

Legislative Analysis



"QUALIFIED REFUNDING OBLIGATIONS" FOR DOWNTOWN DEVELOPMENT AUTHORITIES

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House Bill 6251

Sponsor: Rep. Michael Lahti

Committee: Intergovernmental and Regional Affairs

Complete to 11-8-10

A SUMMARY OF HOUSE BILL 6251 AS INTRODUCED 6-9-10

House Bill 6251 would amend the Downtown Development Authority Act to revise the definition of "qualified refunding obligation." The bill would add an additional case when DDA debt obligations could be refinanced. Specifically it would allow a refunding obligation to be issued if:

the obligation is issued to refund an "other protected obligation" issued as a capital appreciation bond delivered to the Michigan Municipal Bond authority on December 21, 1994, and any subsequent refunding of that obligation issued before January 1, 2010.

The term "other protected obligation" is a technical term in the act. A tax increment finance authority can capture school taxes to pay off this kind of obligation (as well as "eligible obligations"). These terms originated in legislation that implemented Proposal A of 1994, which created the state's school finance system. Originally, the terms originally applied to bonds to support existing and already authorized projects and were expanded to include the refunding of those obligations in certain circumstances.

The bill also specifies that qualified refunding obligations issued under the bill before January 1, 2012, would not be subject to certain requirements of the Municipal Finance Act (found at Sections 305 (2), (3), (5), and (6); Section 501; Section 503; and Section 611). This means the refunding obligations would not be subject to the requirement that municipal securities not be sold at a discount exceeding ten percent of the principal amount of the security, or to requirements related to maturity dates and redemption dates. They also would be exempt from the prohibition on issuing refunding obligations 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.

Further, the duration of the development program described in the tax increment financing plan that relates to the qualified refunding obligations would be extended to one year after the final date of maturity of the obligations. The obligation would be payable through the year 2025 at an interest rate not exceeding the maximum rate permitted by law, notwithstanding the bond maturity dates contained in the notice of intent to issue bonds published by the municipality.

BACKGROUND INFORMATION:

The Downtown Development Authority (DDA) Act authorizes cities, villages, and townships to create special districts and authorities in order to capture the incremental growth in tax revenue on property within the district for use in financing a variety of public improvements within the district. The act also authorizes the board of a DDA to engage in certain activities, including planning and proposing the construction, renovation, repair, rehabilitation, or preservation of a "public facility" (e.g., a street, pedestrian mall, park, parking facility, recreational facility, waterway, bridge, or building), and implementing a plan of development in the district.

MCL 125.1651

FISCAL IMPACT:

House Bill 6251 would have an indeterminate fiscal impact on local units of government. The bill expands 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.

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