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BILL ANALYSIS

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Senate Bill 1005 (as introduced 1-25-06) *(as enrolled)*
Sponsor: Senator Ron Jelinek
Committee: Appropriations

Date Completed: 2-14-06

CONTENT

The bill would amend the School Bond Qualification, Approval, and Loan Act to change the interest rate charged to districts on loans made from the School Loan Revolving Fund, and add a provision under which the State's general obligations issued under Article IX, Section 15 of the Constitution would be used as the basis to calculate the average cost of funds in the event there are no further outstanding general obligations under Article IX, Section 16.

Enacted in July 2005, the School Bond Qualification, Approval, and Loan Act replaced the previous School Bond Loan Fund (SBLF) Act. The new Act created a self-sustaining revolving fund whose proceeds will be available for loans to districts. Under the previous Act, the interest rate charged to 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 one percent. When the bill that became the new Act (Senate Bill 406) was introduced, it contained a change in the interest rate charged on the loans made from the revolving fund. That is, the interest rate would have been changed to the average cost of funds *plus* $1/8^{th}$ of one percent (0.125%) to cover the anticipated costs of implementing loans under the new revolving fund and any default potential. However, this interest rate change was inadvertently omitted from all of the substitutes for the bill (although the Senate Fiscal Agency analysis provided to Senators throughout the process continued to show the proposed change in the interest rate).

Senate Bill 1005 would correct the omission by including this change in the interest rate on loans from the School Loan Revolving Fund.

The bill also would add a provision that will be necessary once all of the existing (old) SBLF State debt is repaid. By instituting a revolving fund, the State will no longer issue general obligation (GO) debt to provide SBLF loans to districts, and thus the "general obligations issued under Section 16 of Article IX" will cease to exist in 20-25 years. Since current law requires that the interest charged to districts be based on the average cost of funds issued under that section, the bill would provide for an interest rate calculation once that GO debt is repaid. Under the bill, when the State has no outstanding general obligations under Section 16, the basis on which to calculate the average cost of funds would be all State general obligations issued under Section 15.

MCL 388.1929

FISCAL IMPACT

State: If the bill is not enacted, the State will see additional costs to the General Fund since the interest rate charged to districts will be insufficient to cover the costs of implementing the revolving fund and issuing loans to districts.

Local: Districts that obtain loans from the revolving fund would see a slight rise in the interest rate charged on those loans, under the bill. While previous law charged the average cost of funds rounded to the nearest $1/8^{th}$ of one percent, this bill would change the interest rate to the average cost of funds plus $1/8^{th}$ of one percent.

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