Legislative Analysis

MINIMUM INTEREST RATE OF QUALIFIED LOANS UNDER SCHOOL BOND QUALIFICATION AND LOAN PROGRAM

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Senate Bill 618 as passed by the Senate
Sponsor: Sen. Roger Victory
House Committee: Local Government and Municipal Finance
Senate Committee: Appropriations
Complete to 3-13-22

SUMMARY:

Senate Bill 618 would amend the School Bond Qualification, Approval, and Loan Act to allow the rate of interest for a qualified loan under the act to be less than 3%.

The School Bond Qualification and Loan Program is authorized under the state constitution[1] and administered by the Department of Treasury. Broadly speaking, under the program, a school district can use the state's credit rating to issue school bonds if that bond issue is approved as "qualified." In addition, as long as it is levying a minimum of seven debt mills, a school district may borrow from the state (a qualified loan) to make debt service payments on its outstanding qualified bonds under the program. The debt millage is computed, and a new loan agreement is entered into, annually, until the district's computed millage levy yields more revenue than is needed to pay its debt service. At that time the millage surplus is applied to repayment of the loan principal and interest.[2]

The act currently provides that qualified loans must bear interest at a rate that is the greater of 3% or the average annual cost of funds used to make qualified loans plus 0.125%, but not less than the cost of funds on outstanding qualified notes and bonds issued by the Michigan finance authority to finance loans computed at least annually by the state treasurer.

The bill would instead provide that qualified loans must bear interest at a rate equal to the average annual cost of funds used to make qualified loans plus 0.125%, computed at least annually by the state treasurer. (That is, under the bill, the rate would no longer have to be at least 3%.)

Note that both the act and the bill allow for a lower or higher rate if determined necessary by the state treasurer under specified circumstances.

MCL 388.1929

[1] See section 16 of Article IX (p 41): https://www.legislature.mi.gov/documents/mcl/pdf/mcl-chap1.pdf
[2] This document describes the loan process: https://www.michigan.gov/documents/3272_2816_7.pdf
See this page for more information about the program: https://www.michigan.gov/treasury/0,4679,7-121-1753_56435---,00.html

BACKGROUND:

Senate Bill 618 is identical to House Bill 5666, which was passed by the House and referred to the Senate Appropriations committee.

FISCAL IMPACT:

By removing the interest rate floor of 3% on qualified loans, the bill could reduce borrowing costs for school districts participating in the School Bond Qualification and Loan Program during times of low interest rates. The extent of any reduction in borrowing costs under the provisions of the bill would depend on the district. For context, as of January 1, 2022, the Department of Treasury estimates that the interest rate would have been 1.14171% under the provisions of the bill compared to 3% under current law. It should be noted that the interest rates under the program are floating rates, so the bill would only have an impact when calculated interest rates under the program were below 3%.

On the state side, lowering the interest rate would reduce the amount being paid into the School Loan Revolving Fund (SLRF) compared to current law. However, the Department of Treasury would still be required to charge an interest rate that was equal to the annual cost of funds used to make qualified loans plus 0.125%. Funds paid to the SLRF are used to repay debt or make new loans to districts.

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