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SFA BILL ANALYSIS

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Senate Bill 959 (as introduced 2-3-00)
Sponsor: Senator Joanne G. Emmons
Committee: Finance

Date Completed: 9-26-00

CONTENT

The bill would amend the Shared Credit Rating Act to do the following:

- **Allow the Michigan Municipal Bond Authority to accept State appropriations to be used for the benefit of public schools, and specifically allow the Authority to establish reserve funds to purchase obligations issued by school districts.**
- **Allow the Authority to loan money to a corporation, partnership, limited liability company, trust, or similar entity for the benefit of a public school academy.**
- **Repeal a section that prohibits the Authority from issuing new bonds or notes after December 31, 2000, to make loans to governmental units.**
- **Reduce the membership of the board of the Authority.**

Appropriations/Public Schools

The Act prescribes the powers and duties of the Michigan Municipal Bond Authority in regard to issuing notes and bonds and purchasing the obligations of local units of government as a mechanism for them to finance public improvements. While the Authority may accept grants, contributions, property, and other things of value, it is prohibited from receiving appropriations from the State's General Fund, except for revolving funds established for pollution control and drinking water. The bill specifies that the Authority could accept General Fund appropriations for the benefit of public schools, or for reserve funds for school districts.

The bill provides that an amount appropriated to the Authority could be accepted, obligated, and used by it to fund one or more reserve funds to secure bonds or notes it issued, to provide funds to purchase municipal obligations issued by school districts. The Authority, by resolution, would have to identify the reserve fund or funds as being funded, in whole or in part, with appropriated amounts accepted and obligated under these provisions. By resolution, the Authority would have to establish a reserve fund requirement with respect to each reserve fund established. If at any time a reserve fund requirement exceeded the amount in the reserve fund, an officer of the Authority, designated in the resolution establishing the fund, would have to certify to the State Treasurer the amount, if any, necessary to restore the fund to the reserve fund requirement. The State Treasurer would have to inform the State budget director of that amount. The Authority would have to include in the resolutions authorizing the issuance of bonds or notes secured by a reserve fund, or in a separate agreement, provisions determined by the Authority to be necessary or appropriate to implement these requirements.
Currently, a bond issued by the Authority and municipal obligations (bonds or notes issued by a governmental unit for a purpose authorized by law) do not include "qualified bonds", i.e., general obligation bonds of school districts issued for capital expenditures under Article 9, Section 16 of the State Constitution. (Article 9, Section 16 allows the State to make loans to school districts to enable them to make payments on the districts' qualified bonds.) The bill would delete these provisions, and specify that the Authority could purchase qualified bonds issued by school districts under Public Act 108 of 1961 (which implements Article 9, Section 16.)

Public School Academy

Under the Act, the Authority may loan money to a governmental unit and purchase and sell municipal obligations. The bill specifies that the Authority also could loan money to a corporation, partnership, limited liability company, trust, or similar entity for the benefit of a public school academy.

Authority Board

The bill would reduce from five to four the number of residents appointed by the Governor to the Authority's board of trustees, reducing the members of the board from eight to seven. Currently, in addition to the resident members, two members must be public officials or employees with expertise in the State's infrastructure needs, appointed by the Governor, and the other member is the State Treasurer. The bill would retain these members, but provides that the State Treasurer would be the chairperson of the board. (Currently, the chairperson is elected by the board.)

The bill would delete a provision that prohibits an employee of the Authority from being paid a higher salary than the State Treasurer.

Currently, an action of the board requires a concurring vote by a majority of the board. The bill provides that an action of the board would require a concurring vote of the majority of the members present at a meeting.

Other Provisions

The Act allows the Authority to purchase the municipal obligations of a governmental unit in "fully marketable form", that is, a municipal obligation duly executed and accompanied by various documents required in the Act. The bill would delete a requirement that the obligation be accompanied by an order of approval or an order of exception issued by the Department of Treasury under the Municipal Finance Act, including certification that a pledge for payment of the obligation is sufficient to pay principal and interest.

Currently, the Act provides that a governmental unit does not include the Michigan Strategic Fund or an economic development corporation. The bill would delete this provision.

Under the Act, the Authority must make an annual report to the Legislature on its activities, including various information such as obligations purchased and issued. The bill provides that the report would have to be made available to the public, instead of the Legislature.

MCL 141.1051 et al. Legislative Analyst: G. Towne

FISCAL IMPACT

The bill would have no fiscal impact on the State.

Currently, a sunset of December 31, 2000, is scheduled to terminate the Authority's ability to issue new bonds or notes to make loans to governmental units, except for bonds or notes issued pursuant to the State Water Pollution Control Revolving Fund or the State Drinking Water Revolving Fund. As a result, local units will have to use their own credit rating to determine the interest rate of a loan, which is usually higher than the State's. By repealing the sunset provision, the bill would allow local units to continue using the State's lower interest rate.

Fiscal Analyst: J. Runnels

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