SFA BILL ANALYSIS
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Senate Bill 20 (as reported with amendment)
Sponsor: Senator Harry Gast
Committee: Education and Mental Health

Date Completed: 2-22-89

RATIONALE

More than 30 years ago, many school districts were experiencing rapid growth as veterans returning from World War II were moving their families to suburban areas. While these areas were undergoing a housing boom, tax bases were not sufficient to finance the construction of needed school facilities. Thus, the School Bond Loan Program was instituted in order to make it financially possible for every school district in the State to build necessary facilities as they are needed. The program was conceived as a way to channel funds to local school districts so they could build facilities and to recoup the funds through a debt millage, which was based on a tax base that was expected to grow as industrial and commercial development grew. Today, however, some school districts that borrowed from the School Bond Loan Fund did not experience this anticipated growth in tax base and, thus, lack the revenues to pay for their building program. Some districts in the program that are facing budget deficits or the need for more operating funds are exploring methods to pay off the loan, or at least, transfer millage from debt service to operations in order to produce more funds to meet operating expenses. Some people believe that a local school district that is participating in the State loan program and facing financial difficulties should be allowed to substitute school funds for the millage required by the State to repay the loan.

CONTENT

The bill would amend Public Act 108 of 1961, which provides for loans by the State to school districts for the payment of principal and interest on school bonds, to permit the waiver under certain conditions of all or a portion of millage that must be levied by the school district to repay the State loan. The bill would take effect 30 days after being enacted.

(Under Public Act 108, a school district that received a loan from the State School Bond Loan Fund is required to levy at least seven mills until all loans made to the school district by the State are repaid at interest rates annually determined by the State Administrative Board.)

Under the bill, upon a request made by a school district before June 1 of any year, the Superintendent of Public Instruction and the State Treasurer annually could jointly issue an order waiving all or a portion of the millage required to be levied by the school district if they found all of the following:

- The school board had applied to the Department of Education for permission to levy less than the required millage.
- The application specified the number of mills the school district requested permission to levy.
- The school board, by resolution, had agreed to transfer from available identified school district funds to the School Debt Retirement Fund an amount equal to the amount that

would have been raised by the levy of the millage for which waiver was requested.

-- The school board, by resolution, had agreed that the funds to be transferred to the School Debt Retirement Fund would be earmarked for the payment of State loans to the school district and for debt retirement purposes for qualified bonds before taxes were certified for the year the school board was requesting permission to levy less than the required millage.

-- The school board, by resolution, had agreed to comply with all conditions that the Superintendent of Public Instruction and the State Treasurer considered necessary.

The bill also specifies that if a school district received a loan from the School Bond Loan Fund and failed to levy the required mills while any part of the loan was unpaid or defaulted in its repayment agreement, the district would not receive State aid until arrangements had been made with the Superintendent of Public Instruction for the payment of the amount in default. This provision currently applies to State loans for the payment of principal and interest on qualified bonds.

FISCAL IMPACT

There would be an indeterminate fiscal impact on both State and local governments. The bill would likely impose a cost upon the State General Fund since it would allow school districts to lower their debt millage and transfer "from available identified funds" to the School Debt Retirement Fund an amount equal to the loss of debt millage revenue. To the extent that in-formula districts increased their operating millages to raise this replacement revenue, State membership aid would rise. (Debt millage is not equalized by the State, but operating millage is equalized through the general membership formula.)

ARGUMENTS

Supporting Argument

The bill would give school districts that are repaying or borrowing from the School Bond Loan Fund the ability to substitute school funds for required millage. A district that is required to levy seven mills for debt retirement could, for example, levy six mills and transfer the equivalent of one mill to operational millage. Currently, 515 school districts, which don't participate in the loan program, have the authority to decrease debt retirement millage and increase operational millage to generate increased operating monies by transferring funds under the State School Aid Act. With the absolute seven-mill limitation imposed on the 45 districts participating in the loan program, however, these districts are not able to take advantage of this provision in the State School Aid Act. As a result of the bill, districts in and out of the loan program would be treated equally in that their ability to meet debt requirements would not be impaired.

Supporting Argument

The bill would allow school districts that are participating in the loan program to increase their operation budget by transferring millage from debt retirement to their operating budget, upon a vote of the electorate. Thus, a district could avoid deficit spending and still be able to maintain a quality program.

Supporting Argument

The bill would not set a precedent by allowing the 45 districts participating in the School Bond Loan Program to reduce debt millage and increase operating mills. A similar program operated from 1978 through 1981 under the authority of Section 27 of the State School Aid Act.

Opposing Argument

The bill could require an increase in State aid by enabling school districts to increase their operational millage to replace their lowered debt millage. The increase in State aid resulting from the bill would depend on the number of the 45 districts in the loan program that chose to take advantage of the bill's provisions, the amount of debt millage reduced, and the amount of new operational millage.

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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.