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BILL ANALYSIS

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Senate Bills 572 and 573 (as introduced 6-10-03)
Sponsor: Senator Burton Leland
Committee: Appropriations

Date Completed: 6-17-03

CONTENT

Senate Bills 572 and 573 would amend State laws governing State loans to school districts and the repayment of these loans. These proposed changes are needed to implement the Governor's proposal to generate an estimated $100 million for the School Aid Fund by having school districts repay their outstanding loans from the School Bond Loan Fund (SBLF).

Early Loan Repayments under the SBLF. Schools have the constitutional right to borrow from the State to help make debt service payments on their own bonds through the School Bond Loan Fund (SBLF). Under this loan program, schools borrow money each April and October, and the State issues general obligation bonds to fund those loans. The State charges the school districts interest on the borrowed amounts until the school districts repay the State. The State, however, pays its bondholders more quickly than the school districts repay the State. School districts begin to repay the State only after they have paid their bondholders in whole. As a result, at any time, the amount owed by school districts to the State is usually greater than the amount owed by the State to its bondholders. This differential is unrealized and unrecognized equity for the State until the school district pays it back.

Governor's Proposal. Under the Governor's proposed plan, a number of school districts would borrow money from the Michigan Municipal Bond Authority to prepay the amount they owe the State. This amount would be at least equal to the amount of the difference between total school loans outstanding and total State bonds outstanding on a specific settlement date. That amount would be reduced by the costs to school districts and the Michigan Municipal Bond Authority associated with borrowing. The schools would pay that amount to the State, thus permitting the State to recognize the equity and make it available to the State School Aid Fund. To help encourage school districts to participate voluntarily in this loan repayment plan, the bills propose that the State would reimburse schools for costs they would incur in issuing the new bonds they would sell to the Michigan Municipal Bond Authority.

The specific changes contained in each of these bills are described below:

<u>Senate Bill 572</u> would amend Public Act 108 of 1961, which provides for the State of Michigan to make loans to school districts and for school districts to repay these loans, to make the following changes:

- Loan prepayments from school districts would be reduced by the amount of the costs the school districts would incur when issuing new bonds to obtain the funds needed to make the loan prepayments.

- School districts issuing new bonds to prepay their existing SBLF loan debt would be required to sell these bonds to the Michigan Municipal Bond Authority.

- The settlement date for paying off the existing loans and appropriately paying off callable SBLF bonds would be determined by the State Treasurer.

- School districts participating in this loan prepayment program would receive a certificate of qualification from the state treasurer, which would entitle these school districts to receive the State's bond rating on the new bonds they would be issuing.

- Bonds sold to the Michigan Municipal Bond Authority under this repayment program would be considered loans for purposes of calculating a school district's computed millage rate.

- Proceeds from the repayments would be deposited into the General Fund.

Senate Bill 573 would amend the Shared Credit Rating Act to allow the Michigan Municipal Bond Authority to purchase bonds from school districts participating in the proposed loan repayment program. These bond purchases would not be subject to existing limits on the amount of bonds the Authority may purchase from school districts.

Proposed MCL 388.959c (S.B. 572)
MCL 141.1058 (S.B. 573)

FISCAL IMPACT

Based on information from the Department of Treasury, after the appropriate prepayments and reimbursement to the participating school districts for the costs they would incur in issuing their new bonds, the bills would generate an estimated $100 million for the State's General Fund. (According to the Administration, additional legislation is being drafted to transfer this net gain in revenue to the School Aid Fund).

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