Senate Fiscal Agency
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BILL ANALYSIS

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House Bill 4758 (as reported without amendment)
Sponsor: Representative Al Pscholka
House Committee: Local Government
Senate Committee: Local Government

CONTENT

The bill would amend the Drain Code to allow the issuance of bonds that would be subject to mandatory redemption, in addition to bonds that are payable at maturity.

Various sections of the Code allow a drainage board, drain commissioner, or water management board to issue bonds for drain projects, in anticipation of the collection of drain taxes and assessments. These sections refer to the payment of bonds at maturity, the maturity of bonds to be issued, or the maturity of refunding obligations, and specify deadlines for the maturity of bonds. In these provisions, the bill would add references to bonds subject to mandatory redemption.

MCL 280.132 et al. Legislative Analyst: Patrick Affholter

FISCAL IMPACT

The bill would tend to reduce the cost of borrowing by drainage districts by an unknown amount that would vary based on local decisions and financial market conditions. To the extent that a drainage district was able to reduce interest costs by structuring a bond issue as a term bond as opposed to a serial bond, local borrowing costs would be reduced. Testimony in the House of Representatives Local Government Committee indicated that bond issues structured as term bonds could be more attractive to institutional investors, which would create additional demand for the bonds and have the potential to reduce debt service costs.

Currently, drainage districts may issue bonds only as serial bonds. An issuance of serial bonds typically has some bonds maturing and being repaid each year during the life of the bond issue. The amount of bonds maturing in a specific year is established at bond issuance based on the timing of the revenue stream available for debt repayment and the structure of long- and short-term interest rates. In comparison, a term bond has mandatory repayment of principal each year it is outstanding. This tends to increase the face value of a term bond, making it a more acceptable investment for large institutional investors.

Date Completed: 2-2-16 Fiscal Analyst: Elizabeth Pratt