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# SCHOOL BONDING PROPOSAL

**Senate Bill 142 as passed by the Senate**
**Sponsor: Sen. Valde Garcia**

**House Committee: Commerce**
**Senate Committee: Education (discharged)**

**Complete to 6-4-02**

## A SUMMARY OF SENATE BILL 142 AS PASSED BY THE SENATE

The bill would amend the Revised School Code (MCL 380.1272d et al.) to implement the school infrastructure improvement bond that would be placed on the November 2002 ballot under the provisions of Senate Bill 1137. The bill specifies that "the legislature finds and declares that the school infrastructure improvement programs implemented [under the bill] are a public purpose and of paramount public concern in the interest of the health, safety, and general welfare of the citizens of this state". The state would borrow up to $1 billion and place the proceeds in a state school infrastructure improvement bond fund. School districts could issue bonds with a state interest subsidy (ranging from 10 to 100 percent, based on taxable value per pupil), and public school academies could receive no-interest loans from the state fund, to make infrastructure improvements. For the first three years after money was available in the fund, 20 percent of the money in the fund would be restricted to be used only for purchasing bonds from school districts with taxable value per pupil in the lowest 20 percent in the state, and $40 million would be set aside in a restricted subaccount to be used for interest-free loans to public school academies. The maximum amount that could be used for a particular school district would be 10 percent of the money in the fund.

School Infrastructure Improvement Bond Fund. The bill would create the Michigan School Infrastructure Improvement Bond Fund in the state treasury. The fund would consist of the proceeds of the bonds issued under the bill, any premium and accrued interest received on the delivery of the bonds, interest or earnings generated by the bonds, repayments of bonds purchased from school districts, and repayments of loans to public school academies. The state treasurer would direct the investment of the fund, would be required to expend the bond proceeds in an appropriate manner to maintain the tax exempt status of the bonds, and would be required to submit an annual accounting of the bond proceeds to the governor and to the legislative appropriations and education committees. The unencumbered balance of the fund at the close of each fiscal year would remain in the fund and not lapse to the general fund.

Money in the fund could be used only to pay for the cost of issuing bonds and related costs, to provide interest subsidies to school districts, and to make interest-free loans to public school academies.

Infrastructure improvements. Loans and interest subsidies under the bill could only be used for "acquisition, construction, or major renovation" of school buildings. This would mean purchasing, erecting, completing, or equipping or re-equipping school buildings or parts of or additions to school buildings, or the renovation of an existing building that affects at least 50 percent of the square footage of the building.

Interest subsidy for school districts. Money in the fund would be used to subsidize all or part of the interest on bonds issued by school districts and approved by school electors on or after June 1, 2002. The amount of the interest subsidized by the state would be based on a school district's taxable value per pupil. Subsidies would range from 10 percent for school districts with taxable value per pupil in the highest 20 percent in the state, to 100 percent for districts with taxable value per pupil in the lowest 20 percent in the state. (School districts receiving less than 100 percent interest subsidy would have to issue two separate bonds, for the subsidized and unsubsidized portions of a total bond issue.) The amount of the state subsidy that a school district would otherwise be eligible to receive would be increased by 10 percentage points if at least 50 percent of the district's pupils meet the income eligibility criteria for free or reduced-price lunch under the National School Lunch Act.

State-subsidized bonds to school districts would be issued for a term of not more than 30 years, except that for a school district with a taxable value per pupil in the lowest 1 percent in the state, the term of the bond could be for a number of years needed to repay the bond while levying 4 mills in property taxes.

Interest-free loans to public school academies. A public school academy could borrow an amount of up to $581 per pupil for infrastructure improvements. To qualify, a public school academy would have to apply to the treasury department and include a resolution of its board of directors requesting the loan and documenting that the academy owns the building. The Department of Treasury would have to enter into a loan agreement with a loan recipient, specifying at least the term of the loan and the manner of repayment. Loans would be secured by the real and personal property of the public school academy.

Terms and conditions of bonds. The bill specifies procedures and requirements for the issuance of bonds. Among other provisions, the bill would authorize the state administrative board to approve insurance contracts, agreements for lines of credit, and similar transactions to provide security, and to approve interest rate swaps, hedges, or similar agreements in connection with issuing bonds. The first infrastructure bond issuance would have to be structured so that debt payments would not begin before October 1, 2003.

The infrastructure bonds would be fully negotiable under the Uniform Commercial Code, and the bonds and their interest would be exempt from taxation by the state and its political subdivisions. The bonds would be securities in which financial institutions, insurance companies, and fiduciaries could properly and legally invest funds.

Bonds and loans made under the bill would not be subject to the Revised Municipal Finance Act, but would be subject to the Agency Financing Reporting Act (proposed in Senate Bill 1201).

Michigan Information Network. The Department of Information Technology would be encouraged to prepare and implement a state plan for creation of a Michigan Information

Network linking each local school district, intermediate school district, public school academy, community college, independent nonprofit college or university in Michigan, state public university, and each state, local or regional library on an equal basis by fiber optic or coaxial cable or other comparable system, allowing a world-class statewide interactive video and data access and exchange system. All educational entities in the state would be encouraged to participate in the Michigan Information Network and in similar networks or systems, and would be encouraged to use computer, telecommunications, and other interactive technology to develop and use distance learning for educational purposes.

Repealed sections. The bill would repeal two outdated sections of the code.

Tie-bar. Senate Bill 142 would not take effect unless Senate Bill 1137 (which would place before the voters at the November, 2002 general election the question of issuing $1 billion in general obligation bonds to fund school infrastructure improvements) was enacted into law, and unless the voters approved the bond issue.



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