Legislative Analysis

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

"QUALIFIED REFUNDING OBLIGATIONS" FOR DOWNTOWN DEVELOPMENT AUTHORITY

House Bill 4248
Sponsor: Rep. Matt Huuki
Committee: Commerce

Complete to 2-18-11

A SUMMARY OF HOUSE BILL 4248 AS INTRODUCED

The Downtown Development Act is aimed at stimulating economic development in business districts. It is a tax increment finance statute. When local units of government create tax increment financing authorities, or TIFAs, they typically establish a special district and then capture future increases in taxes within that district for the authority to use to finance public infrastructure improvement projects within the district; this can include the issuance of bonds to finance projects. The DDA is one of several statutes that allow for the creation of TIFAs.

<u>House Bill 4248</u> would amend the Downtown Development Authority Act (MCL 125.1651) to do the following:

** It would revise the definition of "qualified refunding obligation" in order to add an additional case when DDA debt obligations can be <u>refinanced</u>. Specifically it would allow a refunding obligation to be issued if:

The obligation is issued to refund an "other protected obligation"[originally] issued as a capital appreciation bond delivered to the Michigan Municipal Bond authority on December 21, 1994, and any subsequent refunding of that obligation issued before January 1, 2012.

(However, the bill would only apply to the extent that tax increment revenues to repay the qualified refunding obligation that stem from state and local school taxes and from state appropriations to make up for lost school revenue do not exceed $750,000.)

The term "other protected obligation" is a technical term in the act. Since the passage of Proposal A to fund public schools in 1994, downtown development authorities have been generally prohibited from capturing taxes that are used to fund school districts, except in cases specified in the law where obligations (e.g., bonding arrangements) had been entered into before or during the implementation of Proposal A. These are known as "eligible obligations" and "other protected obligations." The definitions of these terms have been subsequently expanded to also apply to the refunding of those kind of obligations in certain circumstances.

** In addition, the bill also specifies that qualified refunding obligations issued under the bill before January 1, 2012, would not be subject to certain requirements of the Municipal

Finance Act (found at Sections 305 (2), (3), (5), and (6); Section 501; Section 503; and Section 611).

This means the refunding obligations issued under the bill would not be subject to the requirement that municipal securities not be sold at a discount exceeding ten percent of the principal amount of the security, or to requirements related to maturity dates and redemption dates. They also would be exempt from the prohibition on issuing refunding obligations 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.

** The duration of the development program described in the tax increment financing plan that relates to the qualified refunding obligations issued under the bill would be extended to one year after the final date of maturity of the obligations. The obligation would be payable through the year 2025 at an interest rate not exceeding the maximum rate permitted by law, notwithstanding the bond maturity dates contained in the notice of intent to issue bonds published by the municipality.

BACKGROUND INFORMATION:

Refunding or Refinancing

The bill would suspend certain requirements of the Revised Municipal Finance Act. For example, currently, refunding debt is typically permitted only if there is a present value interest savings. This bill would instead appear, among other things, to allow local units of government to restructure existing debt by extending debt further into the future and lowering current debt payments. It should be noted that Public Act 321 of 2010 (House Bill 5550) amended the Revised Municipal Finance Act to allow municipalities to refund debt before December 31, 2012, without regard to the "net present value" requirement, but only with the approval of the Department of Treasury and only if the securities are not secured by the unlimited full faith and credit pledge of the municipality.

FISCAL IMPACT:

House Bill 4248 would have an indeterminate fiscal impact on local units of government. The bill expands 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 this bill, a municipality could see reduced payments in the short run but higher costs in the long term as a result of issuing refunding obligations that extended debt further into the future.

Legislative Analyst: Chris Couch
Fiscal Analyst: Rebecca Ross

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