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 1137 (Substitute S-2 as reported)
Sponsor: Senator Leon Stille
Committee: Education

CONTENT

The bill would create the "Michigan School Infrastructure Improvement Bond Authorization Act" to require the State, with voter approval, to issue up to $1 billion of general obligation bonds. The maximum amount of the bond proceeds that could be used for a single school district would be 10%. The proceeds would have to be spent for the following purposes:

-- To subsidize all or part of the interest on bonds issued by school districts and approved by school electors after June 1, 2002. The amount of the interest to be paid by the State would be based on a school district's taxable value per pupil. Subsidies would range from 10% for districts whose taxable value per pupil was in the highest 20% in the State, to 100% for districts whose taxable value per pupil was in the lowest 20%. For a district not receiving 100%, the amount of the interest subsidy would by increased by 10 percentage points if at least 50% of its students met the Federal eligibility criteria for free or reduced-price lunch.

-- To finance the construction of school buildings for public school academies (PSAs) and special-needs school districts, under following conditions: The school building would be owned by the State and leased by the PSA or school district, with the State transferring ownership to the PSA or district when all of the scheduled payments had been met; the term of the lease and amount of lease payments would be prescribed by the Department of Treasury and agreed to by the PSA or district before the application was approved; and the PSA or district would bear all maintenance costs on the school building. The maximum amount of the bond proceeds that could be used to finance the construction of school buildings for PSAs would be $40,000,000.

Legislative Analyst: Claire Layman

FISCAL IMPACT

The cost to sell and repay general obligation bonds depends on how long the bonds are issued for, and the annual interest rate that must be paid on the bonds. Since this legislation essentially would create a grant program in which State would absorb the entire cost, and assuming 20-year general obligation bonds issued at a constant interest rate of 5%, the yearly cost to the State of the bonds would average $80 million, paid for with State General Fund/General Purpose revenue. This is determined by summing the debt service (interest cost) on the $1.0 billion general obligation bond (estimated at $584 million under these assumptions) plus the $1.0 billion bond itself, and dividing by 20 years. The total cost of the bonds therefore is estimated at $1.584 billion over 20 years, with a constant interest rate of 5%. Local districts that otherwise would issue bonds without an interest subsidy would experience savings due to this legislation, in the amount of the subsidy provided by the State.

Date Completed: 5-28-02 Fiscal Analyst: Kathryn Summers-Coty