



Senate Fiscal Agency
P. O. Box 30036
Lansing, Michigan 48909-7536



Telephone: (517) 373-5383
Fax: (517) 373-1986

Senate Bill 1077 (Substitute S-1 as reported)
Sponsor: Senator John Pappageorge
Committee: Appropriations

CONTENT

The bill would amend the School Bond Qualification, Approval, and Loan Act to do the following:

- Change the definition of computed millage to repay qualified *bonds* by striking the minimum of seven mills; but retain the minimum computed millage at seven mills for a district that received a qualified *loan* or had an outstanding qualified loan balance.
- Remove the June 30, 2016, sunset on the \$1.8 billion limitation on the amount of qualified school loans outstanding, which allows a school district to be newly qualified for a bond issue that is likely to result in additional qualified loans only if the State's outstanding balance of qualified school loans is less than \$1.8 billion.
- Add an expiration date for any preliminary qualification, which would be 10 years after the date of issuance of the preliminary qualification or an earlier expiration date set by the Department of Treasury in the preliminary qualification order.
- Require that a project remain substantially the same from preliminary qualification to the application for qualification in order for the State Treasurer to approve bond qualification.
- Add several pieces of information to be included on a ballot submitted to school electors requesting authorization to issue bonds.
- Clarify throughout the statute that the millage necessary to be levied to participate in the qualified bond loan program must be the computed millage, which is the calculated amount necessary to repay the bonds and any qualified loans by the final mandatory repayment date.

Background – the School Bond Qualification & Loan Program. The School Bond Qualification and Loan Program (SBQLP) is operated by the Department of Treasury and has two features: 1) if a school district applies and is approved for its bond issue to be "qualified", the district may use the State's credit rating (which usually will result in a lower interest rate and cost); and 2) school districts have the ability to borrow for the principal and interest requirements of outstanding qualified bonds through the loan program, which is established in the Michigan Constitution and implemented by statute and rule.

The loan program component of the SBQLP allows eligible districts to borrow from the State to allow bonds (and qualified school loans) to be repaid while the districts levy a more consistent millage rate, which is at least seven mills when qualified loans are outstanding. Statute also requires the debt millage to be computed annually so that the local district levies enough debt mills to repay the bonds and any qualified school loans by the final mandatory repayment date.

Computed Millage. Except as otherwise provided, the Act allows a school district to borrow from the State an amount that is not more than the difference between the proceeds of the district's "computed millage" and the amount necessary to pay principal and interest on its

qualified bonds. The Act defines "computed millage" as "the number of mills in any year, not less than 7 mills and not more than 13 mills...that, if levied by the school district, will generate sufficient annual proceeds to pay principal and interest on all the school district's qualified bonds plus principal and interest on all qualified loans related to those qualified bonds no later than the final mandatory repayment date".

The bill would change the definition of "computed millage" by striking the minimum of seven mills. This would make the term "computed millage" applicable to all districts with qualified bonds, which, as under current law, would levy computed millage of up to 13 mills. The seven-mill minimum would continue to apply to districts that received a qualified loan or had qualified loans outstanding.

\$1.8 Billion Loan Cap. The Act requires the State Treasurer to prequalify a school district's bonds if he or she makes certain determinations. For new bonds approved by the voters after September 30, 2012, and before June 30, 2016, the bonds must be projected not to need any associated qualified loans if the total outstanding loan debt of the State's program exceeds \$1.8 billion. After June 30, 2016, the \$1.8 billion cap will be removed, and bonds needing loans may be qualified regardless of the outstanding amount of school loan debt to the State.

The bill would remove the sunset, thereby retaining the \$1.8 billion cap as the threshold for approving qualified bonds that are projected to use the State's loan program. The bill also would refer to "preliminary qualification", rather than "prequalification".

Bond Prequalification Expiration. The Act does not specify the duration of a prequalification. Under the bill, any preliminary qualification would expire 10 years after the date of its issuance or on an earlier date set in the preliminary qualification order.

Bond Qualification. Currently, the State Treasurer is required to qualify school bonds if they meet all of the statutory criteria: the bonds have received approval by local voters; the district is in compliance with the Revised School Code and the Revised Municipal Finance Act; the weighted average maturity is not more than 120% of the average expected useful life of the facilities (excluding land and site work) being financed by the bond proceeds; the district has updated the application for any changes since prequalification; and the district has agreed to maintain certain readily available books and records. The bill would add two requirements for bond qualification: there could be no substantial changes in the bond structure, estimated borrowing, and project scope since preliminary qualification of the bonds; and the preliminary qualification order would have to remain in effect.

Ballot Language. The School Bond Qualification, Approval, and Loan Act requires a school district to submit proposed ballot language for voter consideration of a proposed bond issue to the Department of Treasury as part of the application for preliminary qualification.

The ballot language is required to inform voters of the following: the estimated duration of the millage levy; the estimated computed millage rate; the total amount of qualified bond and loan debt outstanding; and that the computed millage rate may change. If the school district plans to borrow from the State for debt service payments, the language also must include the estimated principal of those loans and the estimated interest.

The bill also would require the ballot language to contain:

- A clear description of the use of the bond proceeds.
- A statement of whether the district expected to borrow from the State to pay debt service.
- In addition to the current computed millage, the estimated average annual computed millage including the impact of the proposed bonds and loans for debt service.
- A statement that the duration of the computed millage could change.

Rules, Bulletins, & Guidelines. The bill would delete language that authorizes the State Treasurer to issue bulletins and guidelines related to the SBQLP.

MCL 388.1923 et al.

FISCAL IMPACT

The balance of outstanding qualified school bond loans was approximately \$1.76 billion as of April 30, 2014, according to Department of Treasury. The Department estimates that by May 2015, the outstanding balance of qualified school loans will exceed \$1.8 billion (the current cap after which the Department will cease to qualify school bonds that are projected to need qualified loans), and that the outstanding balance of qualified school loans will continue to increase at least over the next decade based on the demand for qualified school loans from bonds that are already qualified. The State issues general obligation bonds to obtain money for qualified school loans. The interest on these State bonds is paid from the School Aid Fund (SAF) and totals \$126.0 million for FY 2014-15. While local school districts repay the loans with interest, most repayments go to the School Loan Revolving Fund to reduce the need for future State bond issues and do not directly repay the SAF for State's borrowing costs.

By removing the sunset on the \$1.8 billion cap on the amount of qualified school loans outstanding, the bill would tend to limit the increases in State costs of debt service in future years for the SBQLP. This would reduce School Aid Fund spending by an unknown amount by limiting the approval of qualified debt projected to need qualified loans, as long as the outstanding debt totaled more than \$1.8 billion. The impact on local school districts would depend on the characteristics of the district and the local need for school borrowing. Local school districts that were unable to obtain qualified school loans for a new bond issue due to the proposed continuation of the \$1.8 billion cap could see increases in local millage rates to repay a qualified bond issue, in particular in the early years of bond repayment when millage rates would tend to be higher under the bill. This effect, however, would vary greatly based on the local circumstances, including the amount and duration of the proposed bond issue and the growth in local taxable value over the term of the bonds.

Repaying bonds without the use of qualified school loans would reduce the total cost of a project. Districts that did not seek bond qualification or that sought bond qualification but did not project use of qualified school loans would not be affected directly by the removal of the sunset.

The proposed limitations on revisions to projects that had already received preliminary qualification and on the expiration of the preliminary qualification order at a date established in that order would place additional constraints on local school districts in planning and carrying out projects. For some local districts, this would accelerate the local planning and implementation costs of a project.

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Fiscal Analyst: Elizabeth Pratt
Kathryn Summers

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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.