

SENATE STAFF ANALYSIS AND ECONOMIC IMPACT STATEMENT

(This document is based on the provisions contained in the legislation as of the latest date listed below.)

BILL: SB 2046

SPONSOR: Senator Constantine

SUBJECT: School District Guarantee Program

DATE: April 20, 2001 REVISED: 04/23/01 _____

	ANALYST	STAFF DIRECTOR	REFERENCE	ACTION
1.	<u>O'Farrell</u>	<u>O'Farrell</u>	<u>ED</u>	<u>Favorable</u>
2.	<u>Wilson</u>	<u>Wilson</u>	<u>GO</u>	<u>Fav/1 amendment</u>
3.	_____	_____	<u>CA</u>	_____
4.	_____	_____	<u>AED</u>	_____
5.	_____	_____	<u>AP</u>	_____
6.	_____	_____	_____	_____

I. Summary:

The bill creates the School District Guarantee Program to give school districts an option for increasing their credit and borrowing capacity to the extent of their authorized millage for the purpose of issuing certificates of participation. School boards may request the financial backing of the state or the county commission in the issuance of the certificates of participation. Neither the state nor the county is required to comply with the board's request; however, if either does so, funds must be appropriated or set aside to cover the cost of the project being backed.

This bill creates section 236.255 of the Florida Statutes.

II. Present Situation:

Currently, s. 236.25(2), F.S., authorizes district school boards to levy up to two mills of nonvoted millage against the value of nonexempt property to fund:

- New construction and remodeling projects
- Maintenance, renovation and repair of existing school plants or leased facilities to correct deficiencies
- The purchase, lease-purchase, or lease of school buses, drivers' education vehicles, maintenance vehicles, security vehicles, or vehicles used to distribute and store equipment and supplies
- The purchase, lease-purchase, or lease of new and replacement equipment
- Payment for educational facilities and sites due under lease-purchase agreements entered into by the school board
- Payment of loans approved under sections 237.161 and 237.162, F.S.
- Payment of costs directly related to complying with state and federal environmental statutes and regulations governing school facilities

- Payment of the costs of leasing relocatable educational facilities, of renting or leasing educational facilities and sites as authorized by s. 235.56(2), F.S., or of renting or leasing buildings or space within existing buildings as authorized by s. 235.56(3), F.S.

In order to get the most out of these funds, school boards often borrow against their ability to levy the additional two mills by issuing certificates of participation (a form of lease-purchase). The boards have been warned by bond attorneys; however, against borrowing more than one-half of the millage proceeds. Higher levels of borrowing could have a negative affect on a board's credit rating, and could possibly increase the interest rate on the money borrowed.

Paragraph (e) of section 236.25(2), F.S., authorizing the revenue from the additional millage to be used for payments for educational facilities and sites acquired under lease-purchase agreements entered into by a district school board, limits the aggregate total of the payments to no more than three-fourths of the proceeds from the millage levied. For example, if a school board levies the full two mills allowed by law, no more than 1.5 mills may be used for lease-purchase payments for facilities and sites.

The Department of Education estimates that 50 to 60 percent of the state's 67 local school boards have issued certificates of participation to support their school facilities programs.

III. Effect of Proposed Changes:

The bill creates the School District Guarantee Program to provide local school boards with an option to increase their credit and borrowing capacity so they may issue certificates of participation to the full extent of the millage authorized by law. The program allows a school board to submit a request to the State Board of Education or the board's local county commission to provide financial backing to the board in the issuance of certificates of participation. The financial backing would be limited to the amounts in excess of 50 percent of the school board's authorized millage, and would be optional on the part of the state or county. Should the state or county agree to the board's request, the backing entity would have to appropriate or set aside the funds necessary to cover the amount of the project being backed. Nothing in the bill authorizes a school board to exceed the payment limits imposed by s. 236.25(2)(e), F.S., for the lease-purchase of facilities and sites.

The legislation enables a school board, with the cooperation and backing of the state or county commission, to strengthen its credit rating and possibly gain more preferential interest rates when obligating the maximum amount of the allowed millage to underwrite the issuance of certificates of participation. The financial backing of the other governmental entities would be limited to the difference between the 50 percent obligation limit for school boards being advocated by bond attorneys, and the statutory three-fourths limit on the capital outlay millage being levied that may be devoted to lease-purchase agreements for facilities and sites.

IV. Constitutional Issues:

A. Municipality/County Mandates Restrictions:

None.

B. Public Records/Open Meetings Issues:

None.

C. Trust Funds Restrictions:

None.

V. Economic Impact and Fiscal Note:

A. Tax/Fee Issues:

None.

B. Private Sector Impact:

An increase in school board borrowing capacity would be of benefit to private sector lenders and investors.

C. Government Sector Impact:

The bill contains no mandates. School boards do not have to seek the financial backing of the state or county, and the state and county are under no obligation to honor a school board's request. If the state or county agrees to a school board's request for financial backing, the agreeing party would have to appropriate or set aside sufficient funds to cover the amount of the project being backed.

School boards receiving financial backing from another government entity may be able to increase their level of borrowing by expanding the issuance of certificates of participation.

VI. Technical Deficiencies:

None.

VII. Related Issues:

The issuance of debt involving State of Florida agencies customarily occurs through the provisions of the State Bond Act, ch. 159, F.S. The Division of Bond Finance in the State Board of Administration acts as the overseer of much of this debt issuance. That division advises that there are other methods of achieving the objectives of this bill. An approach it finds quite useful is the state aid intercept method. In that approach the State of Florida forwards appropriated but unpaid education aid to school districts directly to bondholders. The result is a credit

enhancement that produces lower debt service costs by increasing the underlying stability of the debt repayment assurances. Since the practical use of such an alternative would be to assist poor school districts with limited millage options and a static tax base, such an option would also lessen the reliance upon county governments since, they, too, would be at or near their millage cap. Further discussion of this option, and others dealing with direct payment commitments and bond assurances and the related state oversight of local debt can be found at the website www.fitchratings.com, "The ABCs of State School Credit Enhancement Programs."

VIII. Amendments:

#1 by Governmental Oversight and Productivity:

Permits a district school board to use available millage for the acquisition of physical plant facilities if it determines such would be more advantageous over other methods involving renovation or construction.

This Senate staff analysis does not reflect the intent or official position of the bill's sponsor or the Florida Senate.
