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BILL ANALYSIS



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House Bills 4496 and 4497 (as passed by the House)

Sponsor: Representative Roger Victory

House Committee: Financial Liability Reform

Senate Committee: Appropriations

Date Completed: 6-4-15

CONTENT

House Bill 4496 would amend the School Bond Qualification, Approval, and Loan Act to change the determination of the minimum millage that must be levied in the case of refunding bonds where the computed millage is declining. The bill would establish the minimum millage for a qualified refunding bond in that situation as the higher of the millage rate required for the receipt of qualified loans or the millage rate required on the most recent qualified bond issue, other than the refunding bond issue.

House Bill 4497 would amend the Act to remove a provision under which a refunding bond may be qualified only if the State Treasurer finds that the school district will repay, not later than the final mandatory repayment date, all of the following:

- All outstanding qualified bonds.
- The proposed qualified refunding bonds.
- All outstanding qualified loans (from the School Bond Loan Fund or School Loan Revolving Fund).
- All qualified loans (from the School Bond Loan Fund or School Loan Revolving fund), including any loans related to the qualified refunding bonds.

The School Bond Qualification and Loan Program was created by constitutional amendment in 1955 to provide State assistance and credit enhancements to certain local school district bond issues. Currently, the program is governed by Article IX, Section 16 of the Michigan Constitution of 1963 and the School Bond Qualification, Approval, and Loan Act, which implements the constitutional program. In brief, the program offers State loans to school districts with State "qualified" bonds (bonds that have met certain criteria established in statute and been qualified by the State Treasurer). These loans are available to cover a portion of the debt service cost of the qualified bonds. The loan amount is the cost of debt service that is in excess of the local revenue available from the levy of the computed millage, but not less than seven mills. This allows school districts to have lower debt service millage rates than otherwise would be possible, although the levy of debt millage continues for a longer period, until both the bonds and related State loans are repaid. The State incurs costs for the program for the issuance and debt service on general obligation bonds to raise funds for the loans. The debt service cost on these general obligation bonds is paid by the School Aid Fund. Eventually, the State is repaid for these costs by participating school districts, although repayments can take many years.

The program has been revised many times, most recently in 2012, when amendments included restricting participation in the program by establishing a temporary cap that limits the qualification of new bonds that require qualified loans when the amount of qualified loans outstanding exceeds \$1.8 billion as of the most recent May 1 or November 1. This cap sunsets on June 30, 2016. The 2012 amendments also require the millage levied by school districts with qualified bonds and loans to be recalculated annually to ensure that sufficient millage is levied locally so that bonds and loans would be repaid by the final mandatory repayment date,

which is six years after the bonds have been retired. Some districts, however, are not able to meet the final repayment date even with the levy of the constitutional maximum 13 mills. The statute and related administrative rules provide some leeway in addressing access to refunding bonds for a district that is unable to meet its final mandatory repayment date.

In general, refunding bonds are issued in order for the issuer to reduce debt service costs. The proceeds of the refunding bonds are used to repay current debt, which is replaced with lower debt service payments. The Revised Municipal Finance Act requires that municipal refunding bonds, including school district bonds, show savings in the net present value of the cost of the bonds and do not extend term of the bonds beyond the maturity of the original debt.

House Bill 4496

The School Bond Qualification, Approval, and Loan Act specifies the conditions that apply if a district's computed millage increases or decreases based on its required annual recalculation. If the computed millage increases, the school district is required to increase its millage levy rate to the recalculated computed millage, with some exceptions for a phase-in of the computed millage and the maximum millage levy rate of 13 mills. If the computed millage decreases, the district must decrease its millage levy rate, but not below the higher of the minimum levy required for the most recent qualified bond issue or the minimum levy required for the receipt of qualified loans, pursuant to the loan agreement.

The bill would amend the calculation of computed millage for refunding bonds that will result in a decrease in the millage levy rate. In this case, the computed millage rate for the refunding bonds would not be considered in the calculation, which would instead refer back to the millage rate for the original issue bonds, requiring the district to levy the higher of that rate or the rate required for the receipt of qualified loans.

House Bill 4497

Under current law, to obtain State qualification of a proposed refunding bond, districts must be able to demonstrate that they are able to repay all outstanding qualified bonds and qualified loans, including those associated with the proposed refunding, by the mandatory repayment date, and satisfy the requirements of the Revised Municipal Finance Act. The bill would retain the reference to the requirements of the Revised Municipal Finance Act and would eliminate the requirement that the refunding bond and loans, in addition to other qualified bonds and loans, be retired by the mandatory final repayment date.

MCL 388.1923 (H.B. 4496)
388.1927 (H.B. 4497)

FISCAL IMPACT

The bills would have no fiscal impact on State or local government. The Department of Treasury notes that the current administrative rules and the availability of waivers from some provisions of the School Bond Qualification, Approval, and Loan Act have enabled the Department to administer the school bond loan program to allow the State and local school districts to benefit from cost savings available due to bond refinancing. The changes in the bills would make these current practices explicit in statute.

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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.