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SFA

BILL ANALYSIS

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House Bills 5832 and 5833 (as passed by the House)
Sponsor: Representative Ron Jelinek
House Committee: Education
Senate Committee: Education

Date Completed: 6-6-00

CONTENT

The bills would amend the statutes governing the School Bond Loan Fund Program, which authorizes the State to make loans to school districts for the payment of principal and interest on school bonds. House Bill 5832 would amend Public Act 112 of 1961, which provides for the financing of the School Bond Loan Fund through the issuance of bonds and notes. House Bill 5833 would amend Public Act 108 of 1961, which the bill would entitle the "School Bond Qualification and Loan Act". That Act authorizes the loans to schools, contains loan qualifications, and provides for the repayment of loans.

The bills are described in more detail below. Attached is a list of districts that would be eligible for a grant or payment of interest pursuant to House Bill 5833.

House Bill 5832

This bill essentially contains "clean-up" language for the State Treasurer in regard to providing financing services to local school districts. The bill also would give the State Treasurer additional powers and abilities with which to deal with districts in a default situation on their loans.

The bill also would grant additional flexibility to the State Treasurer in securing bonds, notes, and commercial paper for the purposes of granting loans to local school districts in the State. Finally, the bill would grant the State Administrative Board additional powers and abilities to assure that bonds and notes are repaid in a timely manner.

House Bill 5833

In summary, the bill would enable local school districts with a taxable value per membership pupil in the lowest 10% in the State to receive a grant from the State equal to 12.5% of the principal amount (capped at a maximum grant of \$5,000,000 per district) on a new bond issue. Also, any district with a taxable value per membership pupil in the lowest one-third in the State would qualify to have the State pay a portion of its interest payments on bonds issued under this Act up to a maximum of 100% of the interest owed, or \$1,000,000, whichever would be less.

Following is a description of the major changes proposed in the bill.

- **Section 2(1)** - Proposes new language for districts that levy between 7 and 13 mills for debt payments. The language would limit the amount that a district could borrow from the State to 75% of the total amount of the bond. The district also would have to repay any portion of a debt exceeding the 75% maximum before being allowed to incur any further debt financed through private sector entities.

- **Section 2(2)(b)** - Proposes changes to the assumptions used in calculating the schedule for repayment of proposed bonds. The language would change the assumed amount of growth in the taxable value for a school district so that the rate of increase in the succeeding five-year period would be equal to the average increase in values in the preceding five years. Additionally, after the initial succeeding five-year period, the rate of growth assumed would be capped at 5% or the recent average inflation rate plus 1%, whichever was less.
- **Section 2(4)** - States that the new provisions in the bill would apply only to new bond issues.
- **Section 4(1)(a)** - Proposes to change the minimum number of years of duration of a bond package depending on the ratio of debt to adjusted taxable value (ATV) of a district. Currently, all bond packages have a minimum duration of 10 years. The proposal states that if the debt were between 4% and 7% of ATV, the duration would be at least 15 years; if the indebtedness were between 7% and 12%, the minimum duration would be 25 years; and if the indebtedness were over 12%, the minimum duration would be 29 years.
- **Section 4(1)(e)** - Proposes additional language regarding the disclosure by a school district of bond information on the ballot proposal including the principal amount to be borrowed, the number of years the bonds would be expected to be outstanding, the estimated total interest cost that would be incurred, and the estimated duration and cost of any School Bond Loan Fund borrowings. The bill also would require a district to include on the ballot proposal not only the impact on the millage rate in the first year, but also the average impact on the millage rate for the duration of the bond issue.
- **Section 4(1)(k)** - Would limit the bonded indebtedness of any school district to no more than 20% of the district's adjusted taxable value. This limit, however, could be waived by the State Treasurer if the district could provide compelling justification for incurring further debt.
- **Section 4(3)** - Proposes new language that would require the State Treasurer to develop and publish parameters under which the bond applications would be qualified.
- **Section 4(a)(1) and (2)** - Would ensure that any proceeds of a bond issue remaining at the end of the project would be used to repay the State loan before those proceeds could be used to repay a private bond. The State Treasurer also would be allowed to grant permission for a district to use up to 15% of the original bond proceeds on projects not originally listed on the bond project list once all the original projects had been completed. Again, a district granted this use of proceeds would have to demonstrate compelling justification for such use.
- **Section 6(1) and (2)** - Proposes language that would require any district with an existing balance due to the School Bond Loan Fund to submit to the State Treasurer an annual loan activity application providing an estimate of the amount to be borrowed from or repaid to the School Bond Loan Fund during that school fiscal year. Also, the annual loan activity application would have to include the adjusted taxable value for the district, debt service, and any other information necessary to determine the proper required millage levy.
- **Section 8(2)** - Would allow the State Treasurer to pay the principal or interest on qualified bonds or other loans when a district was unable to make those payments. Any such payments made by the State Treasurer on behalf of a school district would be considered a loan made to the school district and the district would have to repay that loan in the same manner as any other loan under this Act.
- **Section 9(c)** - Would require a school district with an existing balance due to the School Bond Loan Fund to include in its audit report a review of its school bond loan activities and qualified bond debt retirement activities.
- **Section 10(1)** - Specifies that if a school district defaulted on a loan repayment to the State, that district would not receive any funds from the School Aid Fund until an agreement had been reached with the State Treasurer on a schedule for repayment of the amount in default.

