Senate Fiscal Agency
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BILL ANALYSIS

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Senate Bill 630 (as enacted) **PUBLIC ACT 38 of 2014**
Sponsor: Senator Rick Jones
Senate Committee: Economic Development
House Committee: Tax Policy

Date Completed: 8-6-14

CONTENT

The bill amended the Tax Increment Finance Authority (TIFA) Act to do the following:

-- Include in the definition of "qualified refunding obligation" bonds issued to refund other refunding bonds.
-- Require those bonds to be issued before December 31, 2019.
-- Exempt refunding bonds from a section of the Revised Municipal Finance Act that governs a municipality's issuance of a refunding security.

The bill took effect on March 20, 2014.

The TIFA Act allows cities to create a tax increment finance authority that may use tax increment financing for development purposes. An authority may capture property taxes and specific local taxes attributable to the incremental increase in the value of property in an authority district. Revenue from the State Education Tax and school district property taxes may be captured only to repay obligations incurred before August 19, 1993, including eligible obligations, eligible advances, and other protected obligations. Eligible obligations and other protected obligations include qualified refunding obligations.

The definition of "qualified refunding obligation" includes a tax increment refunding bond issued to refund a refunding bond that is an other protected obligation issued as a capital appreciation bond delivered to the Municipal Bond Authority on December 21, 1994. The bill also includes bonds issued to refund that bond.

The bill requires a refunding bond to be authorized by the tax increment finance authority before December 31, 2019. Previously, a refunding bond must have been authorized before January 1, 2011.

A refunding bond is not subject to provisions of the Revised Municipal Finance Act that govern the sale of a municipal security at a discount; limit the maturity time periods of a municipal security; and otherwise provide for the maturity or redemption of a municipal security. Under the bill, a refunding bond also is exempt from a section of the Revised Municipal Finance Act that sets forth conditions and procedures for a municipality to issue a refunding security.

MCL 125.1801 Legislative Analyst: Patrick Affholter

FISCAL IMPACT

The bill will change the timing, and potentially the amount, of State School Aid Fund revenue by an unknown magnitude. The bill affects refunding obligations for which State Education Tax revenue may be captured, and thus also will affect local unit revenue to tax increment finance authorities. Compared with prior law, the bill allows additional refunding bonds to capture revenue. Because refunding bonds are generally issued to pay back an earlier debt issue with a new one that pays a lower interest rate and/or is payable over a different period of time, the amount of the capture under the refunding obligation might be greater or less than the capture under the previous law. The specific changes will depend on the terms of any affected refunding obligations. For example, a refunding obligation could conceivably pay a lower interest rate, which would reduce the capture; but could accelerate the repayment period, which would increase the capture in the near term but reduce it in later years. The bill allows refunding of obligations of the City of Lansing to permit debt restructuring in order to reduce costs to the city's general fund.

Fiscal Analyst: Elizabeth Pratt

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