

Legislative Analysis



SCHOOL NOTES DUE IN 13 MONTHS

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House Bill 6069 as introduced
Sponsor: Rep. Rick Baxter
Committee: Education

First Analysis (5-17-06)

BRIEF SUMMARY: The bill would extend by one-month the date that notes would be due when school districts borrow money in anticipation of state school aid to secure funds for school operations.

FISCAL IMPACT: The bill would create minimal additional borrowing costs for school districts, but according to the Department of Treasury, it would allow school districts to avoid potential fines estimated at up to \$225,000 for the current year.

THE APPARENT PROBLEM:

School districts sometimes borrow money—selling their debt in the form of bonds—from the Michigan Municipal Bond Authority, in order to ease their cash flow in August of each year. When they do so, they pledge as repayment the school aid payments the districts expect to receive from the state. The bonds must be repaid in full one year following their issue, as required under the Revised School Code.

Under the School Aid Act, school aid payments are made to districts on the 20th day of each month, or on the preceding business day if the 20th does not fall during the work week. For example, for Fiscal Year 2006, a school district's state aid payment would be anticipated on Sunday, August 20, but would be received on Friday, August 18th. Bonds sold a year earlier on August 18, 2005 would come due on August 18th, the same day as the school aid payment was forwarded electronically by the state treasurer.

However, school districts selling bonds on August 18th in 2006 to raise cash for the coming year will have full payment due no later than August 18, 2007—two days before their Monday, August 20th state aid payment. Failure to repay the bonds on their due date would result in an estimated interest payment by schools statewide of about \$225,000, according to the Bureau of Bond Finance in the Michigan Department of Treasury.

Legislation has been introduced to allow school districts to repay their bonds within a 13-month period, rather than the 12-month period that is currently required.

THE CONTENT OF THE BILL:

House Bill 6069 would amend the Revised School Code to extend by one-month the date that notes would be due when school districts borrow money in anticipation of state school aid to secure funds for school operations.

Currently under the law, school districts are allowed to pledge money to be received from state school aid for the payment of notes issued. The notes are full faith and credit obligations of the school district, and are payable from tax levies or from unencumbered funds of the district, in the event of the unavailability or insufficiency of state school aid. The law now requires that notes be repaid not later than 12 months after the date on which they are issued. Under House Bill 6069, notes would have to be repaid not later than 13 months after they were issued.

MCL 380.1225

ARGUMENTS:

For:

School districts selling bonds to the Municipal Bond Authority on August 18, 2006 in order to raise cash for the coming year, will have full payment due no later than August 18, 2007—two days before their Monday, August 20, 2007 state aid payment. Failure to repay the bonds on their due date would result in an estimated interest payment by schools statewide of about \$225,000, according to the Bureau of Bond Finance in the Michigan Department of Treasury. This legislation would give the school districts an extra month to repay their debt, saving them interest and penalties.

POSITIONS:

The Michigan Department of Treasury supports the bill. (5-17-06)

The Michigan Education Association is neutral on the bill. (5-17-06)

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