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UPDATE SCHOOL-RELATED BONDING REFERENCES

House Bill 5404 as introduced
Sponsor: Rep. Jason Allen

House Bill 5405 as introduced
Sponsor: Rep. Michael Bishop

House Bill 5406 as introduced
Sponsor: Rep. Larry DeVuyst

House Bill 5407 as introduced
Sponsor: Rep. Judson Gilbert II

House Bill 5408 as introduced
Sponsor: Rep. Jim Howell

House Bill 5409 as introduced
Sponsor: Rep. James Koetje

House Bill 5410 as introduced
Sponsor: Rep. Mary Ann Middaugh

House Bill 5411 as introduced
Sponsor: Rep. Mickey Mortimer

House Bill 5412 as introduced
Sponsor: Rep. Gerald Van Woerkom

House Bill 5413 as introduced
Sponsor: Rep. Steve Vear

House Bill 5414 as introduced
Sponsor: Rep. Samuel Buzz Thomas

House Bill 5415 as introduced
Sponsor: Rep. Chris Kolb

House Bill 5416 as introduced
Sponsor: Rep. LaMar Lemmons III

House Bill 5417 as introduced
Sponsor: Rep. Alexander C. Lipsey

House Bill 5418 as introduced
Sponsor: Rep. Joseph Rivet

House Bill 5419 as introduced
Sponsor: Rep. Mary D. Waters

House Bill 5420 as introduced
Sponsor: Rep. Paula K. Zelenko

House Bill 5421 as introduced
Sponsor: Rep. Wayne Kuipers

House Bill 5422 as introduced
Sponsor: Rep. Tom Meyer

House Bill 5423 as introduced
Sponsor: Rep. Mike Pumford

Committee: Commerce
First Analysis (11-27-01)

THE APPARENT PROBLEM:

Public Act 34 of 2001 (Senate Bill 29) created the Revised Municipal Finance Act, which has an effective date of March 1, 2002. According to the tax specialists who drafted the new act, its goals include writing clearer rules for municipalities to follow in issuing debt, eliminating obsolete provisions, providing additional tools for municipalities to reduce costs to taxpayers and ratepayers, and establishing more efficient and effective oversight of municipal debt issues by the Department of Treasury, in part through a simplified state approval process. The new act is intended to be a comprehensive guide;

municipalities that are issuing municipal securities must follow the act. The term "municipality" comprises counties, townships, cities, villages, school districts, intermediate school districts, community college districts, metropolitan districts, port districts, drainage districts, library districts, and other similar entities with the power to issue a security. A great many separate statutes deal with municipal borrowing, with each typically applying to a kind of municipality or specific kind of project. Tax specialists say that these laws need to be amended so that they conform to and properly refer to the revised act.

THE CONTENT OF THE BILLS:

Each of the bills would amend school-related bonding provisions to update references, principally aimed at making them conform to the recently enacted Revised Municipal Finance Act. House Bill 5404 and House Bills 5407-5418 would all amend the Revised School Code (MCL 380.1 et al.) to make bonding provisions refer to the Revised Municipal Finance Act and to delete references to the previous Municipal Finance Act. House Bill 5419 would amend the State School Aid Act in the same way.

House Bill 5420-5423 would amend the Community College Act (MCL 389.122 et al.) in a similar fashion and also in several cases to refer to the Revised School Code (rather than the earlier code). The sections amended by House Bills 5421 and 5422 allow community colleges to borrow to finance a wide variety of educational facilities and to borrow to secure funds for operating expenses, respectively, and say such notes or obligations are not subject to the Municipal Finance Act. The two bills would amend the sections to say that such notes and obligations would be subject to the Revised Municipal Finance Act (and to the Revenue Bond Act, in the case of borrowing for facilities under House Bill 5421).

House Bill 5405 would amend Public Act 108 of 1961 (MCL 388.954), which deals with loans by the state to school districts, to make it refer to the Revised School Code (rather than the previous school code) and to delete a reference to the need for prior approval of the Department of Treasury for the issuance of certain bonds. (The new comprehensive act on municipal finance puts in place a different kind of state approval system that would apply instead.)

House Bill 5406 would repeal Public Act 12 of 1973 (MCL 388.251-271), an obsolete act providing emergency financial assistance to school districts. The loan provisions of that act expired June 30, 1974.

A number of the bills strike provisions dealing with subjects that are covered in the new comprehensive act. The subjects referred to include interest rate caps (House Bills 5415, 5416, and 5420); the length of time for which bonds can be issued (House Bills 5407, 5408, 5415, 5420, and 5421); and the state bond approval process, which has been revamped by the new comprehensive act (House Bills 5405, 5411, and 5415).

Several of the bills (House Bills 5404, 5407, 5408, 5413, and 5420) also would substitute the term "taxable value" for the term "state equalized valuation" to reflect the change in the way that real property is taxed as a result of the assessment cap imposed with the passage of Proposal A in 1994.

BACKGROUND INFORMATION:

Explanations of the Revised Municipal Finance Act can be found in the analyses of Senate Bill 29 provided by the Senate Fiscal Agency (dated 8-7-01) and the House Legislative Analysis Section (dated 6-5-01).

FISCAL IMPLICATIONS:

Generally speaking, the House Fiscal Agency reports that the bills would have no fiscal impact. House Bills 5407 and 5408 would have an indeterminate fiscal impact, according to the agency. (Fiscal notes dated 11-5-01)

ARGUMENTS:

For:

The stated aim of the bills is to make a number of acts containing school-related bonding provisions comply with the recently enacted Revised Municipal Finance Act. That act, which takes effect on March 1, 2002, is intended to be a comprehensive guide to the issuance of municipal securities. The bills delete outdated references to the prior act and, generally speaking, eliminate provisions in a variety of statutes that conflict with or overlap those found in the new comprehensive act.

Response:

It should be noted that in some cases, the package would make borrowing by community colleges that is now exempt from the old Municipal Finance Act subject to the Revised Municipal Finance Act. Is this necessary?

Against:
Switching from the use of "state equalized valuation" to "taxable value" in bonding statutes can have substantive effects. With the passage of the cap on how much the assessment of a parcel of real property can increase from year to year, property taxes are now based on taxable value, which is a lower value than SEV. So, for example, if a statute limits borrowing to a percentage of SEV, changing the statute to limit borrowing to a percentage of taxable value will lower the borrowing limit unless, of course, the percentage is adjusted upwards to make the provision neutral in impact. While it makes sense to use taxable value (since it is the basis for property taxes) throughout state statutes, making the change can be complicated.

Response:
It is anticipated that the provisions changing from SEV to taxable value will be removed from the legislation in those cases where they would result in substantive policy changes (such as borrowing limits).

POSITIONS:

The Department of Treasury has no position on the bills at present but is continuing to examine them for their potential effect. (11-20-01)

The Michigan Association of Community Colleges is opposed to House Bills 5420-5423. (11-26-01)

Analyst: C. Couch

■This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.