

SCHOOL BOND QUALIFICATION AND LOAN PROGRAM

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Senate Bill 870 (Substitute H-1)

Sponsor: Sen. Darwin L. Booher

House Committee: Appropriations

Senate Committee: Appropriations

Complete to 8-14-12

A SUMMARY OF SENATE BILL 870 (SUBSTITUE H-1)

The School Bond Qualification, Approval, and Loan Act requires that school districts wishing to participate in the School Bond Qualification and Loan Program have their bonds "prequalified" by the Department of Treasury prior to submitting a ballot question to the district's electors. Prequalification requires the department to assess the district's facility and financing needs, including estimated project costs and debt service requirements, taxable values, projected School Loan Revolving Fund (SLRF) needs, enrollment projections, and facility utilization rates. Under the act, prequalification requires that districts meet certain criteria, including filing an application with the department and having the form of the ballot question conform to the act's requirement.

Prequalification also requires that the issuance of additional qualified bonds not prevent the district from repaying its outstanding qualified loans by the final mandatory repayment date. The bill provides that prequalification would require that the issuance of additional bonds not prevent the district from repaying its outstanding bonds, the proposed bonds, outstanding qualified loans and any qualified loans expected to be incurred in all of its qualified bonds.

Additionally, the bill adds other requirements for prequalification:

- Loan Cap. The bill would impose a soft cap on the total amount of qualified loans outstanding at \$1.8 billion. If a proposed bond issue was approved by electors after September 30, 2012 and would require additional qualified loans, the bond issue could only be prequalified by the department if the total outstanding qualified loan balance among all districts did not exceed \$1.8 billion, as of the most recent May 1 or November 1. [Since this provision would apply only to prequalification, the department could continue to make additional loans to districts with bonds approved prior to September 30, 2012 on their existing qualified bonds. After September 30, 2012, districts whose bond proposal would not require qualified loans at the time of application would still have their bond proposal "qualified" by the department. A district that is able to qualify a bond after the cap is reached by indicating borrowing would not be necessary may be able to borrow from the state if, due to unforeseen circumstances at a later date, the taxable value dropped significantly and the district was levying a minimum of 7 mills.]

- Additional Bonds. Under the bill, prequalification would also require that bonds approved by voters after September 30, 2012 would not have an "adverse financial impact" on the district, the state, or the SLRF. In assessing the financial impact of the bond issue, the department would have to consider, among other things, whether the district's total qualified and non-qualified bonds, including the proposed bond issue, and currently outstanding qualified loans exceed 25% of the taxable value of the district at the time the proposed bond issue would be issued.
- Ballot Language. Current law requires the *form* of the ballot to conform to the requirement of the act. The bill would require that the *language* of the ballot also conform to the requirements of the act.
- 5-year Waiting Period. Under the bill, prequalification would also require that if a district had an outstanding loan balance in the 5 years immediately preceding the application for prequalification, the proposed bond issue would not result in additional qualified loans being made earlier than 5 years after the balance on the qualified outstanding qualified loans was paid off.

FISCAL IMPACT:

State Fiscal Impact:

The bill would impose a soft \$1.8 billion cap on the total amount of outstanding qualified loans, including principal and interest. Once the cap is reached, if a district expected to borrow from the state in order to meet its debt service on a proposed new bond issue, the bond issue could not be prequalified (or qualified) by the department. By capping the amount of qualified loans outstanding, the state would realize a decrease in future debt service payments as compared to what is anticipated under current law. Under current projections, the \$1.8 billion cap would be reached in the first quarter of FY 2014-15, with the loan balance not expected to fall below the cap until FY 2042-43, thereby eliminating the ability of districts to qualify bonds if they anticipated a need for qualified loans.

