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# GRANT ANTICIPATION NOTES

**House Bill 5685 as enrolled**
**Public Act 423 of 1994**
**Second Analysis (1-16-95)**

**Sponsor: Rep. Joe Palamara**
**House Committee: Business and Finance**
**Senate Committee: Finance**

## *THE APPARENT PROBLEM:*

The Municipal Finance Act allows a local unit of government to borrow money and issue notes in anticipation of taxes and other revenues it expects to collect. The act prescribes whether the money may be used to pay operating expenses, debt service charges, or to finance the construction of capital improvements such as hospitals or housing projects, or highway maintenance and improvements. The debt then becomes an obligation of the municipality. Wayne County, which receives large federal grants for capital improvements at Detroit's Metro Airport, has proposed that municipalities also be allowed to issue notes in anticipation of receiving grants. This would allow the municipality to fund its projects as soon as it was notified that the grant been awarded. Thus, work on projects could commence sooner, before inflation had reduced the purchasing power of the grant.

## *THE CONTENT OF THE BILL:*

Under the Municipal Finance Act, a municipality may borrow money and issue notes in anticipation of the collection of taxes and other revenues. This may be done by resolution of the governing body and without a vote of the electors. However, except for obligations issued under the General Property Tax Act, a municipality must generally obtain prior approval from the state treasurer. House Bill 5685 would amend the act to allow local governments to borrow money, in anticipation of receiving federal grants, to finance capital projects for transportation purposes. The provisions of the bill would expire after December 31, 2000, and would not apply to bonds or notes that appreciated in principal amount or that were to be sold at a discount of more than ten percent.

Under the bill, a municipality could pledge payment of the notes from the proceeds of grants that had been approved by the federal government and appropriated by law, or from taxes, the proceeds of obligations, earnings on the proceeds of obligations or other funds, or from the proceeds of any other security, subject to the prior approval requirements and conditions prescribed by the act. A municipality could also refund the notes by issuing new bonds or notes, provided that the net present value of the principal and interest paid on the refunding bonds or notes (excluding the costs of issuance) was less than the net present value of the principal and interest paid on those being refunded. A municipality's authority to borrow money in this manner would be subject to the following restrictions:

**The notes would mature five years from the date of issuance, or six months after the expected date that the grant proceeds were received, whichever came first.

**The notes would bear interest at a fixed or variable rate, subject to the limitation prescribed in the act.

**The proceeds of the notes would be used only for the purpose of the grant, the costs of issuance of the notes, and for the payment and interest on the notes.

In addition, the principal amount of notes issued, for which the funds to be received from the granting agency were pledged, could not exceed 85 percent of the remainder of the amount authorized for that year. However, a municipality could pledge 100 percent of its appropriated funds by securing a direct transfer from the granting agency to an authorized trustee, or to the Michigan Municipal Bond Authority, if the notes were sold to them, as authorized under the municipality's borrowing resolution.

MCL 134.3c

## *FISCAL IMPLICATIONS:*

According to the Department of Treasury, the bill would have no impact on state funds. (1-18-95)

## *ARGUMENTS:*

### *For:*

It is a common perception that work on many government projects tends to proceed slowly. According to some municipalities, delays occur because there is normally a long waiting period between the date a grant for a project is awarded and the date that a municipality actually receives the funds. As a result, inflation may drive up final costs in excess of original estimates. The provisions of the bill would allow municipalities in general, and Wayne County in particular, to finance capital projects at Metro Airport sooner, thus avoiding long delays and inflated costs.