

State House Acts to Provide Financial Flexibility to Municipal Governments

December 3, 2008

Yesterday, the Michigan House of Representatives adopted five bills (HB 6736, HB 6737, HB 6738, HB 6739 and HB 6740) designed to provide Michigan local governments financial flexibility to restructure their debt. Under existing law, unless present value savings are realized, a municipality can only refinance debt in very limited circumstances. If adopted, these bills would temporarily authorize municipalities to refinance debt to bring annual debt service payments in line with expected revenues, in much the same way private enterprise can.

Residential property values across the state and nation are undergoing an unprecedented decline. A primary source of revenue for municipal governments is property taxes based upon the value of the property being taxed. Communities borrowing money typically assume some modest property value growth (or at least stable property values) to support the additional debt. Tax increment finance bond issues are often entirely dependant on property value increases and most tax increment finance bonds are also backed by the full faith and credit of the municipality.

Given the unprecedented economic crisis, property values have not kept up with these assumptions. Thus, municipalities may need to dip into their general funds at much higher percentages than expected. This demand upon general funds could occur at the same time that property tax revenues are decreasing, the costs of employee benefits such as health care are increasing, and revenue sharing from the state is stagnant. If forced to use general fund revenues for bond payments, local governments could need to lay off employees and cut vital services to local residents.

Miller Canfield has formed a team of public law lawyers charged with the task of developing new tools to help local governments effectively respond to this looming problem. Working closely with Representative Andy Coulouris, Chairman of the House Banking and Financial Services Committee, Representative Jeff Mayes, a chief proponent of these bills, and with the help of Speaker Andy Dillon, our team helped draft the specific additional authority that would be provided by these bills.

We will keep you updated as the bills progress through the legislative process.

Miller Canfield would be happy to discuss the proposed amendments with you. For more information, please contact:

William Danhof Michael McGee
517.483.4907 313.496.7599
danhof@millercanfield.com, mcgee@millercanfield.com,