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BILL ANALYSIS

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House Bill 4758 (as passed by the House)
Sponsor: Representative Al Pscholka
House Committee: Local Government
Senate Committee: Local Government

Date Completed: 1-19-16

CONTENT

The bill would amend the Drain Code to allow the issuance of bonds that would be subject to mandatory redemption, in addition to bonds that are payable at maturity.

Various sections of the Code allow a drainage board, drain commissioner, or water management board to issue bonds. These sections refer to the payment of bonds at maturity, the maturity of bonds to be issued, or the maturity of refunding obligations, and specify deadlines for the maturity of bonds. In these provisions, the bill would add references to bonds subject to mandatory redemption. The sections in question are described below.

Chapter 6 of the Code provides for the construction of intercounty drains and the levy of special assessments to cover the costs. Under Section 132, if the assessments are to be collected in more than two installments, the drainage board may borrow money and issue bonds. The collected assessments must be deposited in a drain fund and disbursed solely for retirement of the bonds at maturity and the payment of interest on them. The bill would require the funds to be disbursed for the payment of the bonds at maturity or upon mandatory redemption, and the payment of interest.

Chapter 9 governs the letting of contracts for the construction of drains. Under Section 221, in cases in which a drain commissioner determined that assessments must be collected in more than one installment, he or she must determine the amount, form, maturity, and rate of interest of bonds to be issued. The bill also would require a determination of mandatory redemption requirements, if any.

Chapter 11 governs the levy and collection of drain taxes. Under Section 275, if bonds are issued as provided in the Code, a drain commissioner may borrow money in anticipation of the collection of the installments. Bonds issued under the Code must mature not earlier than March 1 and not later than June 1 of the year following the due dates of the respective installments of taxes. Under certain circumstances, in which the number of installments may be up to 30, the amount of each installment must be established to correspond to the drain commissioner's estimate of the amount of taxes actually collectible each year, and the bonds must mature not more than two and a half years after the corresponding installment. In either case, the bill would require the bonds to mature or be subject to mandatory redemption within the specified time frame.

Under Section 277, when the land in a city, village, or township is assessed for all or part of the cost of a drain, the governing body of the local unit may agree, in the event of a delinquency in the collection of the assessments against the land, to advance the amount of the delinquency to the extent necessary to pay principal and interest on drain bonds as they mature. The bill would add, "or are subject to mandatory redemption".

Under Section 278, if bonds or notes are issued and sold by a drain commissioner, installments of the drain taxes must bear interest at a specified rate. The installments and interest, as collected, must be paid to the county treasury and credited to the drain fund, to be used solely for the payment of bonds or notes as they mature. The bill would add, "or are subject to mandatory redemption".

Section 280 allows a drain commissioner to levy an additional assessment if necessary make up a deficiency in the drain fund. If bonds are issued under the Revised Municipal Finance Act to refund the outstanding indebtedness of a drain district, the governing body of the drainage district must provide for the additional levy of assessments before the maturity of the refunding obligations as necessary to prevent default in the payment of interest on the obligations. Under the bill, the drainage district governing board would have to provide for the additional levy of assessments before the maturity or mandatory redemption of the refunding obligations.

Chapters 20 and 21 govern, respectively, intracounty drains and intercounty drains for which the costs are assessed against a public corporation (the State or a county, city, village, township, or metropolitan district or authority). Section 476 in Chapter 20 and Section 528 in Chapter 21 allow a drainage board to issue one or more series of bonds in anticipation of the collection of installments of assessments. The bonds must mature serially with the last maturity not later than two and a half years after the due date of the last installment, and there may be more than one principal maturity date during any 12-month period. Under the bill, the bonds would have to mature or be subject to mandatory redemption within the same two-and-a-half-year period, and there could be more than one principal maturity or mandatory redemption date during any 12-month period.

Chapter 22 governs water management districts. Section 569 allows a water management board to issue bonds in anticipation of the collection of installments of assessments against a public corporation for a flood control or drainage project. This section contains the same requirements as Sections 476 and 528 for the bonds' maturity, and the bill would add the same references to mandatory redemption.

MCL 280.132 et al. Legislative Analyst: Suzanne Lowe

FISCAL IMPACT

The bill would tend to reduce the cost of borrowing by drainage districts by an unknown amount that would vary based on local decisions and financial market conditions. To the extent that a drainage district was able to reduce interest costs by structuring a bond issue as a term bond as opposed to a serial bond, local borrowing costs would be reduced. Testimony in the House of Representatives Local Government Committee indicated that bond issues structured as term bonds could be more attractive to institutional investors, which would create additional demand for the bonds and have the potential to reduce debt service costs.

Currently, drainage districts may issue bonds only as serial bonds. An issuance of serial bonds typically has some bonds maturing and being repaid each year during the life of the bond issue. The amount of bonds maturing in a specific year is established at bond issuance based on the timing of the revenue stream available for debt repayment and the structure of long- and short-term interest rates. In comparison, a term bond has mandatory repayment of principal each year it is outstanding. This tends to increase the face value of a term bond, making it a more acceptable investment for large institutional investors.

Fiscal Analyst: Elizabeth Pratt