



# HOUSE BILL No. 4846

May 16, 1995, Introduced by Reps. Cropsey and Agee and referred to the Committee on Education.

A bill to amend section 1225 of Act No. 451 of the Public Acts of 1976, entitled as amended

"The school code of 1976,"

as amended by Act No. 103 of the Public Acts of 1994, being section 380.1225 of the Michigan Compiled Laws.

## THE PEOPLE OF THE STATE OF MICHIGAN ENACT:

1 Section 1. Section 1225 of Act No. 451 of the Public Acts  
2 of 1976, as amended by Act No. 103 of the Public Acts of 1994,  
3 being section 380.1225 of the Michigan Compiled Laws, is amended  
4 to read as follows:

5 Sec. 1225. (1) Subject to restrictions of this section, the  
6 board of a ~~local~~ SCHOOL DISTRICT or intermediate school dis-  
7 trict may borrow money and issue its notes for the borrowed money  
8 to secure funds for school operations or to pay previous loans  
9 made for school operations under this ACT or any other statute.

1 The school board or intermediate school board shall pledge money  
2 to be received by it from state school aid for the payment of  
3 notes issued under this section. The notes are full faith and  
4 credit obligations of the school district or intermediate school  
5 district and are payable from tax levies or from unencumbered  
6 funds of the school district or intermediate school district in  
7 event of the unavailability or insufficiency of state school aid  
8 for any reason.

9 (2) Notes issued under this section shall become due not  
10 later than 12 months after the date on which they are issued,  
11 except as provided in this section. Notes issued within a fiscal  
12 year shall not exceed 70% of the difference between the total  
13 state SCHOOL aid funds apportioned to the school district or  
14 intermediate school district for that fiscal year and the portion  
15 already received or pledged, except secondary pledges made under  
16 section 1356.

17 (3) A school district or intermediate school district that  
18 is not able to redeem its notes within 12 months after the date  
19 on which the notes were issued may enter into a multi-year agree-  
20 ment with a lending institution to repay its obligation. A  
21 repayment agreement shall not be executed without the prior  
22 approval of an authorized representative of the state board or,  
23 for notes sold to the Michigan municipal bond authority only,  
24 without the approval of an authorized representative of the  
25 department of treasury.

26 (4) During the last 4 months of a fiscal year, notes may be  
27 issued pledging state school aid for the next succeeding fiscal

1 year. The notes shall not exceed 50% of the state school aid  
2 apportioned to the school district or intermediate school dis-  
3 trict for the next succeeding fiscal year or, if the apportion-  
4 ment has not been made, 50% of the apportionment for the then  
5 current fiscal year. The notes shall mature not later than 12  
6 months after the date of issuance. Notes sold and delivered  
7 under this section shall bear interest at a rate agreed to by the  
8 school board or intermediate school board, which rate shall not  
9 exceed the rate provided in section 1a of chapter III of the  
10 municipal finance act, Act No. 202 of the Public Acts of 1943, as  
11 amended, being section 133.1a of the Michigan Compiled Laws, and  
12 may be made redeemable before maturity on the terms and condi-  
13 tions provided in the notes.

14 (5) Notes issued under this section are not subject to the  
15 municipal finance act, Act No. 202 of the Public Acts of 1943,  
16 as amended, being sections 131.1 to 139.3 of the Michigan  
17 Compiled Laws. A school board or intermediate school board shall  
18 not issue notes under this section unless it applies for and  
19 receives prior approval, or ~~the school board or intermediate~~  
20 ~~school board~~ requests and receives an exception from prior  
21 approval pursuant to subsections (7), (8), and (9). An applica-  
22 tion for prior approval or for an exception from prior approval  
23 shall be made to the authorized representative of the state board  
24 unless the notes are to be sold to the Michigan municipal bond  
25 authority. If the notes are to be sold to the Michigan municipal  
26 bond authority, an application for prior approval or for an  
27 exception from prior approval shall be made to the authorized

1 representative of the department of treasury. An order of prior  
2 approval issued by the authorized representative of the state  
3 board or of the department of treasury or an order of exception  
4 from prior approval issued by the authorized representative of  
5 the state board or of the department of treasury shall show the  
6 estimated amount of state school aid allocated to the school dis-  
7 trict or intermediate school district for the current fiscal year  
8 and, if applicable, for the next succeeding fiscal year and pay-  
9 ments that have been distributed to the school district or inter-  
10 mediate school district before the date of the order. Failure of  
11 a school district or intermediate school district to receive  
12 state school aid does not affect the validity or enforceability  
13 of a note issued under this section.

14       (6) A school board or intermediate school board may make  
15 more than 1 borrowing under this section during a school year. A  
16 school board or intermediate school board shall not contest the  
17 validity of a note issued by it under this section if an order of  
18 prior approval or of exception from prior approval had been  
19 obtained from the authorized representative of the state board or  
20 of the department of treasury and the school district or interme-  
21 diate school district has received the principal amount of the  
22 note. An order of prior approval and estimated determination of  
23 state school aid by the authorized representative of the state  
24 board or of the department of treasury is conclusive as to the  
25 authority of a school board or intermediate school board to  
26 borrow under this section. An order of prior approval shall be

1 signed by the authorized representative of the state board or of  
2 the department of treasury.

3       (7) A school board or intermediate school board may submit a  
4 request for an exception from prior approval to the authorized  
5 representative of the state board or of the department of trea-  
6 sury, as applicable, on a form prescribed by the applicable  
7 authorized representative. The request shall be accompanied by a  
8 filing fee of \$100.00 for a request relating to notes totaling  
9 less than \$500,000.00 or \$400.00 for a request relating to notes  
10 totaling \$500,000.00 or more. If the request is not accompanied  
11 by the proper filing fee or by other information or materials  
12 required by law, the authorized representative of the state board  
13 or of the department of treasury shall not consider the request  
14 to be complete and may return the request without acting upon  
15 it.

