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SFA BILL ANALYSIS

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Senate Bill 1137 (Substitute S-1)
Sponsor: Senator Leon Stille
Committee: Education

Date Completed: 5-20-02

CONTENT

The bill would create the "Michigan School Infrastructure Improvement Bond Authorization Act" to require the State, with voter approval, to issue up to $1 billion of general obligation bonds, which would be repaid from the State General Fund, in order to finance infrastructure improvements at Michigan public schools.

General Obligation Bond

The State would be required to borrow up to $1 billion and issue general obligation bonds, pledging the State's full faith and credit for the payment of principal and interest on the bonds, to finance infrastructure improvements at Michigan public schools. The bonds would have to be issued in accordance with conditions, methods, and procedures to be established by law.

Bond Proceeds

The proceeds of the sale of the bonds, premium and accrued interest received on the delivery of the bonds, and any interest earned on the bonds' proceeds would have to be deposited in the State Treasury and credited to the "Michigan School Infrastructure Fund" (to be created in a proposed "Michigan School Infrastructure Improvement Bond Implementation Act"). Money from the Fund could be disbursed only for the purposes for which the bonds had been authorized, including the expense of issuing the bonds. The proceeds of the sale of the bonds, any interest received on the delivery of the bonds, and any interest earned on the bond proceeds would have to be spent for the purposes set forth in the bill, in a manner provided by law.

Vote

The question of borrowing up to $1 billion and issuing general obligation bonds would have to be submitted to a vote of the State's qualified electors. The Secretary of State would have to perform all acts necessary to submit properly the question to the qualified electors to vote on at the next general election. The proposed bonds could not be issued unless a majority of the qualified electors voting approved the question.

Appropriation

The bill would require that, after the bonds were issued, a sufficient amount be appropriated from the State's General Fund each fiscal year to pay promptly the principal of and interest on all outstanding bonds and costs incidental to their payment. The Governor would have to include the appropriation in his or her annual budget recommendation to the Legislature.

Legislative Analyst: Claire Layman

FISCAL IMPACT

The cost to sell and repay general obligation bonds depends on how long the bonds are issued for, the annual interest rate that would have to be paid on the bonds, and the characteristics of the program to be funded with the bond proceeds. Assuming 20-year bonds issued at a constant interest rate of 5%, the debt service on the bonds would be approximately an average of $30 million per year over the course of 20 years. The total interest costs (under these assumptions) would be $584 million; the total cost of the bonds therefore would be $1.584 billion. The entire cost of the bonds would be paid with State General Fund/General Purpose revenue unless the programs supported by the bond proceeds included some form of cost sharing (to be determined with implementing legislation). For example, if local districts repaid the State for the bond principal, and the State covered the interest costs, the fiscal impact on the State would average $30 million per year.

Fiscal Analyst: Katherine Summers-Coty