



Senate Fiscal Agency
P. O. Box 30036
Lansing, Michigan 48909-7536



Telephone: (517) 373-5383
Fax: (517) 373-1986
TDD: (517) 373-0543

House Bill 6251 (as passed by the House)
Sponsor: Representative Michael Lahti
House Committee: Intergovernmental and Regional Affairs
Senate Committee: Commerce and Tourism

Date Completed: 11-30-10

CONTENT

The bill would amend the downtown development authority (DDA) Act to expand the circumstances under which a debt obligation may be refinanced and repaid with captured tax increment revenue, including school operating taxes and the State Education Tax. The bill would pertain to a capital appreciation bond delivered to the Michigan Municipal Bond Authority on December 21, 1994, and any refunding of the bond issued before 2012.

The Act 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 the district. Tax revenue subject to capture does not include the State Education Tax (SET) 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 a DDA or a municipality on behalf of a DDA in anticipation of tax increment revenue, and certain qualified refunding obligations.

The bill would include in the definition of "qualified refunding obligation" an obligation issued by a DDA or by a municipality on behalf of a DDA 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, 2012. The qualified refunding obligation would not be subject to specific provisions of the Revised Municipal Finance Act if issued before January 1, 2012. (Those sections pertain to the sale of municipal securities at a discount, the maturity and redemption of municipal securities, and the refunding of outstanding securities.)

The duration of the development program in the tax increment financing plan relating to the qualified refunding obligation would be extended to one year after the obligation's final date of maturity. The obligation could 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.

An obligation issued under the bill would be a qualified refunding obligation only to the extent that tax increment revenue from property taxes and specific local taxes, other than the State Education Tax, and distributions under Section 13b to repay the qualified refunding obligation, did not exceed \$750,000.

(Section 13b requires the Legislature to appropriate and distribute funds to a DDA if the amount of tax increment revenue lost due to the reduction in school operating taxes required by millage limitations under the Revised School Code, reduced by the amount of tax increment revenue received from the capture of the SET, causes the DDA's tax increment revenue received in a fiscal year to be insufficient to repay an eligible advance or to pay an eligible obligation.)

MCL 125.1651

Legislative Analyst: Patrick Affholter
Suzanne Lowe

FISCAL IMPACT

The bill would have an indeterminate impact on local governments. The fiscal impact would depend on which downtown development authorities took advantage of this legislation and the full extent of the refinancing activity. In essence, downtown development authorities would be able to reduce borrowing costs in the short term. However, long-term borrowing costs could rise over time. The net impact of all of these changes would depend on the tradeoffs between these two components.

Fiscal Analyst: Eric Scorsone

S0910\S6251sa

This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.