House Legislative Analysis Section

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SCHOOL DISTRICTS: VARIANCE FOR BONDS

House Bill 5328 as introduced
First Analysis (12-13-89)

Sponsor: Rep. William R. Keith
Committee: Education

THE APPARENT PROBLEM:

Public Act 108 of 1961 requires a public school district wishing to have its bonds qualified for purposes of an election to file an Application for Preliminary Qualification of Bonds, and obtain preliminary qualification of the bonds from the state superintendent of public instruction, before an election can be called. The district must submit with the application the proposed maturity schedule of the bonds, which must meet various criteria in the act. While most districts use traditional financing techniques when issuing bonds, some districts apparently wish to sell "capital appreciation bonds," which are bonds issued at a large discount that bear no stated rate of interest. These bonds minimize the immediate tax "shock" of new bonds to the district by deferring interest payments to a later date. The bonds, however, do not meet the act's maturity schedule provisions for preliminary qualification, which means the district must issue bonds that meet the criteria, submit them for qualification, put them before electors for a vote, and then request a variance on the bonds' maturity schedule from the state treasurer. This procedure hinders school officials from being able to adequately explain the bonds' financing schedule to electors prior to a vote. To correct this situation, some people request legislation that would permit a school district at the time of filing for preliminary qualification for bonds to also file and request authorization from the state treasurer for a variance from the statutory requirements relative to the bonds' maturity schedule.

THE CONTENT OF THE BILL:

Public Act 108 of 1961 requires public school districts that wish to have an election on the issuance of bonds to get authorization to issue the bonds from the state superintendent of public instruction. The state treasurer, however, may authorize a variance in the bonds' maturity schedule if he or she determines this will be financially beneficial to the state or school district. The bill would allow the state treasurer, at the request of a school district, to grant such a variance as part of the required procedure of preliminary bond qualification under the act.

MCL 388.954

FISCAL IMPLICATIONS:

According to the Department of Education, the bill could have fiscal implications for both the state and local school districts. If a district issued capital appreciation bonds it would not be eligible for state funds from the School Bond Loan Program to help pay the interest on the bonds (since the payment of interest would be deferred to a later date), which would reduce state costs for districts choosing to issue this type of bond. The fiscal impact on local school districts would depend on a number of factors relative to each school district. In some instances issuing capital appreciation bonds would cost a district more money than using traditional financing techniques, while in other cases a district might save money. (12-12-89)

ARGUMENTS:

For:

The bill simply would allow a school district filing for preliminary bond qualification to also file and request from the state treasurer a variance from having to meet certain statutory criteria for a type of bond some districts would like to issue. These capital appreciation bonds essentially reduce the immediate tax burden to the district by deferring payment on the interest of the bonds until a later date. Apparently, districts that wish to use these financing techniques must apply using traditional bond maturity schedules and seek variance from the state treasurer after qualification has been given and electors have voted on the bonds. Explaining this procedure and these bonds to voters becomes difficult for school officials. If a district chose to issue these bonds, however, it would still have to submit to the state treasurer the bonds' maturity schedule for approval. One assumes the state treasurer's granting of a variance would be based on whether the bonds would be more financially beneficial for the state, the district, and the district's taxpayers.

POSITIONS:

A.G. Edwards and Sons supports the bill. (12-12-89)