

School Loan Revolving Fund Changes Act 437 of 2012

January 29, 2013

The long debated changes to the State law implementing the School Bond Qualification and Loan Act were enacted in December as part of the Legislature's lame duck session, and became effective on December 27, 2012, as Public Act 437 of 2012 (SB 770).

Key provisions of Act 437 affect all school districts with debt qualified for participation in the School Loan Revolving Fund and those who are contemplating issuing or seeking voter approval for such debt in the future (though the impact on those districts who do not expect to borrow from the Fund is much less extensive):

- A district's computed millage rate, *if it has one*, established at the time bonds are issued, or at the time of an initial loan from the Fund to pay debt service must be recalculated annually, starting October 1, 2013. If the recalculation demonstrates that the existing rate will be insufficient, using Treasury's required assumptions and projections, to repay the qualified bonds and associated loans by the district's mandatory loan repayment date, the district must increase its debt millage rate. A district that is not expected to borrow from the Fund will not have a computed millage rate unless and until it needs to borrow.
- The State may also seek an increase in the district's computed rate at the time of a refunding or new money bond issue.
- Act 437 expects that for the first calculation, a school district with a computed millage rate will increase that rate by as much as the same percentage by which its taxable value declined since 2008, though not more than the rate necessary to demonstrate an ability to repay its loans on time.
- Once a computed millage rate is increased, if a subsequent recalculation demonstrates that the increase is no longer required, the rate may be reduced, though not below the greater of 7 mills or the original computed millage rate, while loans remain outstanding.
- Preliminary Qualification no longer takes into account taxable value per pupil or the age of a district's buildings.
- Debt service projections must now assume:
 - That a district's positive or negative taxable value growth rate for the past five years will continue for the five years after the application (unless the State Treasurer concurs in a request by the District to use a different period of time),
 - The district's 20-year historical growth rate will be used for the period beginning more than five years after the application through final loan repayment but not more than 3% nor less than 0% growth.
- Districts must agree to maintain records detailing the investment and expenditure of proceeds of qualified bonds and produce them to the State within five business days after a request by the State. (Note: It is also good idea for federal tax and other reasons to maintain these records in a readily accessible form.)
- Until June 16, 2016, Act 437 allows the State Treasurer not to pre-qualify a district's bonds approved by the voters after September 30, 2012, which are expected to require loans from the State, if all State loans under the program exceed \$1.8 billion. As of June 30, 2012, outstanding loans totaled \$1.443 billion.

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- The State Treasurer has the discretion not to prequalify bonds if a district's outstanding and proposed qualified bonds and loans would exceed 25% of its taxable value as of the time the proposed bonds are issued.
- Ballot language for proposed qualified bonds must now include the dollar amount estimated to be borrowed from the Fund, the duration of the millage levy, the total amount of outstanding bonds and loans and that the computer millage rate, if there is one, may change.

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