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BILL ANALYSIS

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House Bills 5550 through 5553 (as passed by the House)
House Bill 5554 (Substitute H-1 as passed by the House)
Sponsor: Representative Jeff Mayes (H.B. 5550)
Representative Tim Moore (H.B. 5551)
Representative Richard Hammel (H.B. 5552)
Representative Tim Melton (H.B. 5553)
Representative Barb Byrum (H.B. 5554)
House Committee: Banking and Financial Services
Senate Committee: Finance

Date Completed: 11-3-10

CONTENT

House Bill 5550 would amend the Revised Municipal Finance Act to allow a municipality, before December 31, 2012, and with Department of Treasury approval, to issue a refunding security that did not meet the requirement that the principal and interest be less than the principal and interest of the outstanding security being refunded.

House Bill 5551 would amend the Revised Municipal Finance Act to allow a municipality, before December 31, 2012, to sell a municipal security at a discount exceeding 10% of its principal, pursuant to a debt management plan.

House Bills 5552, 5553, and 5554 (H-1) would amend various statutes allowing tax increment financing, to include in the definition of "qualified refunding obligation" an obligation issued before December 31, 2012, to refund an eligible obligation or another protected obligation.

The bills are described in more detail below.

House Bill 5550

The Revised Municipal Finance Act allows municipalities to refund all or part of their outstanding securities by issuing refunding securities. As a rule, a municipality may not issue 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 outstanding security being refunded.

A municipality may obtain an exception to that condition if the Department of Treasury determines that a reasonable basis for an exception exists. The Act lists circumstances that provide a reasonable basis. As described below, the bill would add to those circumstances.

Before December 31, 2012, a municipality could issue a security to refund all or part of its outstanding securities if those securities were not secured by the unlimited full faith and credit pledge of the municipality and the Department approved the refunding. The

Department could not unreasonably withhold approval. Within 60 days from date it received a completed request to issue a refunding security, the Department would have to approve or deny the request. If the Department failed to do so, the request would be considered approved. If it denied the request, the Department would have to advise the municipality in writing of the reasons for the denial.

House Bill 5551

Under the Revised Municipal Finance Act, a municipal security may be sold at a discount exceeding 10% of its principal amount, and a municipal security may bear no interest, only if certain conditions are met.

The bill also would allow a municipality, for purposes of more effectively managing its debt service, and pursuant to a written debt management plan, to sell a municipal security at discount exceeding 10% of its principal amount if the security were issued before December 31, 2012.

House Bills 5552, 5553, and 5554 (H-1)

House Bills 5552, 5553, and 5554 (H-1) would amend the downtown development authority Act, the Tax Increment Finance Authority Act, and the Local Development Financing Act, respectively, to include in the Acts' definitions of "qualified refunding obligation" a refunding obligation that was issued before December 31, 2012, to refund another protected obligation or an eligible obligation.

Each of those Acts allows a municipality to create an authority that may undertake certain improvements or developments and pay for them by tax increment financing, which "captures" the tax revenue from the increase in value of property within a district. Tax revenue subject to capture does not include the State Education Tax or school operating taxes, except to repay eligible advances, eligible obligations, and other protected obligations. Eligible obligations and other protected obligations include obligations incurred by an authority or a municipality on behalf of an authority in anticipation of tax increment revenue, and certain qualified refunding obligations.

A refunding obligation issued under the bill would be a qualified refunding obligation only to the extent of the principal and interest outstanding on the obligation being refunded at the time the refunding obligation was issued.

MCL 141.2611 (H.B. 5550)
141.2305 (H.B. 5551)
125.1651 (H.B. 5552)
125.1801 (H.B. 5553)
125.2152 (H.B. 5554)

Legislative Analyst: Suzanne Lowe

FISCAL IMPACT

House Bill 5550

The bill would have no fiscal impact on State government. The fiscal impact on local governments would be specific to any unit that attempted to use the refunding security process as outlined in law. In essence, the bill would allow local units of government, that meet the legal criteria, to refund and issue new debt that would lower their current principal and interest payments but raise the total amount owed over the life of the bond.

House Bill 5551

The bill would have no fiscal impact on State government. The fiscal impact on local government is indeterminate.

House Bills 5552, 5553, and 5554 (H-1)

The bill would have no fiscal impact on State government. By changing the definition of "qualified refunding obligation" in the various statutes, the bills would allow local units of government to restructure existing debt obligations. Such a restructuring would provide for lower initial debt payments for the local units of government. Over the life of the debt instruments, the local units of government would be paying back a greater amount.

Fiscal Analyst: Eric Scorsone