Legislative Analysis

Mary Ann Cleary, Director
Phone: (517) 373-8080
http://www.house.mi.gov/hfa

REFUNDING MUNICIPAL SECURITIES: EXTEND SUNSET TO DECEMBER 31, 2015

House Bill 6005
Sponsor: Rep. Cindy Denby
Committee: Local, Intergovernmental, and Regional Affairs

Complete to 11-28-12

A SUMMARY OF HOUSE BILL 6005 AS INTRODUCED 11-8-12

Public Act 321 of 2010 (House Bill 5550) amended the Revised Municipal Finance Act to allow a municipality to refund all or any part of its outstanding securities by issuing a refunding security that would be exempt from the act's standard requirement that the net present value of the principal and interest to be paid on the refunding security be less than the net present value of the principal and interest to be paid on the security being refunded. (PA 321 was understood to essentially allow local units of government to restructure existing debt by extending debt further into the future and lowering current debt payments.)

This refunding must be issued before December 31, 2012. Under House Bill 6005, the sunset would be extended to December 31, 2015.

[These refunding provisions apply only to securities that are not secured by the unlimited full faith and credit pledge of the municipality, and the refunding must be approved by the Michigan Department of Treasury. A municipality is required to hold a public hearing on the refunding before seeking approval from the state. The bill says the department "shall not unreasonably withhold approval." The department must make its decision within 90 days or the municipality's request would be deemed approved.]

MCL 141.2611

FISCAL IMPACT:

The fiscal impact of House Bill 6005 on state and local government is indeterminate. The bill would extend the provision expanding the instances in which qualified refunding obligations may be used from December 31, 2012, to December 31, 2015. Specifically, as noted above, the provision allows a municipality to issue a refunding security on all or part of the municipality's outstanding debt even if the net present value of the principal and interest to be paid on the refunding security is higher than the net present value of the principal and interest to be paid on the security being refunded. The refunding would only apply to securities that are not secured by the unlimited full faith and credit pledge of the municipality.

Refunding obligations are issued to restructure or refinance the costs of an earlier debt obligation. The new obligations are often associated with lower interest rates and/or payment costs to the municipality or authority. Under this bill, municipalities will be able to lower debt payments and avoid using their general funds to meet current obligations. However, municipalities will face higher costs long-term by extending their debt further into the future by issuing refunding obligations.

Legislative Analyst: J. Hunault
Fiscal Analyst: Ben Gielczyk
Rebecca Ross