



Olds Plaza Building, 10th Floor
Lansing, Michigan 48909
Phone: 517/373-6466

REFINANCE MUNICIPAL BONDS

House Bill 4701 with committee
amendment
First Analysis (6-16-93)

Sponsor: Rep. Kirk A. Profit
Committee: Local Government

THE APPARENT PROBLEM:

Public Act 233 of 1955 authorizes two or more municipalities (city, township, county or village), by resolution of their respective legislative bodies, to incorporate an authority to acquire, own, improve, enlarge, extend or operate systems for sewage disposal, water supply and/or solid waste management, and to issue bonds for these purposes. Many of the municipal bonds currently outstanding that were issued for these purposes were floated years ago when interest rates were substantially higher. A number of municipalities believe that by reissuing these bonds at today's much lower rates, they could save a fair amount of money. Though the Municipal Finance Act authorizes the refunding of general obligation bonds, such authority does not seem to exist for bonds issued under Public Act 233. For this reason, legislation has been introduced that would explicitly authorize municipalities to refinance the bonds that have been issued for the purposes under that act.

THE CONTENT OF THE BILL:

The bill would amend Public Act 233 of 1955 to permit an authority organized by two or more municipalities under the act to issue bonds to refund all or a portion of bonds issued for various purposes related to the operation and management of sewage disposal, water supply and/or solid waste management systems. This could only occur, however, if the aggregate present value of the principal and interest to be paid on the refunding bonds would be less than the aggregate present value of the principal and interest to be paid on the bonds that were to be refunded. The bill also would delete language requiring bond resolutions to include the terms of the contract between the local government and the authority for the construction or operation of a waste disposal system.

MCL 124.289

FISCAL IMPLICATIONS:

Fiscal information is not available.

ARGUMENTS:

For:

The bill would offer municipalities that have organized under Public Act 233 of 1955 to provide sewage disposal, a local water supply system and/or solid waste management the opportunity to take advantage of some of the lowest interest rates in over 20 years. The bonds that municipal authorities currently have outstanding for these purposes may have been floated a decade ago or longer when interest rates were substantially higher. By refinancing the bonds now municipalities could, in some cases, significantly reduce what they are currently paying for this debt. Any bonds issued under the bill to replace current ones, however, could not exceed the value of the current bonds; thus, the bill would prevent the issuance of any new amounts unless this were approved by the municipalities' electors, as the act now requires.

For:

The bill would delete language from the act that requires the ordinance or resolution authorizing the issuance of bonds for purposes under the act to "have embodied in the bonds" the terms of the authorized contract or contracts. This requirement is confusing and essentially impracticable as a bond certificate is a piece of paper that contains information related to the issuance, but is not large enough to carry all the terms of such a contract. This requirement apparently was added to ensure that the public is properly informed of the terms of a contract for which a bond is issued, but this concern is addressed elsewhere in the act where public notice for a bond issued under the act must be made.

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POSITIONS:

The Michigan Townships Association supports the bill. (6-15-93)

The Ypsilanti Community Utility Authority supports the bill. (6-16-93)