Senate Fiscal Agency
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BILL ANALYSIS

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Senate Bill 618 (as introduced 9-1-21) *(enacted version)*
Sponsor: Senator Roger Victory
Committee: Appropriations

Date Completed: 3-8-22

CONTENT

The bill would amend the School Bond Qualification, Approval, and Loan Act to adjust the rate of interest that is assessed on qualified loans. Under current law, qualified loans are assessed interest at one of three rates:

-- The greater of 3% or the average annual cost of funds used to make the qualified loans, plus 0.125%, but not less than the cost of funds on outstanding notes and bonds issued by the Michigan Finance Authority to finance loans.
-- A lesser rate determined by the State Treasurer to be necessary to maintain the exemption from Federal income tax of interest on any bonds or notes issued to fund qualified loans.
-- A higher rate determined by the State Treasurer to be necessary to prevent the impairment of any contract of the State or the Michigan Finance Authority that was in existence as of March 28, 2013.

The bill would amend the first rate listed above by removing the requirement that qualified loans be assessed "the greater of 3%" and by removing the floor ("… not less than the cost of funds…"). In this manner, the interest rate charged on qualified loans would become the average cost of funds plus 0.125%.

MCL 388.1929

FISCAL IMPACT

Currently, the average cost of funds is roughly 1.0%. If the bill were enacted and the average cost of funds remained at roughly 1.0%, then districts repaying qualified loans would see interest rate savings of 2.0% of the amount borrowed from the State. Districts borrowing from the State would see savings under the bill any time the average cost of funds was less than 3.0%; any time the average cost of funds exceeds 3.0%, the bill would have no net fiscal impact on borrowers since they would have been charged that amount under current law.

The State would see lower repayments into the School Loan Revolving Fund (SLRF) compared to current law. Funds paid into the SLRF are used to make new loans to districts or to repay the State's debt for the School Bond Loan program.

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