



Senate Fiscal Agency
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BILL ANALYSIS



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Senate Bills 488 and 489 (as passed by the Senate)
Sponsor: Senator Joanne G. Emmons
Committee: Finance

Date Completed: 5-15-95

RATIONALE

The Recreation Bond Implementation Act and the Environmental Protection Bond Implementation Act provide for the administration and distribution of the \$140 million recreation bond issue, and the \$660 million environmental protection bond issue, approved by the voters in 1988. The voters authorized the State to issue full faith and credit bonds to finance State and local recreation projects, and environmental protection programs to clean up sites of toxic and other environmental contamination and address additional environmental concerns, as prescribed in the respective implementation Acts.

In recent years the State has taken advantage of favorable conditions in bond markets by authorizing various bonding authorities to issue refunding bonds; that is, issue new bonds at an interest rate lower than the rate on existing bonds to pay off the existing bonds, thus saving money over the life of the bonds. (For example, the Hospital Finance Authority Act and the Municipal Finance Act are among several bond authorization laws that allow the refunding of bonds.) The Department of Treasury has stated that it would like to refund some of the existing recreation and environmental protection bonds. Approximately \$110 million of the \$140 million in recreation bonds has been issued, and approximately \$360 million of the \$660 million in environmental protection bonds has been issued. According to the Department of Treasury, however, the Department of Attorney General, which must give final approval for any State bonding issue, has stated that it will not approve the refunding of recreation bonds or environmental bonds because the implementation Acts that govern the administration of those bonds do not specifically authorize refunding. It has been suggested that the Acts be amended to allow refunding.

CONTENT

Senate Bills 488 and 489 would amend the Recreation Bond Implementation Act and the Environmental Protection Bond Implementation Act, respectively, to authorize the State Administrative Board to refund bonds issued under the Act by the issuance of new bonds. The bills also would authorize the Board to approve transactions to provide security for bonds, and specify actions that the Board could authorize the State Treasurer to take concerning the issuance of bonds.

Specifically, each bill provides that the State Administrative Board could refund bonds issued under the Act by the issuance of new bonds, whether or not the bonds to be refunded had matured or were subject to prior redemption. The Board could issue bonds partly to refund bonds issued under the Act and partly for any other purpose provided by the Act. The Board also could authorize and approve insurance contracts, agreements for lines of credit, letters of credit, commitments to purchase bonds, and any other transaction to provide security to assure timely payment or purchase of any bond issued under the Act.

The bills provide that the principal amounts of any refunding bonds issued under the bills would not be counted against the limitation on principal amounts imposed by the voters in November 1988. Further, refunding bonds would not be subject to the restrictions prescribed in Section 7 of either of the Acts. Section 7 of the Recreation Bond Implementation Act requires the proceeds of the recreation bonds to be deposited in the Recreation Bond Fund, created under the Act;

Section 7 of the Environmental Protection Bond Implementation Act requires the proceeds of the environmental protection bonds to be deposited in the Environmental Protection Bond Fund and allocated as specified.

Currently, each Act states that the State Administrative Board by resolution may authorize the State Treasurer to provide for the sale of the bonds at a discount, investment and reinvestment of bond sales proceeds, other details for the bonds, the costs of issuance, and the security for the bonds. The bills provide, instead, that the Board could authorize the State Treasurer, but only within limitations contained in the Board's authorizing resolution, to do one or more of the following:

- Sell and deliver and receive payment of the bonds.
- Deliver bonds partly to refund bonds and partly for other authorized purposes.
- Select which outstanding bonds would be refunded, if any, by the new issue of bonds.
- Buy bonds so issued at not more than their face value.
- Approve interest rates or methods for fixing interest rates, prices, discounts, maturities, principal amounts, purchase prices, purchase dates, remarketing dates, denominations, dates of issuance, interest payment dates, redemption rights at the option of the State or the owner, the place and time of delivery and payment, and other matters and procedures necessary to complete the authorized transactions.
- Execute, deliver, and pay the cost of remarketing agreements, insurance contracts, agreements for lines of credit, letters of credit, commitments to purchase bonds or notes, and any other transaction to provide security to assure timely payments or purchase of any bond issued under the Act.

MCL 318.573 (S.B. 488)
299.673 (S.B. 489)

ARGUMENTS

(Please note: The arguments contained in this analysis originate from sources outside the Senate Fiscal Agency. The Senate Fiscal Agency neither supports nor opposes legislation.)

Supporting Argument

As authorized by the voters, the State has issued bonds for the purpose of financing State and local recreation projects and cleaning up toxic and other environmental contamination. It has been pointed out that the implementation Acts that govern those bonding issues do not contain provisions specifically stating that the State can refund existing recreation and environmental protection bonds, even though bond refunding is a common practice and allowed under other bond authorization statutes. The bills would allow the State to use refunding bonds for the existing recreation and environmental protection bonds, thus realizing a more favorable interest rate and achieving a saving over the life of the bonds.

Legislative Analyst: G. Towne

FISCAL IMPACT

The Department of Treasury estimates that by refunding the existing bonds and issuing new ones at a lower rate of interest, the State would save \$4.7 million in debt service, on a cash basis, over the life of the bonds.

Fiscal Analyst: J. Wortley

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This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.