Senate Fiscal Agency
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BILL ANALYSIS

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Senate Bill 870 (Substitute S-1 as reported) *(as passed by the Senate)*
Sponsor: Senator Darwin L. Booher
Committee: Appropriations

CONTENT

The bill would amend the School Bond Qualification, Approval, and Loan Act to permit, rather than require, the State Treasurer to prequalify school district bonds if certain conditions are met. The bill also would add a condition for prequalification of school bonds. For a district that had outstanding qualified loans in the five years preceding the date of application for a new bond prequalification, the Treasurer would be prohibited from prequalifying the bond unless the Treasurer determined that the proposed bond would not result in additional qualified loans to the district until at least five years after the previous qualified loans were repaid.

Under current law, the State Treasurer is required to prequalify bonds of a school district for participation in the School Bond Revolving Fund if the State Treasurer determines that two conditions are met: the issuance of additional qualified bonds does not prevent the district from repaying existing qualified loans to the State by the required due date, and the form of the ballot that will be submitted to school electors meets statutory requirements. Additional requirements, including approval by local voters, must be met before the bonds are qualified. A school district with a qualified bond issue is eligible to sell bonds using the State's credit rating, and, if the district levies at least seven mills, to borrow from the School Bond Loan Fund to support additional debt service costs due on the qualified bonds.

MCL 388.1926

FISCAL IMPACT

The bill would reduce State debt service costs for the School Bond Loan Fund by an unknown amount by restricting eligibility for the program. State costs of the School Bond Loan Fund program are paid from the School Aid Fund. The impact of the bill on school districts would depend on local borrowing decisions. A district unable to prequalify bonds might choose to postpone or cancel a project, which would reduce debt service costs in the short run. Alternatively, the district might issue unqualified bonds, which are typically issued at a higher interest rate than State qualified bonds. This would result in higher costs to a school district.

Date Completed: 5-17-12

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