Senate Fiscal Agency
P. O. Box 30036
Lansing, Michigan 48909-7536

SFA BILL ANALYSIS

Telephone: (517) 373-5383
Fax: (517) 373-1986
TDD: (517) 373-0543

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

Date Completed: 1-31-00

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 (except under certain circumstances).

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

-- 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 at least 50% of the district's membership consisted of pupils eligible for free lunch, 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, combining existing debt with bonds issued under the bill.

(The bill would define "taxable value per membership pupil" as a district's taxable value as determined by the Department, for the calendar year ending in the current State fiscal year, divided by the district's membership for the school year ending in the current State fiscal year. 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.)

After a district was determined initially to be eligible for funding and received its first allocation, the district would continue to be eligible each subsequent fiscal year in which the district was among the lowest one-third of districts in the State in taxable value per membership pupil or at least 50% of the district's pupils were eligible for free lunch (using the most recent data available), and in which the district was levying at least seven mills for the payment of principal and interest on its qualified bonds, until the amount of the allocation to the district was zero.

The amount allocated under the bill each fiscal year to an eligible district, not to exceed $2 million per year, would be an amount 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 authorized in the election. (Public Act 112 of 1961 created the School Bond Loan Fund to provide for loans to school districts for payments of principal and interest on a school district's qualified bonds.) In a fiscal year in which the total amount of all allocations to districts was less than the total appropriated under the bill for that year, the maximum amount allocated to a particular district would be $3 million instead of $2 million. The $2 million maximum could be exceeded only if the allocations to all districts with allocations less than the maximum were fully funded. If the amount available for paying additional amounts were not sufficient to fund fully all districts that exceeded the maximum allocation allowed, then the additional amounts to the districts would have to be prorated on an equal percentage basis.

In making allocations to districts for a particular fiscal year, the Department first would have to fund fully the amount of the allocation to each district that received an allocation for the immediately preceding fiscal year and that continued to be eligible. The Department would have to use the remaining appropriated funds to fund fully as many districts as possible that initially were determined to be eligible for funding during that fiscal year, giving priority based on the date of the election at which the bonds were approved.

A district that received an allocation under the bill would have to report certain excess revenue it was receiving to the Department. That is, if a district borrowed money from any source for repayment of the qualified bonds, or levied debt millage, so that the amount borrowed or revenue generated together with the allocation exceeded the amount the district was contractually obligated to pay on the debt service for the bonds, the district would have to report that excess to the Department to take into account in administering the School Bond Loan Fund. If the Department determined that a district had violated this provision, the district would be ineligible for further funding under the bill.

To receive money under the bill, a district would have to submit in the form and manner prescribed by the Department all information it requested to administer the allocation. This would include, but not be limited to, information requested by the Department to determine that a district was initially qualified for an allocation, and to determine continued eligibility and the amount of the district's allocation.

Beginning in 2000, and before December 1 each year thereafter, the Department would have to submit to the Senate and House Appropriations Committees and the Senate and House Fiscal Agencies a report concerning funding under the bill in the preceding fiscal year. The report would have to include at least the following:

- Identification of each school district that applied for and received funding in the preceding fiscal year.
- For each district that received funding, the date of the election held as prescribed in the bill and the total amount of the bond issue authorized at that election; the total amount of interest the district was contractually obligated to pay during that fiscal year on the qualified bonds authorized at that election; and the total amount of funding the district received under the bill for that fiscal year.
- For each district that applied for, but did not receive, funding for the preceding fiscal year, the date of the election and the total amount of the bond issue authorized at that election; and the total amount of interest the district was contractually obligated to pay during that fiscal year on the qualified bonds authorized at that election.

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.

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.

Fiscal Analyst: K. Summers-Coty
J. Carrasco