Legislative Analysis

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SCHOOL BOND LOANS INTEREST RATE

Senate Bill 1005
Sponsor: Sen. Jelinek

Committee: Appropriations

Complete to 2-21-06

SUMMARY:

Article IX, Section 16 of the State Constitution requires the state to provide loans to school districts under certain circumstances which is done through the School Bond Loan Fund (SBLF). In July of 2005, a major overhaul of the School Bond Loan Fund was enacted. One of the major changes was the replacement of the old SBLF with a new revolving fund. Under the old system the State issued bonds, incurred the interest costs on the debt, and loaned funds to school districts. Districts would eventually pay back the State at a slower pace than the State had to pay back the debt, thus generating debt service on the loans which were paid by the school aid fund. Under the new revolving fund the current SBLF loans are repaid to the revolving fund and then those funds are used to loan out to other school districts as needed. Before a school district could borrow from the revolving fund they would be required to pay back the existing debt. Thus the State would no longer incur the debt service costs on new loans made to school districts under the revolving fund.

THE CONTENT OF THE BILL:

The new School Bond Qualification, Approval, and Loan Act created a self-sustaining revolving fund whose proceeds will be available for loans to school districts. Under the previous Act, the interest rate charged to school districts on SBLF loans was based on the average cost of funds issued under Article IX, Section 16, rounded to the nearest $1/8^{th}$ of a percent. When SB 406 (Legislation that created the SBLF Revolving Fund) was first introduced, it contained a change in the interest rate charged to the average cost of funds **plus** $1/8^{th}$ of one percent (0.125%). This charge would cover the anticipated costs of implementing loans under the new revolving fund and avoid any default potential. However, this interest rate change was inadvertently removed when the Jobs Today language was removed from the original legislation.

SB 1005 would correct the omission by including the change in the interest rate on loans from the SBLF Revolving Fund.

The bill also would add a provision that will be necessary once all the "old" SBLF State debt is repaid in 20-25 years. At that time the State no longer will have outstanding general obligations under Section 16 of Article IX, of the State Constitution. Under the bill, the new basis on which to calculate the average cost of funds would then be all State general obligations issued under Section 15 of Article IX.

FISCAL IMPACT:

If this bill is not enacted additional General Funds or School Aid Funds would be necessary to cover the costs of the revolving fund and issuing loans to districts since interest rate charges to districts will be insufficient to cover the costs.

Local districts would see a small increase in the interest rate charged on school bond loans under this legislation. Current law charges for loans are the average cost of funds rounded to the nearest 1/8th of one percent. This bill would change the interest rate to the average cost of funds plus 1/8th of one percent (0.125%).

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