Legislative Analysis

HOUSE FISCAL AGENCY
Mitchell Bean, Director
Phone: (517) 373-8080
http://www.house.mi.gov/hfa

SCHOOL LOAN REVOLVING FUND

Senate Bill 416
Sponsor: Sen. Switalski
Committee: Appropriations

Complete to 6-3-09

A SUMMARY OF SENATE BILL 416 AS REPORTED BY COMMITTEE 6-3-09

The bill would amend the School Bond Qualification, Approval, and Loan Act, PA 92 of 2005, to change the provisions concerning the interest rate charged to school districts on School Loan Revolving Fund (SLRF) loans.

Under current law, the interest rate for loans to school districts is tied to the interest rate on State general obligation bonds, plus 0.125% for administrative costs and fund reserves. However, the bonds that the State now issues for SLRF are issued through the Michigan Municipal Bond Authority (MMBA) and are not general obligation bonds. With the recent changes in the bond markets, the interest rates on these bonds are not necessarily the same as the general obligation bond rate. Currently, the interest rate charged to school districts is less than what is needed to make the debt service payments on the bonds.

The bill would amend the Act to allow the State Treasurer to set the interest rate of school district loans at a rate which would match the amount the Department must pay to service the debt. The language of the bill states that the interest rate of the loans shall be assessed at the greater of 3.0% or the average annual costs of funds of either the notes or bonds issued by the MMBA (plus 0.125%) or, if no MMBA bonds are outstanding, then the average annual costs of funds for bonds or notes issued by the State for long term borrowing or school district loans (plus 0.125%).

The bill also provides that the State Treasurer may assess a lesser rate if it is necessary to do so in order to comply with Federal requirements concerning Federal income tax exemptions for loan interest.

BACKGROUND INFORMATION:

Article IX, section 16 of the Michigan Constitution of 1963 requires the State to provide loans to school districts in certain circumstances. These loans are made through the School Loan Revolving Fund. Under current law, school districts repay the SLRF loans to the revolving fund and then those funds are used to finance loans to other school districts as needed.

In July of 2005, a major revision was made to the School Bond Loan Fund (SBLF). One of the major changes was the replacement of the old SBLF with a new revolving fund.

With this revision, the SLRF is intended to be a self-supporting revolving fund so that the State would no longer incur debt service costs on new loans made to school districts. The current gap between the cost of bonds and the interest rates that can be assessed school districts for SLRF loans is undermining the School Loan Revolving Fund's ability to operate as a self-sustaining revolving fund.

FISCAL IMPACT:

Senate Bill 416 would amend the School Bond Qualification, Approval, and Loan Act to allow the State Treasurer to assess interest rates that would be sufficient to cover the costs of the loans being made. If this bill is not enacted, then additional General Funds or School Aid Funds would be necessary in the future to cover the costs of the revolving fund and the issuing of loans to school districts.

Fiscal Analyst: Viola Bay Wild