

Governor Signs Bond Refinancing Bill

December 29, 2010

On December 21, 2010, Governor Granholm signed into law HB 5550, designed to provide Michigan local governments with emergency financial flexibility to restructure their debt. The new law, 2010 PA 321, will give local governments temporary authority to restructure debt to reflect current revenue realities, providing some general fund relief. The law was given immediate effect.

Under current law, unless present value savings are realized, a municipality can only refinance debt in very limited circumstances. PA 321 authorizes municipalities, with Michigan Department of Treasury approval, to refinance debt to bring annual debt service payments in line with expected revenues, in much the same way a private enterprise can.

The authority to do so will continue through December 31, 2012. Prior to accomplishing a refinancing, the local government is required under PA 321 to hold a public hearing.

Residential property values across the state and nation have undergone unprecedented decline over the past two years. In addition, the recession has contributed to reduced revenue for water, sewer and other local utilities. A primary source of revenue for municipal governments is property taxes based upon the value of the property being taxed.

Communities borrowing money typically have assumed some modest property value or revenue growth - or at least stable values and revenues - to support debt.

Given the unprecedented conditions, property values and other revenues supporting debt frequently have not kept up with assumptions. Thus, municipal general funds are being asked to backstop debt issues at higher percentages than expected. This demand upon general funds is occurring 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.

Miller Canfield public finance lawyers worked closely with legislative sponsor Rep. Jeff Mayes, the Michigan Municipal League, and the Department of Treasury in crafting the new law. It is designed to give local governments access to debt-management tools that are commonly employed in the private sector.

Miller Canfield lawyers would be happy to discuss the new law with you. Contact your Miller Canfield attorney for more information.