



**House
Legislative
Analysis
Section**

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MUNICIPAL FINANCE

**Senate Bill 965 (Substitute H-1)
Senate Bills 1265 and 1267-1269 as passed
by the Senate**

**Senate Bills 1300-1302 as passed by the
Senate**

Sponsor: Sen. Joanne G. Emmons

**House Committee: Tax Policy
Senate Committee: Finance**

First Analysis (5-23-02)

THE APPARENT PROBLEM:

The Revised Municipal Finance Act took effect March 1, 2002. It was created by Public Act 34 of 2001 (Senate Bill 29). Most of the old Municipal Finance Act was repealed on the same date. The new act will govern nearly all municipal borrowing and it puts in place, among other things, a new bond approval process whereby municipalities may qualify annually with the Department of Treasury and then may issue debt without prior departmental approval. The adoption of the new act, however, requires that a great many other statutes be amended as well. Generally speaking, borrowing by governmental units takes place under a general act, such as the Revised Municipal Finance Act, and a specific act authorizing a particular kind of entity to issue debt for particular purposes. There are perhaps as many as 170 bills needed to make all the various statutes on borrowing conform to the Revised Municipal Finance Act. In addition, as work on the bonding bills has progressed, tax specialists have become aware of revisions that need to be made to the new act and to the other major bonding statute, the Revenue Bond Act.

THE CONTENT OF THE BILLS:

Senate Bill 965 would amend the Revenue Bond Act (MCL 141.103 et al.) in a number of ways. Under the bill, the process for the approval of revenue bonds (with local units being qualified in advance by the Department of Treasury) would be the same as the approval process found in the Revised Municipal Finance Act. Further, the bill would allow bonds under the act to be sold at either a competitive sale or a negotiated sale as determined in the authorizing ordinance as is permitted by the new finance act. Limitations on negotiated sales would be removed.

The bill would also specify that revenue bonds for which a municipality pledged its full faith and credit would be subject to the Revised Municipal Finance Act as well as the Revenue Bond Act. Further, the first principal amount maturity date or mandatory redemption date for revenue bonds could not be later than five years after the date of issuance and some principal amount would have to mature or be subject to mandatory redemption in each subsequent year of the term of the bond. The bill would authorize the Department of Treasury to issue bulletins to carry out the purposes of the act. A bulletin would have to include a statement of the department's specific statutory authority for any substantive requirement contained within the bulletin. Detailed limitations on how money in public improvement accounts can be invested would be eliminated and instead money could be invested following the investment authority of the public corporation adopted by its legislative body or governing body under Public Act 20 of 1943, which governs the investment of surplus funds of a political subdivision. Municipalities operating under the Revenue Bond Act would be required to file an audit report annually with the Department of Treasury. Also, in a number of places, the bill would replace the word "fund" with the word "account" in describing money held by entities issuing revenue bonds.

Senate Bill 1302 would amend the Revised Municipal Finance Act (MCL 141.2105 et al.). The bill would restore a provision from the old act left out during the revision that allows the Department of Treasury to withhold state payments under an appropriation made to a municipality, under the State Revenue Sharing Act, or under the State School Aid Act if a municipality failed to make a payment on an

Senate Bills 965, 1265, 1267-1269 and 1300-1302 (5-23-02)

outstanding municipal security. In the case of a failure to make payment, the state treasurer (or superintendent of public instruction, for a school district) could investigate and assist in developing a plan that the department could implement if the municipality did not. The withholding of state funds could be part of such a plan. The bill also would exempt from the definition of municipal security a contract between municipalities under which one or more municipalities would pledge their revenues or full faith and credit to secure a payment of a proposed municipal security to be issued on one of the municipalities. (The securities issued would still fall under the act.) Further, when principal and interest for a municipal security is to be paid by one or more municipalities not issuing the security (as with the contracts just referred to), if one or more of the municipalities has not been granted qualified status by the Department of Treasury, the securities would require prior approval by the department. The bill also would remove from the act provisions regarding the issuing of securities by state authorities and agencies that are not subject to the act. These provisions have recently been placed in a proposed new act, the Agency Financing Reporting Act. Further, the bill would repeal an enacting section included when the Revised Municipal Finance Act was enacted in 2001 (which exempted from the new act any security that by terms of statute under which it was issued was exempt from the old act).

Senate Bills 1265 and 1267-1269 and Senate Bill 1301 would amend various sections of the Michigan Transportation Fund Act (MCL 247.661 et al.). Senate Bill 1265 would amend Section 18c, which allows a county to issue bonds to pay for the construction and reconstruction of highways and pledge distributions from the Michigan Transportation Fund (MTF). These bonds would be subject to the Revised Municipal Finance Act. Senate Bill 1267 would amend Section 11, which establishes the State Trunk Line Fund to add references to the Revised Municipal Finance Act and specify that contracts entered into by the Department of Transportation to advance money to pay costs of improving railroad grade crossings and loans made by the department for capital costs would not be subject to that act. Senate Bill 1268 would amend Section 18e to exempt bonds issued under Section 18c (referred to in Senate Bill 1265) from its requirements regarding redemption periods, interest rates, and types of bonds. Senate Bill 1269 would amend Section 18f to delete provisions regarding county highway bonds that have been superseded by the Revised Municipal Finance Act. Section 1301 would amend Section 18b to allow the Michigan

Transportation Commission to authorize by resolution the execution and delivery of agreements providing for interest rate exchanges or swaps, hedges, or other similar agreements in connection with outstanding debt.

Senate Bill 1300 would amend Public Act 112 of 1961 (MCL 388.981c), which deals with bonds and notes of the state used to fund loans to school districts, to specify that the bonds and notes issued under the act would not be subject to the Revised Municipal Finance Act but would be subject to the Agency Financing Reporting Act.

HOUSE COMMITTEE ACTION:

The House Committee on Tax Policy adopted a substitute for Senate Bill 965, which would amend the Revenue Bond Act. The substitute, among other things, contains the provision authorizing the Department of Treasury to issue bulletins; and a provision specifying that bonds subject to the act would not be subject to the Revised Municipal Finance Act "except as otherwise provided".

FISCAL IMPLICATIONS:

The House Fiscal Agency reports that Senate Bills 1300-1302 would have an indeterminate fiscal impact on state and local revenues and the other bills should have no significant fiscal impact. (HFA committee analysis dated 5-20-02)

ARGUMENTS:

For:

These are among a series of bills that tax specialists say are needed to make specific bonding and borrowing provisions throughout the Michigan statutes conform to the Revised Municipal Finance Act, which took effect on March 1, 2002. In addition, one of the bills would provide "cleanup" amendments to the new act itself. Another bill would amend the Revenue Bond Act, primarily to make various provisions conform with or mirror the new finance act.

POSITIONS:

There are no positions on the bills.

Analyst: C. Couch

■ 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.