- **Section 10(b)** - Proposes a new grant program for school districts with taxable values per membership pupil in the lowest 10% in the State. A district would have to apply for a grant by March 1 of the fiscal year and have a bond approved by its voters at an election held on the second Monday in June.

The grant would be equal to 12.5% of the principal amount of the loan up to a maximum of \$5,000,000 per district, applicable to new bond issues. If the amount appropriated were not sufficient to cover the amount of grants awarded, all the grants for that fiscal year would have to be prorated. Additionally, if a grant were awarded and a bond were not issued, the grant amount would not lapse to the General Fund, but instead would be used first to offset any proration that has occurred. If any funds remained, that amount would be deposited in the revolving grant fund in the Michigan Municipal Bond Authority under Section 10(b)(6).

- **Section 10(b)(6)** - Proposes to create the Revolving Fund Grant Program within the Michigan Municipal Bond Authority. Any money not claimed in the grant program would be placed in the Revolving Fund Grant Program to establish a revolving fund or a reserve for such a revolving fund to be used to make loans to districts for capital purposes. To be eligible for such a loan, a district would have to have taxable values per membership pupil in the lowest third of all districts in the State, or have at least 50% of its membership eligible for free or reduced-priced lunch.
- **Section 10(c)** - Proposes a new section to distribute funds to all school districts with taxable values per pupil in the lowest one-third among all districts in the State, that had bonded indebtedness. The State Treasurer would compute a reduction in the amount of interest owed on loans made under this Act, thus reducing the amount owed by the district.

The formula used to determine the amount of that reduction would be as follows:

First, the school district's adjusted taxable value per pupil would be subtracted from the lowest taxable value per pupil of the district not among the lowest 1/3 of all school districts (the first district outside of the 1/3 benchmark). Second, this amount would be multiplied by the number of students in membership. Finally, this amount would be multiplied by the number of mills levied by the school district to pay debt service on bonds qualified under this Act or any loans made under this Act.

The amount of a reduction for any school district, as calculated above, could not exceed 100% of the interest owed or \$1,000,000, whichever was less. Additionally, if the amount appropriated were not sufficient to cover the amount necessary for the calculated reductions, all the reduction amounts for that fiscal year would have to be prorated on an equal percentage basis.

Attached is a printout detailing the districts that would be eligible for either a grant under Section 10(b) or a revolving grant under Section 10(b)(6), or to have a portion of their interest payments made on their behalf by the State under Section 10(c). The printout lists the districts by county order and lists the districts' ranking in terms of taxable value per membership pupil (with #1 being the district with the lowest taxable value per pupil). The printout then indicates whether a district would be eligible due to being in the lowest 10% of districts in taxable value per pupil or the lowest 1/3 in taxable value per pupil, or whether it would be eligible for a revolving grant based on having 50% or more of its pupils eligible for free or reduced price lunch.

MCL 388.981 & 388.982 (H.B. 5832)
388.951 et al.

FISCAL IMPACT

House Bill 5833 states that it will not take effect unless Senate Bill 1044 is enacted and appropriates money to fund Sections 10b and 10c. Senate Bill 1044 is the School Aid supplemental bill for FY 1999-2000 and 2000-01.

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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.