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

BILL ANALYSIS

Telephone: (517) 373-5383
Fax: (517) 373-1986
TDD: (517) 373-0543

House Bill 4866 (Substitute H-1 as reported without amendment)
Sponsor: Representative Mike Nofs
House Committee: Appropriations
Senate Committee: Appropriations

CONTENT

The bill contains provisions needed to implement the Governor's plan to generate an estimated $100 million for the School Aid Fund by having some school districts repay the outstanding loans they received from the School Bond Loan Fund (SBLF). Senate Bills 572 and 573, which the Senate passed on June 18, 2003, also contain changes needed to implement this school loan repayment plan. The specific changes contained in House Bill 4866 (H-1) are described below.

Public Act 112 of 1961 authorizes the State to sell bonds in order to make loans to school districts, provides for school districts to repay these loans, and provides for various other bond-related issues. The bill would amend the Act to provide that loan repayments deposited in the General Fund under the school loan repayment plan, as proposed by Senate Bill 572, would have to be used as follows:

-- For FY 2003-04, the amount by which the loan repayments exceeded the amount needed to pay the State's outstanding general obligation debt under Public Act 112, would be appropriated to the School Aid Fund.
-- For FY 2003-04, the portion of any other early loan repayments received by the State from school districts between June 1, 2003, and the settlement date, that represent the difference between outstanding general obligation debt and outstanding loans, would be appropriated to the School Aid Fund.
-- The balance, if any, would be used to pay or prepay the State's outstanding general obligation debt under Public Act 112.

School aid payments from the appropriations to the School Aid Fund, and the payment of outstanding general obligation debt, would have to be made within 90 days of the settlement (loan repayment) date.

The bill is tie-barred to Senate Bills 572 and 573.

MCL 388.983

BACKGROUND

School districts may borrow from the State through the SBLF to help finance the debt service on their bonds, and the State issues general obligation bonds to fund these loans to school districts. The State charges schools interest on these loans. The State must begin paying debt service on these general obligation bonds shortly after they are issued, but schools do not begin repaying the State until their own bondholders have been fully repaid. As a result, at any time, the amount owed by school districts to the State is usually greater than the amount owed by the State to its bondholders. The Governor's plan would allow the State to capture the difference between the outstanding loans owed to the State by school districts and the amount the State still owes on its general obligation bonds.

Senate Bill 572, which the Senate passed on June 18, 2003, contains several provisions needed to implement the Governor's loan repayment plan. One of the provisions in this bill would require the proceeds from these loan repayments to be deposited into the General Fund.

FISCAL IMPACT

Based on information from the Department of Treasury, under House Bill 4866 (H-1) an estimated $100 million would be appropriated to the School Aid Fund.

Date Completed: 7-8-03 Fiscal Analyst: Jay Wortley