

Legislative Analysis



SCHOOL BOND LOAN PROGRAM REVISIONS

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<http://www.house.mi.gov/hfa>

House Bills 4496 & 4497 as introduced
Sponsor: Rep. Roger Victory
Committee: Financial Liability Reform
Revised as of 5-12-15

Analysis available at
<http://www.legislature.mi.gov>

(Enacted as Public Acts 96 & 97 of 2015)

BRIEF SUMMARY:

House Bills 4496 and 4497 would amend the School Bond Qualification, Approval and Loan Act to codify changes to the program with regard to the qualification of refunding bonds for districts that want to refinance existing qualified bonds and loans. The proposed changes have been implemented through administrative rules changes approved in 2014 (Administrative Rule Set 2013-106 TY). Background information regarding the program and a more detailed summary of each bill follows.

BACKGROUND:

Authorized by Article IX, Section 16 of the State Constitution, the School Bond Loan Program provides a credit enhancement on qualified school construction bonds that allows bonds issued by a school district to receive the state's credit rating. The program also authorizes districts to borrow funds from the state to make the debt service payments on qualified bonds (a bond approved by the department through the prequalification and qualification processes explained below), if the property tax rate necessary to make the debt service payments exceeds 13 mills (or a lesser millage rate established by the Legislature, which is currently 7 mills). Districts levy this millage rate each year, applying any excess revenue (above what is required for debt service obligations) to repayment of outstanding state loans, until they are repaid. The final loan repayment occurs not later than 6 years after the final maturity date of the qualified bonds, meaning that the millage may continue to be levied after the bonds have been paid off.

After a district's bonds are qualified by the department, the district determines the millage rate (i.e., computed millage) required to pay the debt service on all of the district's qualified bonds as well as the debt service required to repay any anticipated qualified loans on such bonds no later than the mandatory final loan repayment date specified in the loan agreement (i.e. no later than 6 years after the final maturity date of all of the qualified bonds.) The computed millage must be between 7 mills (statutory minimum) and 13 mills (constitutional maximum).

Reforms implemented in 2012¹ required the computed millage to be recalculated, at least annually, based on a variety of changes in circumstances, including the issuance of additional qualified bonds, the refunding (refinancing) of any qualified bonds, changes in

¹ For additional information on the 2012 reforms see the HFA analysis:
<http://www.legislature.mi.gov/documents/2011-2012/billanalysis/House/pdf/2011-HLA-0770-7713A03F.pdf>

loan interest rates, changes in taxable values, and changes in assumptions in the department's program guidelines. The annually recalculated computed millage would ensure that a school district's qualified bonds and loans would be repaid by the final mandatory repayment date. It should be noted that due to previous practices authorized under statute prior to 2012, a number of districts are unable to meet the final mandatory repayment date even if they levied 13 mills, the constitutional maximum. Under the 2012 reforms, districts that were unable to meet their final mandatory repayment date were required to increase their millage by an amount calculated through a statutory formula.

SUMMARY:

House Bill 4496 would amend Section 3 (MCL 388.1923) to change the annual computed millage floor for a school district participating in the School Bond Qualification and Loan Program. Current law authorizes a school district to lower its recalculated computed millage to the computed millage established pursuant to the most recent order qualifying bonds for that school district, or to the minimum levy prescribed by law for receipt of qualified loans, which is 7 mills.

The provisions of the bill would amend the language to authorize a recalculated computed millage to be lowered to the computed millage established pursuant to the most recent order qualifying bonds, *other than an order qualifying refunding bonds*, or to the minimum levy prescribed by law, which is 7 mills. In effect, this change would prevent a millage rate floor from increasing to a higher rate due to the issuance of a refunding bond by a school district.

According to the Department of Treasury, Administrative Rule Set 2013-106 TY adopted this practice. The Department of Treasury has issued waivers allowing school districts to lower their recalculated computed millage to their original computed millage rate prior to a refunding bond issuance.

House Bill 4497 would amend Section 7 (MCL 388.1927) to revise the requirements necessary for the State Treasurer to qualify refunding bonds. Current law requires the State Treasurer to qualify refunding bonds issued to refund qualified loans or qualified bonds if the State Treasury finds all of the following are met:

- The refunding bonds comply with provisions of the Revised Municipal Finance Act.
- The school district will repay all outstanding qualified bonds, the proposed qualified bonds, all outstanding qualified loans, and all qualified loans expected to be incurred with respect to all qualified bonds of the school district, including the proposed qualified bond issue, not later than the applicable final mandatory repayment date.

House Bill 4497 would strike the second requirement listed above. This would authorize the State Treasurer to qualify refunding bonds to refinance outstanding qualified bonds and loans under the School Bond Loan program for a school district unable to meet its final

mandatory repayment date. A school district currently unable to meet its final mandatory repayment date would be able to realize savings from refinancing its outstanding bonds and loans.

According to the Department of Treasury, Administrative Rule Set 2013-106 TY authorized the State Treasurer to approve a refunding bond if the issuance would not extend the school district's final mandatory repayment date, would result in savings to the school district, would improve the school district's projected qualified loan repayment date, and otherwise would comply with the Revised Municipal Finance Act (2001 PA 34).

FISCAL IMPACT:

The bills would have an indeterminate impact on state costs, but would provide savings to local school districts.

By not resetting the computed millage floor when a district issues a refunding bond, House Bill 4496 would allow a school district's millage rate to fall, over time, as property values increased, to a rate lower than it would be allowed to under current statute. The lower millage would extend the repayment period for bonds and loans under the School Bond Loan program compared to current law, but not to a date later than the final mandatory repayment date for the school district. This change has the potential to increase costs to the state by extending the repayment period, but would allow school districts to realize savings through refinancing.

Under the rule set adopted by the Department of Treasury, House Bill 4497 would have the potential to reduce costs to state government if qualifying a refunding bond improved the school districts projected qualified loan repayment date despite the district still be unable to meet its final mandatory repayment date. Per Department of Treasury rules and requirements under the Revised Municipal Finance Act, to qualify a school district would be required to realize savings due to the issuance of a refunding bond for outstanding qualified bonds and loans.

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■ This analysis was prepared by nonpartisan House Fiscal Agency staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.