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BILL ANALYSIS

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Senate Bill 1324 (Substitute S-2 as passed by the Senate)
Sponsor: Senator Tony Stamas
Committee: Appropriations

Date Completed: 7-1-10

CONTENT

The bill would create a new act to authorize the State Treasurer to reallocate municipal bond limitations allocated to Michigan under the American Recovery and Reinvestment Act, if municipalities or other entities did not issue the bonds and other municipalities or entities needed additional bond limitation authority.

The American Recovery and Reinvestment Act (ARRA) created or expanded four new types of municipal bonds, including: 1) Recovery Zone Economic Development Bonds, 2) Recovery Zone Facility Bonds, 3) Qualified Energy Conservation Bonds and 4) Qualified School Construction Bonds. Each state is allocated a certain amount of these types of bonds that can be issued.

In Michigan, approximately $773.0 million of Recovery Zone Economic Development Bonds were allocated. Allocations for these bonds were issued to all counties as well as Lansing, Ann Arbor, Sterling Heights, Detroit, Flint, and Warren. For Recovery Zone Facilities Bonds, Michigan has been allocated a total of $1.2 billion. For Qualified School Construction Bonds, Michigan has been allocated nearly $296.0 million and there is a $15.0 million cap on allocations to school districts. Finally, for the Qualified Energy Conservation Bonds, Michigan was allocated $103.78 million. These bonds were allocated to local governments with a population of 100,000 or more.

In some cases and for a variety of reasons, certain local government entities may be unable to use the bond allocation provided to them. The bill would provide for a series of processes whereby the State Treasurer could reallocate certain bond allocations if they are not used by a certain deadline. These processes involve several different dates. Prior to September 1, 2010, the State Treasurer could not make any changes or reallocations. After that date, the municipalities or counties would have to take action, such as the passage of a resolution, regarding their intent to use such allocations. If no municipal or other entity allocation took place after September 1, 2010, the State Treasurer could allocate or reallocate bond availability to other entities of up to 2/3 of that bond allocation. For those municipalities or other entities where a reallocation had been made, they could appeal to the State Treasurer that reallocation and show that a viable project was available. All of these processes and provisions would be subject to limitations set forth in Federal law. The bill also would allow a flexible deadline for the State Treasurer to begin considering bond limitations waived subject to possible deadline extensions imposed by Federal law in the future.

FISCAL IMPACT

Recovery Zone bonds were created through the American Recovery and Reinvestment Act. Local governments that issue Recovery Zone Economic Development Bonds will save money, relative to issuing traditional municipal debt, due to a 45% interest subsidy from the U.S. Department of Treasury. For Recovery Zone Facility Bonds, there is no cost savings to local governments but the bonds will facilitate private activity in such zones by providing access to financing. The Qualified Energy Conservation Bonds and Qualified School Construction Bonds are federally subsidized and thus reduce costs to local governments or school districts of an indeterminate amount relative to the cost of issuing traditional municipal bonds.

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