SFA BILL ANALYSIS
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Senate Bill 557 (as passed by the Senate)
Sponsor: Senator John J. H. Schwartz, M.D.
Committee: Finance

Date Completed: 11-16-87

RATIONALE

Public Act 108 of 1961, which implements Article 9, Section 16 of the State Constitution, allows a school district to borrow from the State's School Bond Loan Fund if the district otherwise would have to levy more than seven mills to pay the principal and interest on its outstanding "qualified" bonds. "Qualified" bonds are general obligation bonds, including refunding bonds, issued for capital expenditures that meet certain conditions specified in the Constitution and the Act.

School districts must apply to the Department of Education in order to have bonds qualified. Qualification of a bond issue offers advantages over an unqualified bond; the State guarantees the bond, and a district does not have to levy over seven mills to pay the bond. If the debt for the bond exceeds seven mills of assessed valuation on the district, the district may borrow up to 90% of the excess from the State School Bond Loan Fund.

Currently, the Act allows districts to issue a bond to pay off bonds issued previously (refunding bonds). Refunding bonds can be approved as qualified bonds if they fulfill certain requirements in the Act, but the Act says nothing about using refunding bonds to pay off loans from the School Bond Loan Fund. It has been suggested that the Act be amended to allow this and to consider such refunding bonds as qualified bonds.

CONTENT

The bill would amend Public Act 108 of 1961 to allow school districts to repay loans from the State School Bond Loan Fund with refunding bonds. Refunding bonds used in this manner would be considered qualified bonds if they fulfilled certain requirements in the Act.

Under one of the conditions a bond must meet to be considered a qualified bond, the principal that matures in any one year must not be less than the principal maturing in any prior year, and a district's ratio of debt to valuation (the ratio of a district's total tax-supported bonded indebtedness to its assessed valuation) must exceed 12%. The bill would allow the State Treasurer to authorize principal maturities in any amount if the Treasurer determined that it was financially beneficial to the State or a school district, regardless of the amount of principal maturing in any year or a district's ratio of debt to valuation.

MCL 388.954

FISCAL IMPACT

The bill would result in indeterminate savings to school districts by allowing them greater flexibility in managing debt. The bill also would result in indeterminate savings for the State General Fund. If enough school districts repaid the School Bond Loan Fund (SBLF) by refinancing their debt through the money market, the State could repay its bonds sold to finance the SBLF. Once these bonds were paid, the balance of State receipts from school districts would be paid to the General Fund.

ARGUMENTS

Supporting Argument

Currently, school districts can issue refunding bonds to repay past bond issues as a means of restructuring debt, and can have those refunding bonds considered qualified bonds. The bill would simply take this process a step further by allowing refunding bonds to be used to pay off a school district's loans from the State School Bond Loan Fund, and having these refunding bonds considered to be qualified bonds. Since loans from the State School Bond Loan Fund are used to pay the principal and interest on qualified bonds, the consideration of refunding bonds as qualified bonds would be entirely consistent with the Act. The bill could allow some districts with outstanding loans to the State School Bond Loan Fund to pay off those loans with a refunding bond that would cost less to repay than to continue loan payments.

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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.