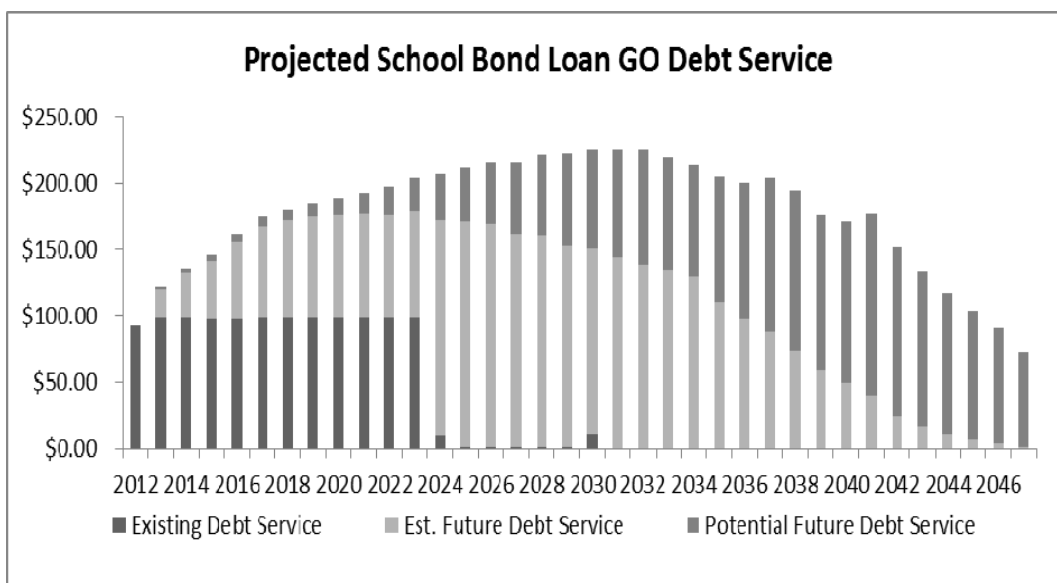
A district would be required to pay off all qualified bonds and loans by the final mandatory repayment. Proposed bond issues (including refunding bonds) and any new qualified loans also would have to be paid by the final mandatory repayment date. This provision would reduce future debt issuance by a district due to the requirement that it pay it off by the existing final mandatory repayment date. The ability to issue further debt or refund existing debt would diminish the closer it got to its final repayment date.

Taken together, the department anticipates that the cap and the new final mandatory repayment date could save the state approximately \$2.2 billion over the next 35 years in debt service costs. The chart below shows the state's projected SBLP GO debt service:

- Existing Debt Service shows the known debt service costs, totaling \$1.2 billion, based on the current bond obligations.

- Estimated Future Debt Service shows the debt service costs, totaling \$2.9 billion, based on current projections of future qualified loans required for existing qualified bonds.
- Potential Future Debt Service shows the projected debt service requirements, totaling an additional \$2.2 billion, for additional qualified loans on new qualified bonds issued in the future, if there were no changes in the program.

While these provisions would create significant savings, they would come in the form of future cost avoidance rather than reducing current state debt service costs. The annual savings (represented below in the Potential Future Debt Service) would be small initially, less than \$2.0 million in FY 2012-13 and as high as \$137.8 million in FY 2040-41.



Source: Department of Treasury (July 2012)

School Aid Fund (SAF) revenue is used to satisfy the state's steadily increasing GO debt service through an annual appropriation in the School Aid Budget, so any debt service savings estimated under the legislation would be realized by the SAF. The FY 2012-13 appropriation for debt service in the School Aid budget is \$120.4 million, and the annual cost is anticipated to grow to as high as \$224.6 million in FYs 2030-31 and 2031-32. The bill would make various changes to the SBLP and SLRF that would reduce the state's costs.

Local Fiscal Impact:

The bill restricts access to qualified loans after the outstanding loan balance reaches \$1.8 billion. The department projects that the balance will reach this limit in FY 2014-15 and not fall below that level until FY 2042-43. After that point, districts seeking to issue bonds would have to structure the project – in terms of overall cost of the project itself, the structure, timing, and terms of the bond proposal, and the necessary millage rates – so that districts could meet their debt service obligations without resorting to loans from the state. The scope of the project could be more limited, or the millage rates necessary to meet the debt service obligations could be higher than would otherwise be necessary.

given the lack of access to loans from the state. Today, about 25% of the school districts with qualified bonds participate in the loan program.

The 5-year waiting period would have an indeterminate impact. The waiting period itself could require school districts to delay infrastructure projects, depending on the timing of the receipt of qualified loans, potentially requiring higher building maintenance and operations costs on its existing facilities while the district waits to re-enter the program. Given the need for qualified loans, districts likely would not, in the alternative, issue non-qualified bonds for a project that would be delayed during a waiting period. During the interim districts could rely on voter-approved sinking fund millages, although its allowable uses are more limited than the allowable uses of bond proceeds. For instance, sinking funds can be used for repair, not maintenance, and cannot be used to furnish or equip a building. In any event, given the soft cap of \$1.8 billion, the waiting period could impact districts seeking to issue bonds before the cap reaches its limit – i.e., freezing them out of the program – but otherwise it would have no impact during the years in which the cap's restrictions are enforced, given that no new bond issues could prequalified (or qualified) after the cap reaches its limit if the bond issue requires additional loans.

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