

Legislative Analysis



REVISE DEFINITION OF "QUALIFIED REFUNDING OBLIGATION"

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House Bill 5634

Sponsor: Rep. Judy Emmons

Committee: Intergovernmental, Urban, and Regional Affairs

Complete to 1-22-08

A SUMMARY OF HOUSE BILL 5634 AS INTRODUCED 1-17-08

House Bill 5634 would amend the Downtown Development Authority Act to revise the definition of "qualified refunding obligation."

Public Act 196 of 2004 allowed a DDA to refund its debt without meeting certain statutory "net present value" requirements in specified narrow circumstances, namely if the refunding obligation was issued to refund a qualified refunding obligation issued in November of 1997. House Bill 5634 would extend this exception so that it would also apply to the refunding of debt issued on May 15, 1997 (and would allow subsequent refundings issued before January 1, 2010).

Typically the act requires a qualified refunding obligation to meet both of the following requirements: 1) the net present value of the principal and interest on the refunding obligation, including the cost of issuance, must be less than the net present value of the principal and interest on the debt being refunded; and 2) the net present value of the sum of tax increment finance revenues and the distributions to repay the refunding obligation must not be greater than the net present value of the revenues and distributions to repay the obligation being refunded. (In brief, there must be a financial advantage to the refunding.) As mentioned above, these requirements do not apply to the refunding of certain debt issued in November 1997 and, under the bill, would not apply to the refunding of debt issued on May 15, 1997.

Further, the bill specifies that qualified refunding obligations that need not meet those "net present value" requirements also would not be subject to the requirements of Section 611 of the Revised Municipal Finance Act, if issued before January 1, 2010. [Section 611 also imposes "net present value" requirements on refunding securities.] The bill also specifies that the duration of the development program described in the tax increment financing plan related to these qualified refunding obligations would be extended to one year after the final date of maturity of the qualified refunding obligations.

[Downtown Development Authorities can, if authorized to do so by local ordinance, designate all or parts of specially designated districts for economic development, capture the incremental growth in the assessed property tax within the designated district, and apply the revenue toward improvement projects described in a development plan. In doing this, the board members of an authority typically incur *obligations*: written

promises to pay, whether evidenced by contract, agreement, lease, sublease, bond, note, or a requirement to pay imposed by law.]

MCL 125.1651

FISCAL IMPACT:

The bill would not appear to have a significant fiscal impact on state or local revenues.

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