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House Bill 4248 (as passed by the House)
Sponsor: Representative Matt Huuki
House Committee: Commerce
Senate Committee: Economic Development

Date Completed: 4-13-11

CONTENT

The bill would amend the downtown development authority (DDA) Act to expand the circumstances under which a debt obligation may be refinanced and repaid with captured tax increment revenue, including school operating taxes and the State Education Tax. The bill would pertain to an obligation issued to refund a capital appreciation bond delivered to the Michigan Municipal Bond Authority on December 21, 1994, and any refunding of the bond issued before 2012.

The Act allows a municipality to create an authority that may undertake certain improvements or developments and pay for them by tax increment financing, which captures the tax revenue from the increase in value of property within the district. Tax revenue subject to capture does not include the State Education Tax (SET) or school operating taxes, except to repay eligible advances, eligible obligations, and other protected obligations. Eligible obligations and other protected obligations include obligations incurred by a DDA or a municipality on behalf of a DDA in anticipation of tax increment revenue, and certain qualified refunding obligations.

The bill would include in the definition of "qualified refunding obligation" an obligation issued to refund another protected obligation issued as a capital appreciation bond delivered to the Michigan Municipal Bond Authority on December 21, 1994, and any subsequent refundings of that obligation issued before January 1, 2012. The duration of the development program described in the tax increment financing plan related to this qualified refunding obligation would be extended to one year after the final date of maturity of the obligation.

An obligation issued under the bill would be a qualified refunding obligation only to the extent that tax increment revenue from property taxes and specific local taxes, other than the State Education Tax, and distributions under Section 13b to repay the qualified refunding obligation, did not exceed \$750,000. (Section 13b requires the Legislature to appropriate and distribute funds to a DDA if the amount of tax increment revenue lost due to the reduction in school operating taxes required by millage limitations under the Revised School Code, reduced by the amount of tax increment revenue received from the capture of the SET, causes the DDA's tax increment revenue received in a fiscal year to be insufficient to repay an eligible advance or to pay an eligible obligation.)

The obligation could 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.

The qualified refunding obligation would not be subject to specific sections of the Revised Municipal Finance Act if issued before January 1, 2012. (Those sections pertain to the sale of municipal securities at a discount, the maturity and redemption of municipal securities, and the refunding of outstanding securities.)

MCL 125.1651

Legislative Analyst: Suzanne Lowe

FISCAL IMPACT

The bill would have no effect on State revenue or expenditures. The bill would have a minimal impact on local unit revenue and expenses. Essentially, the bill would expand the circumstances that allow a qualified refunding obligation to be issued. Commonly, these obligations are issued to restructure the debt and/or refinance the costs of an earlier debt obligation. As a result, the new obligations typically carry lower interest and payment costs, changing the distribution of revenue and expenses associated with a downtown development authority.

Fiscal Analyst: David Zin

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This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.