

Legislative Analysis



REFUNDING OBLIGATIONS

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House Bill 5550 as introduced
Sponsor: Rep. Jeff Mayes

House Bill 5551 as introduced
Sponsor: Rep. Tim Moore

House Bill 5553 as introduced
Sponsor: Rep. Tim Melton

House Bill 5552 as introduced
Sponsor: Rep. Richard Hammel

House Bill 5554 (Substitute H-1)
Sponsor: Rep. Barb Byrum

Committee: Banking and Financial Services

Complete to 3-15-10

A SUMMARY OF HOUSE BILLS 5550-5554 AS REPORTED FROM COMMITTEE

House Bill 5550 would amend the Revised Municipal Finance Act (MCL 141.2611) to allow a municipality to issue a refunding security to refund all or any part of its outstanding securities before December 31, 2012, if those securities were not secured by the unlimited full faith and credit pledge of the municipality. These refunding securities would be exempt from the act's current restriction that prohibits issuing a refunding security unless the net present value of the principal and interest to be paid on the refunding security is less than the net present value of the principal and interest to be paid on the security being refunded. (These bills are understood to essentially allow local units of government to restructure existing debt by extending debt further into the future and lowering current debt payments.)

House Bill 5551 would amend a different section of the Revised Municipal Finance Act (MCL 141.2305) to allow a municipal security to be sold at a discount exceeding 10 percent of the principal amount of the municipal security if that municipal security was issued before December 31, 2012. Such securities would have to be issued by a municipality for the purposes of more effectively managing its debt service and under a written debt management plan. These municipal securities would then be exempt from the act's restriction that a municipal security issued under the act not be sold at a discount exceeding 10 percent, and the bill would allow the securities to bear no interest and to appreciate as to principal if other requirements of the act were met (i.e., to be zero-coupon securities).

House Bills 5552-5554 would each amend an act dealing with a particular kind of tax increment finance authority in order to revise the definition of "qualified refunding obligation" in each act. The bills would include in the definition, a refunding obligation issued to refund an "other protected obligation" or an "eligible obligation" if the refunding obligation was issued before December 31, 2012. Under the tax increment

financing acts, those two kinds of obligations are existing obligations for which school taxes can continue to be captured.

House Bill 5552 would amend the Downtown Development Authority Act (MCL 125.1651).

House Bill 5553 would amend the Tax Increment Finance Authority Act (MCL 125.1001).

House Bill 5554 would amend the Local Development Financing Act (MCL 125.2152). The H-1 substitute is a conformity substitute, to account for changes to the act's language since the original version of the bill was introduced.

BACKGROUND INFORMATION:

According to testimony, the proposed legislation provides a short-term solution to a problem municipalities are facing due to falling property tax revenues: incremental increases in revenues that were anticipated to support debt related to tax increment financing arrangements are not materializing. This potentially leaves local units without sufficient revenue to meet their obligations unless they use general fund dollars. Currently, refunding debt is typically permitted only if there is a present value interest savings. House Bill 5550, for example, would instead essentially allow local units of government to restructure existing debt by extending debt further into the future and lowering current debt payments.

The Department of Treasury noted in its testimony that it can now allow negative net present value funding on a case-by-case basis, and expressed concern that the bills removed a level of review of local government financing that should be maintained. The department has proposed amendments to the bill, but they have not been adopted.

FISCAL IMPACT:

The fiscal impact of House Bills 5550 and 5551 is indeterminate.

House Bills 5550 and 5552-5554 would have an indeterminate fiscal impact on some local units of government. The provisions of the bills expand the instances in which qualified refunding obligations may be used. Refunding obligations are issued to restructure or refinance the costs of an earlier debt obligation. The new obligations are often associated with lower interest and/or payment costs to the municipality or authority. Under these bills, 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.

POSITIONS:

The following indicated support for the bill to the committee: the Michigan Municipal League, the Michigan Township Association, the Miller Canfield Law Firm, the Michigan Community College Association, and the cities of Standish and Rogers City. (1-21-10)

As noted earlier, the Department of Treasury expressed concerns about the bills on the grounds that the department should review refunding proposals by local units of government. (1-21-10)

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■ This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.