Senate Fiscal Agency
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BILL ANALYSIS

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House Bill 5626 (Substitute S-1 as reported)
Sponsor: Representative George Cushingberry, Jr.
House Committee: Appropriations
Senate Committee: Local, Urban and State Affairs

CONTENT

The bill would amend the Fiscal Stabilization Act to do the following:

-- Increase from $125.0 million to $250.0 million the maximum principal amount of all bonds or obligations that a city may issue, for bonds and obligations issued after January 1, 2010, and before September 1, 2010.
-- Provide that general obligation bonds or obligations issued by a city or county to fund an operating deficit could be issued as bonds or obligations payable from a specified revenue source.
-- Create a statutory lien and trust applicable to distributable aid received from the State Treasurer for the payment of principal of and interest on bonds and obligations.

For bonds or obligation issued after the bill's effective date and made payable from distributable aid in the authorizing resolution, the bill would create a statutory lien and trust applicable to the distributable aid received from the State Treasurer by a paying agent, escrow agent, or trustee. The distributable aid paid to a paying agent, escrow agent, trustee, or other person for the purpose of paying principal of and interest on bonds and obligations would be subject to a lien and trust which, for bonds and obligations issued after the bill's effective date and after bonds were issued subject to the statutory lien, would be superior to all other liens and interests of any kind, for the sole purpose of paying the principal of and interest on bonds and obligations.

The distributable aid held or to be held by a paying agent, trustee, escrow agent, or other person would be held in trust for the sole benefit of the holders of the bonds or obligations issued under the Act and would be exempt from being levied upon, taken, sequestered, or applied toward the debts or liabilities of the city or county other than debt service on the bonds or obligations to which the lien applied. The holders of bonds or obligations issued after January 1, 2010, but before September 1, 2010, would have a first priority lien that was superior to all other liens and interests of any kind that arose or were created after the bill's effective date and after bonds were issued subject to the statutory lien.

MCL 141.1003 et al. Legislative Analyst: Julie Cassidy

FISCAL IMPACT

The bill would have no effect on State revenue or expenditure but would allow a higher level of debt to be issued by local units. The bill also would restrict the expenditure of certain payments, such as revenue sharing payments, by a local unit that issued bonds allowed by the bill. Such payments are generally considered general purpose revenue and may be spent however the local unit chooses. Under the bill, repayment of any bonds allowed under the bill would be the first permitted use of any of the affected payments. While the bill would not restrict the increase in the limit to cities such as the City of Detroit, if Detroit were to issue $125.0 million in 20-year bonds, at an 8% annual rate under the bill's provision, the debt service payments would average $12.7 million per year, depending on how the bond payments were structured. Based on the January 2010 Consensus Revenue Estimates, Detroit is expected to receive approximately $234.7 million in revenue sharing payments during FY 2009-10, of which $58.1 million will be constitutionally designated payments. Even if constitutionally designated payments declined 10% in future years as a result of the 2010 Census, the payments would still substantially exceed any likely bond service payments for bonds issued as a result of the bill.

Date Completed: 1-27-10 Fiscal Analyst: David Zin