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SFA BILL ANALYSIS

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Senate Bill 744 (Substitute S-3 as reported by the Committee of the Whole)
Sponsor: Senator Leon Stille
First Committee: Finance
Second Committee: Appropriations

**CONTENT**

The bill would amend the State School Aid Act to appropriate up to $30 million in fiscal year 1999-2000 from the State School Aid Fund for infrastructure payments to certain school districts; specify a legislative intent to continue to appropriate at least this amount annually; prescribe criteria that a school district would have to meet to qualify for funding under the bill; and limit each district's allocation to one-half of its interest on qualified bonds, not to exceed $2 million per fiscal year. (If the total allocated to all districts were less than the total appropriated in that fiscal year, the maximum allocated to a district could be up to $3 million.)

The bill would require the Department of Treasury to allocate the appropriation to the school districts the Department determined to be eligible for funding. To be eligible for funding initially, a district would have to meet the following conditions:

-- The district would have to apply to the Department for a determination of eligibility.
-- The Department would have to determine either that the district was among the lowest one-third of districts in Michigan in "taxable value per membership pupil", or that at least 50% of the district's membership consisted of pupils who met the Act's income eligibility standards for at-risk funding, using the most recent data available as of the date of the application. (The Department would have to make this determination and notify the district in writing within 30 days after receiving the application.)
-- The electors of the district would have to approve the issuance of "qualified bonds" of the district at an election held either between September 1, 1999, and January 1, 2000, or within 90 days after the district received the notification of the determination of eligibility.
-- The district would have to levy at least seven mills for the payment of principal and interest on its qualified bonds, including both existing mills and millage approved in an election held under the bill.

The amount allocated each fiscal year to an eligible district (subject to the $2 million or $3 million yearly maximum) would be equal to 50% of the sum of the interest the district was contractually obligated to pay during that fiscal year on qualified bonds of the district authorized in its election, plus the amount of the interest owed to the School Bond Loan Fund for that fiscal year for loans to the district to pay for the debt service the district was contractually obligated to pay on qualified bonds of the district authorized in the election.

(Article 9, Section 16 of the State Constitution allows the State to make loans to a school district, under certain conditions, to pay principal and interest on its qualified bonds. Section 16 defines "qualified bonds" as general obligation bonds of school districts issued for capital expenditures, including refunding bonds, issued before May 4, 1955, or issued and qualified pursuant to Section 16. The School Bond Loan Fund provides for loans to school districts for payment of principal and interest on a school district's qualified bonds.)

Proposed MCL 388.1627 Legislative Analyst: G. Towne

**FISCAL IMPACT**

**State Impact:** The impact on the State if Senate Bill 744 (S-3) became law would be a cost of up to $30 million, paid from the School Aid Fund. It would be the intent of the Legislature that the $30 million be a yearly appropriation in the School Aid Act.

The actual expenditure from this grant program would depend on the number of districts eligible for and participating in the program. Since it is unknown how many districts would qualify for funding in the first year, the precise fiscal impact is also unknown. However, it is anticipated that the entire $30 million appropriation would be spent by the third year of the program, using statewide averages of bonding amounts and voter approvals for the analysis.

**Local Impact:** The infrastructure grant program proposed in Senate Bill 744 (S-3) would affect eligible districts differently, based on their infrastructure needs. Since this proposal would pay one-half of the interest payments on qualified debt, the amount of debt undertaken would determine the local impact.

The fiscal year 1997-98 statewide average bond issue was $17 million. Assuming an interest rate of 5.5% and loan length of 25 years, the first-year interest payment on this debt would be $925,000. If a district received funding under this program and assumed this debt, the local impact on the district would be a first-year saving of $462,500 (one-half of the interest cost of $925,000), assuming that the district remained qualified under the parameters of the legislation.

Because the annual payment made by the school district would be a fixed payment based on a fixed interest rate, the portion of the annual payment in accrued interest would decline each year. The effect could be that, because the proposal is based on the State's paying one-half of the interest portion of the payment only, the district's payment on the principal portion of the payment would continue to increase every year.

Districts with the lowest taxable value could be affected the most since their taxable values may grow very little from year to year. Thus, districts whose taxable values did not grow enough to make up the difference in the increase in the district's portion of the annual loan payment would have to levy additional millage in order to meet their obligation.

Since each district's infrastructure needs are different, varying amounts of debt would be incurred. Therefore, the local impact of this proposal on eligible districts receiving funding would depend upon the amount of qualified bonds issued. This bill would have no fiscal impact on districts not eligible or not receiving funding under this section.

It is important to note that once the $30 million had been fully allocated, no new districts would be able to participate in the program unless one of three conditions was met: 1) a district previously eligible and receiving funding in the program became ineligible in a given fiscal year (e.g., taxable value per pupil increased and the district was no longer in the lowest one-third); 2) a district previously eligible and receiving funding in the program paid off its debt, thereby freeing up the dollars appropriated for that district's interest payments; or 3) as amortization of loans occurred over the life of the bond, the State's grant would decrease corresponding to the declining interest payment, thereby freeing up dollars previously allocated.

Date Completed: 10-13-99

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