

# HOUSE BILL No. 5551

October 27, 2009, Introduced by Reps. Moore and Mayes and referred to the Committee on Banking and Financial Services.

A bill to amend 2001 PA 34, entitled  
"Revised municipal finance act,"  
by amending section 305 (MCL 141.2305).

**THE PEOPLE OF THE STATE OF MICHIGAN ENACT:**

1           Sec. 305. (1) A municipal security authorized by law to be  
2 issued by a municipality may, notwithstanding the provisions of a  
3 charter, bear no interest as provided in this section or a rate of  
4 interest not to exceed a maximum rate established by the governing  
5 body of the issuing municipality as set forth in its resolution or  
6 ordinance authorizing the issuance of the municipal security, which  
7 rate shall not exceed 18% per annum or a per annum rate determined  
8 by the department at the request of the municipality, whichever is

1 higher. In making its determination, the department shall establish  
2 a rate that shall bear a reasonable relationship to 80% of the  
3 adjusted prime rate determined by the department under section 23  
4 of 1941 PA 122, MCL 205.23. Except as otherwise provided in this  
5 section, the rate determined by the department shall be conclusive  
6 as to the maximum rate of interest permitted for a municipal  
7 security issued under this act.

8 (2) Except as provided in subsection (3) **OR (9)**, a municipal  
9 security issued under this act shall not be sold at a discount  
10 exceeding 10% of the principal amount of the municipal security.  
11 The amortization of the discount shall be considered interest and  
12 shall be within the interest rate limitation set forth in  
13 subsection (1).

14 (3) A municipal security may be sold at a discount exceeding  
15 10% of the principal amount of the municipal security only if 1 or  
16 more of the following conditions apply, as determined by the  
17 department:

18 (a) The sale will result in the more even distribution for the  
19 municipality of total debt service on proposed and outstanding  
20 municipal securities.

21 (b) The sale will result in an interest cost savings when  
22 compared to the best available alternative that does not include a  
23 municipal security being sold at a discount exceeding 10% of the  
24 principal amount.

25 (c) The issuance is based on the availability of specific  
26 revenues previously pledged for another purpose and lawfully  
27 available for this purpose.

1 (d) The municipal security is issued to this state or the  
2 federal government to secure a loan or agreement.

3 (4) A municipal security issued in accordance with subsection  
4 (3)(a), (b), or (c) shall be rated investment grade by a nationally  
5 recognized rating agency or have insurance for payment of the  
6 principal and interest on the municipal security to the holders of  
7 the municipal security.

8 (5) Notwithstanding any other provision of this section, a  
9 municipal security meeting the requirements of subsection (3) that  
10 is a refunding security shall not have a maturity that exceeds the  
11 maturity of the existing municipal security.

12 (6) Not more than 25% of the total principal amount of any  
13 authorized issue of a municipal security shall meet the  
14 qualifications under subsection (3)(a), (b), and (c).

15 (7) A municipal security may bear no interest if sold in  
16 accordance with a federal program by which the holder of the  
17 municipal security, as a result of holding the municipal security,  
18 may declare a credit against a federal tax.

19 (8) A municipal security may bear no interest and appreciate  
20 as to principal amount if it meets the requirements of subsections  
21 (3), (4), ~~and (6)~~, **AND (9)**. The accreted principal amount of a  
22 municipal security shall be considered interest and shall be within  
23 the interest rate limitations provided in subsection (1).

24 **(9) FOR PURPOSES OF MORE EFFECTIVELY MANAGING ITS DEBT**  
25 **SERVICE, AND PURSUANT TO A WRITTEN DEBT MANAGEMENT PLAN, A**  
26 **MUNICIPAL SECURITY MAY BE SOLD AT A DISCOUNT EXCEEDING 10% OF THE**  
27 **PRINCIPAL AMOUNT OF THE MUNICIPAL SECURITY IF THAT MUNICIPAL**

1 SECURITY IS ISSUED BEFORE DECEMBER 31, 2012.