their CD earnings rate depending on the quality of the loan package); a financial committee of citizens approves the loans and loan concepts; and the city keeps the additional interest income to continue the program into the future.

To participate, the U.S.D.A. required that Big Rapids have an unqualified legal opinion that such a loan was "acceptable legal practice" in Michigan—a requirement the City of Big Rapids could not meet because Michigan law does not expressly allow a city, village, township, or county to receive a federal loan and enter into a repayment agreement. Instead, only federal grants may be received.

Legislation has been introduced to allow local units of government to receive and repay a loan from a federal agency as part of an intermediary re-lending program.

THE CONTENT OF THE BILL:

House Bill 4744 would amend Public Act 380 of 1913 (MCL 123.872), which regulates funds given to local units of government, to clarify that a city, village, township, or county that receives a loan from a federal agency as part of an intermediary re-lending program may enter into an agreement with the federal government (or an agency of the federal government) respecting the repayment of principal and interest on the federal loan.

Currently, the law specifies that a city, village, township, or county can use a federal, state, or local grant to make a secured or unsecured loan, or to make a grant to people, corporations, business associations, or other units of government, in order to encourage and assist businesses to locate and expand in Michigan (if that is not prohibited by the terms of the grant). House Bill 4744 would retain this provision of the law, but extend it to include a loan from a federal agency as part of an intermediary re-lending program (in addition to grants).

Further, the law now allows these local units to receive loans and issue loan revenue bonds secured by the repayment of loans, if the purposes for the bonds have been approved by the Department of Treasury before their issuance. The law also describes criteria the department must follow when reviewing the bonds before approving them. House Bill 4774 would retain these provisions but extend them to include notes (in addition to bonds).

ARGUMENTS:

For:

The City of Big Rapids has received a \$300,000 loan from the USDA Re-lending Program and intends to re-lend the money in a series of small loans to businesses in its downtown. Big Rapids is the first municipal government in Michigan to have such an application accepted. The loan is pending, however, because Michigan law does not expressly allow a local unit of government to receive a federal loan and enter into a repayment program. This bill would amend the law to clarify that Michigan cities (and other local units of government) can receive federal loans, re-lend the money with interest, and repay the original loan.

Legislative Analyst: J. Hunault

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