



Senate Fiscal Agency  
P. O. Box 30036  
Lansing, Michigan 48909-7536



Telephone: (517) 373-5383  
Fax: (517) 373-1986

Senate Bill 955 (as introduced 5-21-14)  
Senate Bill 978 (as introduced 6-11-14)  
Sponsor: Senator John Pappageorge (S.B. 955)  
Senator Roger Kahn, M.D. (S.B. 978)  
Committee: Appropriations

Date Completed: 7-14-14

### **CONTENT**

#### **Senate Bill 955 would amend the Emergency Municipal Loan Act to do the following:**

- **Increase the total amount of loans that the Emergency Financial Assistance Loan Board is authorized to make to school districts from \$50.0 million to \$100.0 million through September 30, 2018.**
- **Revise the eligibility criteria for loans.**
- **Eliminate requirements that restrict the ability of the Board to restructure repayments on existing emergency municipal loans.**

#### **Senate Bill 978 would amend Public Act 105 of 1855, which governs the disposition of surplus funds in the State Treasury, to do the following:**

- **Remove the current limitations on the amount of surplus funds that can be loaned to municipalities and school districts during the period from fiscal year (FY) 2011-12 to FY 2017-18.**
- **Replace the current loan limits with references to the limits under the Emergency Municipal Loan Act.**

The Emergency Financial Assistance Loan Board was established by Public Act 243 of 1980 to provide for emergency loans to a county, city, village, township, and, for the period from FY 2011-12 to FY 2017-18, an eligible school district. During that period, the Board is authorized to loan up to \$35.0 million to eligible municipalities that are not school districts and up to \$50.0 million to eligible school districts, but not more than \$20.0 million to a single entity. The same limitations on loan amounts during the period from FY 2011-12 to FY 2017-18 also appear in Public Act 105 of 1855.

Beginning in FY 2018-19, the Emergency Municipal Loan Act limits loans to cities, villages, townships, and counties to not more than \$10.0 million in loans in a State fiscal year and a maximum loan to a single municipality of \$4.0 million in a State fiscal year.

Senate Bill 955 would increase the amount of loans that may be made to school districts from \$50.0 million to \$100.0 million through FY 2017-18. The bill would add an eligibility option for a loan to a school district. A school district with a general fund deficit, that has already issued school aid anticipation notes, and submitted a five-year financial plan for balanced budgets, would be allowed to receive a loan if the Department of Treasury determined that the loan would assist the school district in the resolution of a financial emergency or fiscal stress. This optional criterion would be more generally applicable than the current requirement that the

school district has had pupil membership declines over the preceding three State fiscal years of 15.0% or more.

Currently, for a school district, loan restructuring is an option only in a State fiscal year in which the foundation allowance for the affected school district is lower than the foundation allowance for that district in the year the loan was issued. Similarly, for a municipality other than a school district, loan restructuring can be approved only in a year when the total of statutory revenue sharing and economic vitality incentive program money to that municipality is lower than in the fiscal year when the loan was authorized. The bill would eliminate these requirements for approving the restructuring of payments. The bill would retain other current requirements for restructuring loan payments, including the requirements that the municipality be in compliance with the terms of the loan, with a deficit elimination plan, and a consent agreement or emergency manager order, and the requirements for receiving the foundation allowance or statutory revenue sharing, as applicable.

Senate Bill 978 would Public Act 105 of 1855 to remove the current loan limits that apply for the period from FY 2011-12 through FY 2017-18 and replace them with references to the limitations established in the Emergency Municipal Loan Act.

In addition, the bills would eliminate obsolete provisions. The requirement in the Emergency Municipal Loan Act that the municipality compensate an emergency manager would be eliminated. The Local Financial Stability and Choice Act now requires that the State compensate emergency financial managers.

Senate Bill 955 is tie-barred to Senate Bill 956 and Senate Bill 953, which are tie-barred to each other and to Senate Bill 952. Senate Bill 952 also is tie-barred to Senate Bills 951, 954, and 957.

Senate Bill 956 would amend the Revised School Code to provide for school financing stability bonds to eliminate a deficit or refund or refinance school aid anticipation notes. Senate Bill 953 would amend the Local Financial Stability and Choice Act to authorize the State Treasurer to declare a financial emergency and the Governor to appoint an emergency manager for a school district, if the school district does not submit or comply with an enhanced deficit elimination plan. Senate Bill 952 would establish an enhanced deficit elimination plan procedure in the Revised School Code.

MCL 141.933 et al. (S.B. 955)  
21.141 (S.B. 978)

### **FISCAL IMPACT**

The bills would increase the amount that the State is authorized to loan to school districts under the Emergency Municipal Loan Act from \$50.0 million to \$100.0 million through FY 2017-18. The Department of Treasury reports that of the \$50.0 million that was authorized for loans to school districts by Public Act 284 of 2012, only \$1.5 million in authority remains. The emergency loans are made to eligible municipalities (including school districts) from the State's common cash. The use of the State's common cash for these loans is authorized by Public Act 105 of 1855. Loan recipients are required to pay interest at a fixed or variable rate set by the Emergency Financial Assistance Loan Board according to directions in statute. Loans issued to date during FY 2013-14 have fixed rates of 2.65% to 3.45% and loan terms of five to 30 years. If interest rates increase over the period of these loans, the State could forego higher interest earnings on common cash due to the long-term, fixed rates on some of the loans currently outstanding. The State has the ability to determine the interest rate for future loans and could respond to changing financial market conditions. Assuming a stable interest rate

environment and that the loans are repaid or recovered by the State from payments due to the municipality, there is minimal risk of financial loss to the State from making these loans. The State's common cash is sufficient to make the loans that would be authorized by the bills without impairing the State's cash flow. The bill would provide the opportunity for additional emergency loans to school districts to cover operating expenses while deficits are resolved.

Fiscal Analyst: Elizabeth Pratt

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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.