

# Legislative Analysis

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## EMERGENCY MUNICIPAL LOAN ACT

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### House Bill 5449

**Sponsor: Rep. Bert Johnson**

**Committee: Intergovernmental, Urban, and Regional Affairs**

**Complete to 11-27-07**

### A SUMMARY OF HOUSE BILL 5449 AS INTRODUCED 11-8-07

The bill would amend the Emergency Municipal Loan Act (1) to revise the eligibility criteria that allow a municipality to submit a loan application to the Department of Treasury Local Emergency Financial Assistance Loan Board and (2) to increase the maximum loan to any one municipality in any one fiscal year from \$1 million to \$3 million.

Eligibility Criteria. Under the current law, a municipality must meet one or more of the following conditions:

- 1) Its income tax revenue growth rate must be .90 or less.
- 2) Its local tax base growth rate must be 75 percent or less of the statewide tax base growth rate.
- 3) The state equalized valuation of real and personal property within the municipality at the time the loan application is made must be less than the state equalized valuation of real and personal property within the municipality in the immediately preceding year.

House Bill 5449 would retain these (and other eligibility criteria) in the act, but expand the first criterion to read: Its income tax revenue growth rate must be .90 or less, *or the municipality has two or more emergency loans outstanding at the time its application is submitted and its income tax revenue growth rate is 1.3 or less.*

Loan Cap. Currently under the law, the board may authorize loans to any one municipality in an amount not to exceed \$1 million in any one fiscal year, and a municipality is not eligible to receive loans in more than five fiscal years in any 10-year period. House Bill 5449 would increase the annual loan cap to \$3 million.

MCL 141.934 and 141.935

### FISCAL IMPACT:

Because available surplus funds (common cash) would be invested in an emergency municipal loan, rather than the other short-term investment tools available to the department (e.g., prime commercial paper or certificates of deposit), the bill would negatively impact the state's cash position during the time the loan is outstanding.

The City of Highland Park is the only local unit that would qualify for a loan under the revised criteria under the bill. In the past, the city was eligible for a loan under the act because its income tax growth rate was less than 0.9. (It has never met the eligibility criteria based on its local tax base growth rate or state equalized valuation of property within the city.) The city is no longer eligible for a loan because its growth in income tax collections between 2005 and 2006 was 124%, according to the Department of Treasury. (Thus, its "income tax growth rate" under the act is 1.24.)

The city received two loans of \$1.0 million on May 2003 and September 2006. Under the terms of both loan agreements the city is required to pay interest on the loans, payable beginning one year after the city received the loan, at a rate generally equal to the common cash earnings rate (on an annualized basis) during the first quarter of the fiscal year. Principal payments of \$100,000 are payable beginning 10 years after the city received each loan.

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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.