Legislative Analysis

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EMERGENCY MUNICIPAL LOANS

Senate Bill 822 (H-4) as passed the House on 6-2-16
Sponsor: Sen. Goeff Hansen
House Committee: Appropriations
Senate Committee: Government Operations
Complete to 6-3-16

SUMMARY:

Senate Bill 822 would amend the Emergency Municipal Loan Act to provide for loans to a qualifying district as part of a package to restructure Detroit Public Schools (DPS), along with other revisions to the program that would apply statewide.

Currently under the Emergency Municipal Loan Act, the loan board is allowed to authorize up to $48.0 million in loans to municipalities and up to $70.0 million in loans to school districts, but prohibits DPS from receiving an emergency loan.

Primarily, the bill would amend the Emergency Municipal Loan Act to eliminate the prohibition on emergency loans to DPS and add additional authorization for an emergency loan to a qualifying district (the former DPS district) of up to $150.0 million. The bill allows the emergency loan to be used for transitional operating costs, which could include, but would not be limited to, academic and instructional support, professional transition costs, payments to vendors, costs related to changes in timing of grant funding or reimbursements, cash flow needs, insurance, academic program expenditures, deferred facilities maintenance (capped at $25.0 million), space consolidation, and facilities rationalization.

Additionally SB 822 would amend the act to do all of the following:

- Currently, revenue for emergency loans is provided from state surplus funds (common cash). SB 822 would expand this to include revenue from the repayment proceeds of other loans issued under the act or sold or transferred under Section 6a of the act.
- Currently, the act allows Treasury to withhold revenue sharing payments to municipalities on delinquent emergency loan payments. SB 822 would expand this to include withholding a municipality's portion of revenue generated by the local community stabilization share tax, which reimburses municipalities for a portion of lost personal property tax revenue related to the personal property tax phase-out under the 2014 referendum on PA 80 of 2014.
- Currently, the act requires that a municipality meet at least one of a number of conditions to qualify for an emergency loan, and SB 822 would expand the list of conditions to include a municipality that had issued notes under Sec. 1356 or Sec. 1356a of the Revised School Code or a municipality that is in the neutral evaluation process or a settlement agreement.

SB 822 also would repeal Section 5, which is specific to loans provided prior to 2011, and Section 8, which requires a municipality with an emergency loan to submit a progress report on measures taken to improve fiscal management.

The bill is tie-barred to House Bill 5384.

FISCAL IMPACT:

The bill would allow the former DPS district to receive an emergency loan of up to $150.0 million to finance up to $150.0 million of existing debt, cash-flow shortages, and deferred facilities maintenance for the community district through a longer-term loan from the state. This would provide the district some flexibility to restructure debt service payments given that the annual 18-mill local revenue that will be redirected to pay debts will not generate enough in the near term to pay all of the immediate obligations. Districts pay the state 2.5% interest on emergency loans. Allowing the loan to be used for transitional operating costs provides necessary cash flow for the community district to operate until it begins to receive state aid payments in October 2016.

Additionally, the bill would provide the State more flexibility in the revenue it uses to provide emergency loans by expanding available revenues to include loan repayment proceeds and would protect the state's investment by providing another mechanism to collect delinquent repayments through the withholding of local community stabilization share tax payments.

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