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Senate Bill 416 (as introduced 3-31-09)
Sponsor: Senator Michael Switalski
Committee: Appropriations

Date Completed: 5-6-09

CONTENT

Senate Bill 416 would amend the School Bond Qualification, Approval, and Loan Act to change the provisions for determining the rate of interest assessed school districts that borrow from the School Loan Revolving Fund. Under current law, the interest rate assessed on school loans is tied to the rate on State general obligation (G.O.) bonds previously issued to fund school district loans. However, the bonds the State now issues to finance the School Loan Revolving Fund are non-G.O. bonds issued through the Michigan Municipal Bond Authority and the interest rate on these bonds may not be the same as the G.O. bond rate. Currently, schools are repaying their loans at interest rates that are less than is needed to pay off the Michigan Municipal Bond Authority bonds. The School Loan Revolving Fund is intended to be a self-supporting revolving fund, but the current gap between the cost of funds and the interest rates assessed on the school loans is undermining the financial integrity of the Fund and eventually the Fund will be unable to make loans to schools.

To remedy this situation, the bill would allow rates on loans made to schools to be tied to the rates on the Michigan Municipal Bond Authority bonds issued to fund the School Loan Revolving Fund. This would match the cost of funds and the rates charged on the school loans. The bill also would continue to allow 0.125% to be added to the school loan rate in order to help sustain the security of the Fund. If there is a situation in which no bonds issued by the Michigan Municipal Bond Authority to fund the School Loan Revolving Fund are outstanding, the bill would allow the rate charged on school loans to be tied to the State's G.O. rate, because under this circumstance, G.O. bonds would be needed in order to support this loan program. The bill also includes a provision that would allow the State Treasurer to lower the school loan rates that would otherwise be required under this bill if it were necessary to do so in order to comply with Federal requirements.

MCL 388.1929

FISCAL IMPACT

The bill would remedy a major flaw in the current School Bond Qualification, Approval, and Loan Act and therefore allow the School Loan Revolving Fund to match its cost of funds with loans being made and to operate as a self-sustaining revolving fund as originally intended.

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This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.