



Senate Fiscal Agency
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Senate Bill 397 (as enacted)
Sponsor: Senator Mary Cavanagh
Senate Committee: Housing and Human Services
House Committee: Economic Development and Small Business

PUBLIC ACT 169 of 2023

Date Completed: 11-22-23

RATIONALE

The Michigan State Housing Development Authority (MSHDA) can issue debt for limited programs that allow for the purchase of single-family mortgages, funding for family development, home improvement loans, and the cost of issuing bonds. Previously, MSHDA was limited to a \$5.0 million bond cap. According to testimony before the Senate Committee on Housing and Human Services, the Authority estimated it would reach this cap by October 2023 for several reasons. Firstly, inflation has increased the cost of building materials and the value of homes. For example, in 2019, the average MSHDA mortgage was \$107,000, whereas, in 2023, the average MSHDA mortgage is \$141,000. Secondly, rising interest rates have widened the gap between taxable rates (what banks lend at) and tax-exempt rates (what MSHDA lends at), increasing the popularity of MSHDA programs. Thirdly, the Legislature awarded MSHDA's PassThrough Bond Program gap financing for the 2022-2023 fiscal year. As a result, MSHDA estimates outstanding PassThrough bonds will grow from \$155.0 million as of December 2022 to over \$900.0 million by December 31, 2024. Lastly, in July 2023, the Legislature enacted Public Act 90 of 2023, which created a new tax-increment financing program funded by bonds in MSHDA, counting against the bond cap. Because of these factors, MSHDA estimated it would not only reach the previous bond cap but surpass it to \$6.0 billion by June 2024. Accordingly, it was suggested that the bond cap be increased to allow for the continuation of MSHDA programs.

CONTENT

The bill amended the State Housing Development Authority Act to increase, from \$5.0 billion to \$10.0 billion, the limit on all outstanding bonds and notes that the MSHDA may have.

The bill took effect October 19, 2023.

Generally, the Act authorizes MSHDA to issue notes and bonds for housing and community economic development purposes in the State, subject to certain limitations. Previously, the Authority could not have outstanding, at any time, bonds and notes of its corporate purposes in an aggregate principal amount exceeding \$5.0 billion, excluding the following:

- The principal amount of bonds and notes issued to refund outstanding bonds and notes.
- The principal amount of bonds and notes that appreciate in principal amount, except to the extent of the principal amount of these bonds and notes payable at such time.
- The principal amount of bonds and notes representing original issue discount, if any.

The bill increased this maximum amount on outstanding bonds and notes to \$10.0 billion.

(Additionally, the bill deleted a provision that required MSHDA to conduct an annual review of all loans and financial instruments that require repayment of lines of credit with the Michigan Broadband Development Authority Act. The Authority absorbed the Michigan Broadband Development Authority (MBDA) and then the MBDA was dissolved by Executive Reorganization Order No. 2008-4.)

MCL 125.1432

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

Michigan is experiencing a housing shortage. According to testimony before the Senate Committee on Housing and Human Services, the State is 190,000 housing units short of demand. The Authority plays a critical part in reducing this shortage by increasing affordable housing stock in the State and making homeownership more accessible. For example, MSHDA planned to construct 13,000 housing units between 2023 and 2024.¹ If MSHDA's bond cap had not been raised, the Authority would have been forced to abandon its single-family mortgage and its Low-Income Housing Tax Credit programs, which would have prevented MSHDA's plan. Raising MSHDA's bond cap was necessary for the Authority to continue operating key programs that alleviate the State's housing shortage.

Legislative Analyst: Eleni Lionas

FISCAL IMPACT

The bill increased the cap on outstanding bonds and notes from \$5.0 billion to \$10.0 billion. Without the additional bonding authority, programs would have to have been reduced when the cap was hit. The Authority's bonds are not considered general obligations of the State and are secured by revenue received from various loan programs operated by MSHDA. Debt is issued for the purchase of single-family mortgages, multifamily developments, fund home improvement loans, and for the cost of issuing the bonds. The assets purchased by the debt are used as the security, while the mortgages on the assets are used to repay the bonds. The revenue from these programs supports the financing of the debt and MSHDA's operations. Generally, MSHDA does not require any State dollars to support its operations.

The cap on outstanding debts was increased from \$3.4 billion to \$5.0 billion in 2020 because of increased demand and the Authority had hit the limit. Since 2020, rising property costs throughout the State have contributed to increased costs to purchase assets and to finance MSHDA's various programs.

Fiscal Analyst: Cory Savino, PhD

¹ Senate Committee on Housing and Human Services, 6-27-23.

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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.