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BILL ANALYSIS

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Senate Bill 955 (Substitute S-1 as passed by the Senate)
Senate Bill 978 (as passed by the Senate)
Sponsor: Senator John Pappageorge (S.B. 955)
Senator Roger Kahn, M.D. (S.B. 978)
Committee: Appropriations

Date Completed: 12-15-14

CONTENT

Senate Bill 955 (S-1) 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 eligible cities, townships, villages, and counties from $35.0 million to $85.0 million through September 30, 2018.
-- Increase the total amount of loans that the 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 may be loaned to municipalities and school districts between fiscal year (FY) 2011-12 and FY 2017-18.
-- Replace the current loan limits with references to the limits under the Emergency Municipal Loan Act.

The Emergency Municipal Loan Act provides for the Emergency Financial Assistance Loan Board to make 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 (S-1) would increase the amount of loans that may be made to municipalities that are not school districts from $35.0 million to $85.0 million through FY 2017-18 and 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 may 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.

Senate Bills 955 (S-1) and 978 are tie-barred to Senate Bill 957. Senate Bill 955 (S-1) also is tie-barred to Senate Bill 953, which is tie-barred to Senate Bill 955. (Those bills are part of a package of legislation that would prescribe measures for financially distressed school districts. As passed by the Senate, Senate Bill 953 would amend the Local Financial Stability and Choice Act to allow the State Treasurer to declare that a financial emergency existed within a school district that failed to submit or comply with an enhanced deficit elimination plan, and recommend that the Governor appoint an emergency manager for the district. Senate Bill 957 (S-6), as passed by the Senate, would amend the Revised School Code to establish an early warning system for educational entities facing a potential financial emergency. The bill would require school districts and public school academies to report budget assumptions to the Center for Educational Performance and Information and require additional periodic financial reporting in certain situations.)

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

FISCAL IMPACT

As described above, the bills would increase the amount that the State is authorized to loan to municipalities and to school districts 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. For counties, cities, villages, and townships, approximately $29.7 million remains out of the $35.0 million currently authorized. Since October 1, 2011, two loans have been made to cities and 10 loans to school districts. 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, counties, cities, villages, and townships to cover operating expenses while deficits are resolved.

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