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SFA**BILL ANALYSIS**

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Senate Bill 277 (as reported without amendment)

Sponsor: Senator John J.H. Schwarz, M.D.

Committee: Appropriations

CONTENT

The bill would amend the State Building Authority Act to increase the amount of outstanding obligations that may be issued by the State Building Authority at any one time in a principal amount by \$700,000,000. The current limit, also known as the bond "cap", is statutorily set at \$2,000,000,000. The bill would raise that limit to \$2,700,000,000.

The State Building Authority Act was first enacted in 1964 and limited outstanding obligations at that time to \$400,000,000. Since that time, the Act has been amended three times, most recently in 1993 to increase the cap from \$1,350,000,000 to \$2,000,000,000.

Section 1433 of P.A. 480 of 1996, the current-year capital outlay appropriations act, prohibits the construction of projects funded by that Act from proceeding without amendments to the State Building Authority Act to increase the bond cap.

MCL 830.418

FISCAL IMPACT

Capital Outlay projects authorized by the Legislature for FY 1995-96 and FY 1996-97 total nearly \$750,000,000 in State Building Authority revenue. While some of these projects could be financed under the existing bond cap, the impact of financing all of these projects would result in the current available bond authorization to be exceeded by approximately \$250,000,000. The increase of the bond cap proposed in the bill would provide sufficient authorization to finance all existing projects as well as provide available cap for the Governor's FY 1997-98 capital outlay recommendation for a \$70.0 million "Halls of Justice" project, other FY 1997-98 construction projects, future considerations for lease purchases, unexpected contingencies and future construction priorities. It is important to note, however, that the available bond cap tends to be a rather fluid estimate due to 1) the continual retiring of past debt obligations, 2) newly incurred debt for projects moving into construction, and 3) changes in planning, construction, and financing schedules.

For purposes of illustration, if the State Building Authority were to issue \$700,000,000 in new debt, annual "rent" (debt service) payments for this obligation could be expected to approach \$70.0 million annually, although rent (debt service) values are highly dependent on market conditions, facility type, and length of issue. This increase would be in addition to the current annual rent payments the State makes to the State Building Authority to finance current and past projects. In the current year, rent payments are appropriated at \$205.3 million and have been recommended for the next fiscal year at \$241.5 million.

Date Completed: 3-19-97

Fiscal Analyst: M. Hansen

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