Legislative Analysis

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REFUNDING OBLIGATIONS

House Bill 5550
Sponsor: Rep. Jeff Mayes

House Bill 5551
Sponsor: Rep. Tim Moore

House Bill 5552
Sponsor: Rep. Richard Hammel

House Bill 5553
Sponsor: Rep. Tim Melton

House Bill 5554
Sponsor: Rep. Barb Byrum

Committee: Banking and Financial Services

Complete to 1-19-10

A SUMMARY OF HOUSE BILLS 5550-5554 AS INTRODUCED 10-27-09

House Bill 5550 would amend the Revised Municipal Finance Act (MCL 141.2611) to allow a municipality to issue a refunding security to refund all or any part of its outstanding securities before December 31, 2012, if those securities were not secured by the unlimited full faith and credit pledge of the municipality. These refunding securities would be exempt from the act's current restriction that prohibits issuing a refunding security unless the net present value of the principal and interest to be paid on the refunding security is less than the net present value of the principal and interest to be paid on the security being refunded. (This is understood to essentially allow local units of government to restructure existing debt by extending debt further into the future and lowering current debt payments.)

House Bill 5551 would amend a different section of the Revised Municipal Finance Act (MCL 141.2305) to allow a municipal security to be sold at a discount exceeding 10 percent of the principal amount of the municipal security if that municipal security was issued before December 31, 2012. Such securities would have to be issued by a municipality for the purposes of more effectively managing its debt service and under a written debt management plan. These municipal securities would then be exempt from the act's restriction that a municipal security issued under the act not be sold at a discount exceeding 10 percent, and the bill would allow the securities to bear no interest and to appreciate as to principal if other requirements of the act were met (i.e, zero-coupon securities).

House Bills 5552-5554 would each amend an act dealing with a particular kind of tax increment finance authority in order to revise the definition of "qualified refunding obligation" in each act. The bills would include in the definition, a refunding obligation issued to refund an "other protected obligation" or an "eligible obligation" if the refunding obligation was issued before December 31, 2012. Under the tax increment financing acts, those two kinds of obligations are existing obligations for which school taxes can continue to be captured.

House Bill 5552 would amend the Downtown Development Authority Act (MCL 125.1651).
House Bill 5553 would amend the Tax Increment Finance Authority Act (MCL 125.1001).

House Bill 5554 would amend the Local Development Financing Act (MCL 125.2152).

BACKGROUND INFORMATION:

According to testimony on a similar package of bills in the 2007-08 legislative session, the proposed legislation provides a short-term solution to a problem municipalities are facing due to falling property tax revenues: incremental increases in revenues that were anticipated to support debt related to tax increment financing arrangements are not materializing. This potentially leaves local units without sufficient revenue to meet their obligations unless they use general fund dollars. Currently, refunding debt is typically permitted only if there is a present value interest savings. House Bill 5550, for example, would instead essentially allow local units of government to restructure existing debt by extending debt further into the future and lowering current debt payments.

FISCAL IMPACT:

The fiscal impact of House Bills 5550 and 5551 is indeterminate.

House Bills 5550 and 5552-5554 would have an indeterminate fiscal impact on some local units of government. The provisions of the bills expand the instances in which qualified refunding obligations may be used. Refunding obligations are issued to restructure or refinance the costs of an earlier debt obligation. The new obligations are often associated with lower interest and/or payment costs to the municipality or authority. Under these bills, municipalities will be able to lower debt payments and avoid using their general funds to meet current obligations. However, municipalities will face higher costs long-term by extending their debt further into the future by issuing refunding obligations.

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