Legislative Analysis

EMERGENCY MUNICIPAL LOAN ACT REVISIONS

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House Bill 5749 (H-3)
Sponsor: Representative Al Pscholka
Committee: Appropriations
Complete to 11-29-16

SUMMARY:

House Bill 5749 would amend the Emergency Municipal Loan Act (MCL 141.933) to increase the cap on the total loan amount available to school districts for the period beginning October 1, 2011, and ending September 30, 2018 from $70.0 million to $100.0 million.

FISCAL IMPACT:

The bill would require no additional appropriations for state or local government.

House Bill 5749 would amend the Emergency Municipal Loan Act statutory cap on emergency loans from $70.0 million to $100.0 million for school districts for the period between October 1, 2011 and September 30, 2018. Under the current emergency loan cap of $70.0 million, $2.4 million is available for school district emergency loans over this period. The provisions of the bill would increase the available emergency loan capacity by $30.0 million which would result in a total of $32.4 million in available emergency loan capacity.

As of November 2016, total emergency loan amounts issued for the period between October 1, 2011 and September 30, 2018 are as follows:

School District	Amount Borrowed	Principal Repayed	Balance
Highland Park	$7,410,000	$550,000	$6,860,000
Muskegon Heights	12,550,000	580,000	11,970,000
Inkster	12,474,337	596,774	11,877,563
Buena Vista	2,016,110	1,719,925	296,185
Benton Harbor	13,100,000	2,255,000	10,845,000
Pontiac	20,000,000	0	20,000,000
TOTAL	**$67,550,447**	**$5,701,699**	**$61,848,748**

Of the 6 districts with outstanding emergency loans:

- Highland Park and Muskegon Heights are no longer operating directly and have been converted to charter schools under the direction of a previous emergency manager. District school operating taxes continue to be levied to repay the loans.
- Inkster and Buena Vista have been dissolved. District school operating taxes continue to be levied to repay the loans in Inkster. The remaining BV debt will be

repaid through lapsing dissolved district transition funds from the School Aid budget, because the district's school operating taxes were not renewed.

- Benton Harbor and Pontiac are operating under consent agreements with the Department of Treasury after having been declared as having a financial emergency.

It should be noted that while some of the overall amount loaned to school districts has been repaid, the statutory cap is on the total amount loaned rather than the balance of loans outstanding. Therefore, repayments to the State do not free up available cap space for additional loans.

Pursuant to 1855 PA 105, emergency loans are made from the State's common cash pool. According to the Department of Treasury, sufficient funds exist in the common cash pool to cover the increased emergency loan capacity under the bills without impairing the State's cash flow. State manageable common cash for FY 2015-16 ranged from $3.5 billion to $5.2 billion depending on normal monthly fluctuations.

Loan terms (repayment period, fixed/variable interest rates, interest-only period, tax intercept agreement) are determined by the Emergency Financial Assistance Loan Board (Board) on a case-by-case basis. An emergency loan is required to bear either a variable or fixed interest rate as determined by the Board, subject to certain requirements. All emergency loans provided to school districts after October 1, 2011 carried a fixed interest rate. Rates on current loans range from 1.75% over 15 years to 3.45% over 30 years. Statute requires the annual fixed interest rate to be not less than the municipal 10-year rate as determined by the Treasurer. The Board may institute a higher interest rate based on market conditions and the risk of the school district requesting the loan. Any fiscal impact to the state would depend on the spread between the interest received on the emergency loan and interest received on alternative common cash pool investments.

Current statutory provisions also protect the state from nonpayment of a loan. To ensure repayment, the board can require repayment from revenue that may be pledged by a school district under Section 1211 of the Revised School Code (revenue from school district general operating property taxes) or other law. Moreover, for loans entered into after July 7, 2015 (the effective date of 2015 PA 115), the department is required collect repayment in an amount equal to the interest due on the loan plus up to 5% of the loan from revenue pledged by a school district under Section 1211 of the Revised School Code (revenue from school district general operating property taxes) or other law.

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