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BILL ANALYSIS

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House Bill 6205 (as passed by the Senate)
Sponsor: Representative Pam Byrnes
House Committee: Appropriations
Senate Committee: Appropriations

Date Completed: 7-24-08

CONTENT

The bill would amend the Higher Education Loan Authority Act to allow the Michigan Higher Education Student Loan Authority, with the approval of the State Treasurer, to establish one or more special reserve funds. Any money transferred or appropriated to a special reserve fund could be used only to provide security for bonds issued by the Authority. The Authority's loan portfolio is currently structured such that only the income from underlying student loans is available for the repayment of bond obligations. The bill would allow the establishment of a reserve fund, financed by any available Authority revenue, for payment of debt service if student loan income were insufficient.

The Michigan Department of Treasury is requesting this change because the disruption in the capital markets caused by the credit crisis has increased debt service costs for the Authority. The Department believes that investors will view the addition of special reserve funds as an enhancement to the overall security of their investment, resulting in a potential reduction in debt service costs in the long term. In the short term, the addition of this reserve fund mechanism would enhance the likelihood that banks will provide letters of credit to the Authority to support the issuance of Variable Rate Demand Obligations (VRDOs); the Department of Treasury reports that a letter-of-credit-backed VRDO is currently the only financing structure acceptable to the market to raise capital for new student loans.

MCL 390.1155

FISCAL IMPACT

The bill would not increase costs for the State or for local units of government but would allow the Michigan Higher Education Student Loan Authority to pay into a reserve fund: proceeds from bond sales, any portion of the Authority's net assets, or any State appropriation. The Authority would be required to establish by resolution a minimum balance for the reserve fund. If at any time a reserve fund were to be exhausted, the bill would require the Governor and the State Budget Director to include an appropriation in the next annual budget submitted to the Legislature, to restore the balance in the reserve fund.

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This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.