16       (8) Not later than 10 business days after receiving a com-  
17 plete request and proper filing fee under subsection (7), the  
18 authorized representative of the state board or of the department  
19 of treasury, as applicable, shall issue an order granting the  
20 exception unless the authorized representative finds that 1 or  
21 more of the following conditions exist or have occurred:

22       (a) For a school district, it appears from the information  
23 submitted by the school district under section 102 of the state  
24 school aid act of 1979, being section 388.1702 of the Michigan  
25 Compiled Laws, and from other information available to the  
26 department or to the department of treasury that the school  
27 district ended its immediately preceding fiscal year with a

1 deficit in 1 or more of its funds and does not have a plan  
2 approved under section 102(5) of the state school aid act of 1979  
3 for eliminating the deficit.

4 (b) The school district or intermediate school district has  
5 failed to comply with the requirements of this section with  
6 regard to an outstanding note issued under this section or a note  
7 issued under this section during the 3 years immediately preced-  
8 ing the date of the request.

9 (c) The school district or intermediate school district is  
10 in default in the payment of the principal of or interest on any  
11 of its obligations.

12 (9) If the authorized representative of the state board or  
13 of the department of treasury, as applicable, finds that 1 or  
14 more of the conditions described in subsection (8)(a) to (c)  
15 applies to a request for an exception from prior approval under  
16 subsection (7), the authorized representative may issue an order  
17 denying the request or, if he or she finds that the existence of  
18 the condition is inconsequential to the request, may issue an  
19 order granting the exception from prior approval. If the autho-  
20 rized representative of the state board or of the department of  
21 treasury, AS APPLICABLE, fails to act on a complete request  
22 within the 10-day period specified in subsection (8), the excep-  
23 tion from prior approval shall be considered to be granted as of  
24 the expiration of the 10-day period.

25 (10) Subject to the maximum amounts for notes as specified  
26 in subsections (2) and (4), an exception from prior approval,  
27 whether granted by order of the authorized representative of the

1 state board or of the department of treasury or because of  
2 failure of the authorized representative of the state board or of  
3 the department of treasury to act on the request, is valid for 4  
4 months.

5 (11) A SCHOOL DISTRICT OR INTERMEDIATE SCHOOL DISTRICT, PUR-  
6 SUANT TO A RESOLUTION ADOPTED BY ITS BOARD, MAY ENTER INTO A  
7 REVOLVING LINE OF CREDIT OR INSTALLMENT NOTE PURCHASE FACILITY  
8 WITH A FINANCIAL INSTITUTION OR THE MICHIGAN MUNICIPAL BOND  
9 AUTHORITY AND MAY ISSUE A NOTE OR NOTES TO EVIDENCE ITS OBLIGA-  
10 TIONS UNDER THE LINE OF CREDIT OR FACILITY IF ALL OF THE FOLLOW-  
11 ING REQUIREMENTS ARE MET:

12 (A) THE LINE OF CREDIT OR FACILITY AND THE NOTE STATE A MAX-  
13 IMUM AMOUNT OUTSTANDING AND THE MAXIMUM AMOUNT OUTSTANDING DOES  
14 NOT EXCEED THE MAXIMUM AMOUNT OF NOTES THAT MAY BE ISSUED BY THE  
15 SCHOOL DISTRICT OR INTERMEDIATE SCHOOL DISTRICT UNDER  
16 SUBSECTION (2) OR (4), AS APPLICABLE.

17 (B) THE LINE OF CREDIT OR FACILITY HAS A TERM NOT LONGER  
18 THAN 12 MONTHS AND THE NOTE OR NOTES MATURE NOT LATER THAN 12  
19 MONTHS AFTER ISSUANCE. HOWEVER, THE LINE OF CREDIT OR FACILITY  
20 MAY CONTAIN TERMS FOR RENEWAL UPON FURTHER APPROVAL OF THE SCHOOL  
21 BOARD OR INTERMEDIATE SCHOOL BOARD.

22 (C) THE MONEY RECEIVED FROM THE LINE OF CREDIT OR FACILITY  
23 IS USED FOR PURPOSES AUTHORIZED UNDER SUBSECTION (1) AND THE NOTE  
24 OR NOTES ARE SECURED IN THE SAME MANNER AS NOTES UNDER  
25 SUBSECTION (1).

26 (D) THE LINE OF CREDIT OR FACILITY AND THE NOTE OR NOTES,  
27 AND EACH RENEWAL OF THE LINE OF CREDIT OR FACILITY OR OF THE NOTE

1 OR NOTES, RECEIVE PRIOR APPROVAL OR AN EXCEPTION FROM PRIOR  
2 APPROVAL FROM THE AUTHORIZED REPRESENTATIVE OF THE STATE BOARD OR  
3 OF THE DEPARTMENT OF TREASURY, AS APPLICABLE, IN THE SAME MANNER  
4 AS PROVIDED IN SUBSECTIONS (5), (6), (7), (8), AND (9). IF THE  
5 LINE OF CREDIT OR FACILITY, OR RENEWAL OF THE LINE OF CREDIT OR  
6 FACILITY, IS ENTERED INTO AND THE NOTE OR NOTES ARE ISSUED WITHIN  
7 4 MONTHS AFTER THE DATE OF THE PRIOR APPROVAL OR EXCEPTION FROM  
8 PRIOR APPROVAL, THE PRIOR APPROVAL OR EXCEPTION FROM PRIOR  
9 APPROVAL UNDER THIS SUBDIVISION IS VALID FOR THE TERM OF THE LINE  
10 OF CREDIT OR FACILITY OR FOR THE TERM OF THE RENEWAL.