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STATE AID ANTICIPATION NOTES

House Bill 5002 as enrolled
Second Analysis (8-12-92)

Sponsor: Rep. William R. Keith
House Committee: Education
Senate Committee: Education

THE APPARENT PROBLEM:

School districts often even out their cash flows by borrowing either in anticipation of taxes or in anticipation of state aid payments from the state. In the first case, they typically issue tax anticipation notes (or TANS) and in the second case, state aid anticipation notes (or STANS). Public Act 469 of 1982 amended the Municipal Finance Act to, among other things, permit local units of government, including school districts, to issue notes and bonds without prior approval from the Department of Treasury in certain cases. Local units could, if they met financial criteria and paid a fee, obtain a waiver of prior approval requirements. The justification was that the approval caused unnecessary delay and that local units already spent significant sums on bond counsel and financial consultants to advise them on borrowing. The School Code was not amended at the same time, however, and still requires that local school districts and intermediate districts obtain the prior approval of the Department of Education before issuing state aid anticipation notes. School officials have recommended that a similar waiver of prior approval procedure be put in the School Code for STANS and that other streamlining amendments be adopted as well.

THE CONTENT OF THE BILL:

The bill would amend the School Code to allow school districts to obtain an exception from the requirement that they receive prior approval from the Department of Education before issuing notes in anticipation of receiving state school aid. A school district would apply for the exception to the department (or "the authorized representative of the state board" of education) and pay a filing fee of $100 for the issuance of notes totalling less than $500,000 or of $400 for notes totalling $500,000 or more. The department would have to act no later than 10 business days after receiving a complete request and filing fee; if no action was taken the exception would be considered granted. The exception would be granted unless one or more of the following conditions existed or had occurred:

-- the district ended its immediately preceding fiscal year with a deficit in one or more of its funds and does not have an approved plan for eliminating the deficit;

-- the district failed to comply with requirements in the code regarding an outstanding note issued or a note issued during the three years immediately preceding the date of the request; or

-- the district was in default in the payment of the principal of or interest on any of its obligations.

If one or more of those conditions were present, the department could deny the request. It also could grant the exception if it found the condition was inconsequential to the request. Exceptions would be valid for four months and would be subject to limitations on borrowing in the code.

The bill also would allow school districts to issue notes for 12 months duration. Currently, the law has specific dates for notes, making them become due on September 1 or November 1.

MCL 380.1225

FISCAL IMPLICATIONS:

The Senate Fiscal Agency reports that 100 school districts obtained approval for state aid anticipation notes in fiscal year 1990-91. Of those, about 35 sought approval for notes over $500,000. If those districts had requested an exemption (as the bill would permit), the filing fees accompanying the requests would have amounted to $20,500. (Analysis dated 2-12-92)

ARGUMENTS:

For:

The bill would streamline the issuance of state aid anticipation notes by school districts by permitting waivers of prior approval by the state, much like the waivers permitted in the Municipal Finance Act for tax anticipation notes. Schools can issue tax anticipation notes currently without prior approval by the state; the bill would apply similar standards to the issuance of state aid anticipation notes. The bill also allows notes to be issued for a longer period, thus reducing the number of times notes must be issued. Generally, the bill will grant school districts more flexibility in managing their cash flows. This will become even more important, say school board representatives, if the state proportion of the cost of education increases, which would be the result of several property tax reduction proposals.