

Legislative Analysis



DELINQUENT SPECIAL ASSESSMENT REVOLVING LOAN FUND

Mitchell Bean, Director
Phone: (517) 373-8080
<http://www.house.mi.gov/hfa>

House Bill 4148 & 4149
House Bill 4538
Sponsor: Rep. Cindy Denby

House Bill 4150
Sponsor: Rep. Bill Rogers
Committee: Local, Intergovernmental, and Regional Affairs

Complete to 5-11-11

A SUMMARY OF HOUSE BILLS 4148-4150 AS INTRODUCED 1-26-11 & HOUSE BILL 4538 AS INTRODUCED 4-13-11

House Bill 4148 would create a new Delinquent Special Assessment Revolving Loan Fund within the State Treasury. Under the legislation, loans could be made from the Fund to local units of government that have issued bonds for infrastructure improvements and are unable to make necessary payments because special assessment payments are delinquent. House Bill 4148 provides for a \$5 million appropriation from the General Fund for the new Delinquent Special Assessment Revolving Loan Fund, and a companion bill, House Bill 4538, requires that \$10 million be deposited in the new Fund from the State Water Pollution Control Revolving Fund. The other bills are complementary amendments to other acts.

A more detailed description of each bill follows.

House Bill 4148 would create a new act to be known as the Delinquent Special Assessment Revolving Loan Fund. The Fund would be created in the Department of Treasury. The bill specifies that the state treasurer may receive money or other assets from any source for deposit into the fund, direct the investment of the Fund, and credit to the fund interest and earnings from fund investments. Under the bill, money in the Fund at the close of the fiscal year would remain in the Fund, and not lapse to the General Fund. The Department of Treasury would administer the Fund for auditing purposes, and expend money only for loans to eligible local governmental units to permit necessary bond payments for infrastructure improvements.

Under the bill, the term "eligible local governmental unit" is defined to mean a city, village, township, or county that meets all of the following requirements: (1) has issued bonds, or has pledged its full faith and credit for bonds, for infrastructure improvements financed by a special assessment; and (2) is unable to make necessary payments on those bonds because special assessment payments on properties benefited by the infrastructure improvements have been delinquent for a period of six months or more.

The bill specifies that an eligible local governmental unit may apply for a loan from the Delinquent Special Assessment Revolving Loan Fund. However, if a county has pledged its full faith and credit for bonds issued by a city, village, or township, any loan application submitted by the city, village or township must first be approved by that county.

An application for a loan from the Fund would be on a form prescribed by the Department of Treasury. The department would review applications for loans, and notify the eligible local government seeking the loan, in writing, within 30 days whether the loan has been approved or disapproved. The bill requires the department to consider loan applications on a first-come, first-served basis.

The bill requires that a loan not exceed an amount equal to one year's bond payment. Further, the loan could not be for a period that exceeded five years after the bond expires.

Under the bill, interest on a loan would be at a rate prescribed by the Department of Treasury, and the department could not charge a rate of interest greater than the rate necessary to ensure that the fund remained actuarially sound.

As a condition for any loan, the eligible local governmental unit would have to require that any property connected to the infrastructure improvements for which the bond was issued, pay the full amount of all delinquent and future special assessment payments levied on the property for which the bond was issued.

If the governmental unit did not make payments to the state, as prescribed under the terms of the loan, then any amount delinquent would be withheld from any payments made under the State Revenue Sharing Act.

The bill provides for an appropriation from the General Fund to the Department of Treasury the sum of \$5 million, for deposit into the Delinquent Special Assessment Revolving Loan Fund, for the purpose of making loans to eligible local governmental units.

House Bill 4149 and House Bill 4150 would amend two sections of the General Property Tax Act (MCL 211.78a and 211.87b) to require that a county board of commissioners, by resolution, determine the amount of interest to be added to property taxes on delinquent property.

House Bill 4538 would amend the Natural Resources and Environmental Protection Act (MCL 324.19708) to specify that there be deposited, in the aggregate, not more than \$10 million of the money in the State Water Pollution Control Revolving Fund, to the Delinquent Special Assessment Revolving Loan Fund created in Section 5 of the Delinquent Special Assessment Revolving Loan Fund Act (as proposed by House Bill 4148). Under the bill, the amount of money in the State Water Pollution Control Revolving Fund would then be reduced from \$710 million to \$700 million.

FISCAL IMPACT:

As noted in the summary above, House Bill 4148 provides for a \$5 million appropriation from the General Fund for the new Delinquent Special Assessment Revolving Loan Fund, and a companion bill, House Bill 4538, requires that \$10 million be deposited in the new Fund from the State Water Pollution Control Revolving Fund.

State Water Pollution Control Revolving Fund Background

In 2002, Michigan voters approved Proposal 2 which authorized the Great Lakes Water Quality Bond, a \$1.0 billion general obligation bond program intended to help finance sewage treatment works upgrades or expansions and storm water treatment projects. The revenues generated by any bond issues under the program and interest earnings are deposited into the Great Lakes Quality Bond Fund within Treasury.

Under current law, up to \$710 million of the bond revenues within the fund shall be deposited into the State Water Pollution Control Revolving Fund, commonly known as the State Revolving Fund (SRF). This fund is used to fund loans to local governmental units to finance the construction of sewage and storm water treatment facilities.

In December of 2003, the Michigan Municipal Bond Authority issued the first series of Great Lakes Water Quality Bonds totaling \$100 million. \$90 million of the revenues are dedicated to the SRF and that funding remains available for appropriation. The program is currently using other revenue sources, mainly federal, for program expenditures. In FY 2010, the SRF program received 78 project requests which totaled an estimated \$500 million.

House Bill 4538 would require that \$10 million of the funding in the State Revolving Fund be deposited into the new Delinquent Special Assessment Revolving Loan Fund. The bill's provisions could increase the costs to the State by an indeterminate amount, depending upon any new bond issues that might take place to fund or replace the \$10 million transfer required by the bill. The State is currently paying debt service payments on the funding from the past bond issue and would be required to pay debt service payments for any new bonds that would be issued. By statute, the debt service on these bonds must be paid by general fund dollars. In FY 2010, 15.1 million general fund dollars were appropriated for the annual debt service for the Great Lakes Water Quality Bond Program.

Legislative Analyst: J. Hunault
Fiscal Analyst: Jim Stansell
Viola Wild

■ 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.