

# MAINE STATE LEGISLATURE

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STATE OF MAINE  
SENATE  
FIRST SPECIAL SESSION  
107TH LEGISLATURE

SENATE AMENDMENT "A" to S.P. 689, L.D. 2206, RESOLUTION,  
Proposing an Amendment to the Constitution to Assure Revenues  
for Bond Service and Prohibit State Bonding of Current Expenditures

Amend said Resolution by inserting before the "Form of question and date when amendment shall be voted upon." the following underlined paragraph:

'Neither this section nor general law enacted by the Legislature in consequence hereof shall be effective against the issue of bonds authorized by Article VIII, Section 2, nor against the issue of bonds, the issue of which has been authorized by the Legislature prior to the effective date of this section but which are unissued as of the date on which this section is declared to be a part of the Constitution. Whenever it shall be necessary to issue bonds authorized by Article VIII, Section 2, for current expenditure purposes in order to meet obligations of the State incurred under provisions of Article VIII, Section 2, or under general enabling law enacted by authority of Article VIII, section 2, and no funds have been appropriated specifically to pay the interest and principal redemption requirements on the bonds, the Treasurer of State shall be authorized to set aside sufficient funds therefor out of the first General Fund revenues thereafter received and shall apply the moneys so set aside in accordance with the authorization provided by this section.'

Statement of Fact

The purpose of this amendment is to insure that the provisions of the proposed amendment to the Constitution do not place a barrier against:

1. The issue, possibly after the date on which a ratified amendment to the Constitution, as proposed by this Resolution, would become effective which would create a deficiency in the funds already authorized by the Legislature in payment of the state's obligations under the School Finance Act of 1976, recently enacted as PL 1975, c. 660, under which the issue of \$6,765,000 of the bonds authorized by P&SL 1973, c. 136 have been allocated to be used as reimbursements to local school units on the redemption by the local units of bonds issued for school construction purposes. There is also pending legislation which would allocate the issue of the remaining unallocated \$1,340,000 of bonds authorized by the same Act to cover deficiencies in the appropriation for the same purpose during the current fiscal year. The allocation Act, PL 1975, c. 272, specifically directs that the \$6,765,000 be issued sufficiently late in the 1976-77 fiscal year to avoid the necessity for interest payments in that year, which would be at a date subsequent to the probable effective date of this Resolution's becoming a part of the Constitution, if it should be ratified, and therefore the issue possibly becoming subject to questionable legality and therefore not meeting the approval of bond counsel.

2. A possible prohibition against the issue of any part of the \$4,000,000 in bonds authorized by Article VIII, Section 2, to provide funds for loans to Maine residents attending accredited

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post-secondary institutions. Under enabling legislation authorized by Article VIII, Section 2, the State has entered into an agreement with United Student Aid Funds, Inc., to act as the endorser of student loans which then would be made by participating lending institutions and to purchase from lending institutions any guaranteed loans defaulted by students, for which purchase the State guarantees to reimburse its agent. The State also has entered into agreements with the United States Office of Education under which guaranteed loan defaults are reimbursed by the Federal Government for 80% of the outstanding balance--for 100% of the outstanding balance if default occurs through death of the borrower.

The uninsured bonding authority together with federal recoveries serves as a reserve fund source which enables United Student Aid Funds, Inc., to endorse student loans.

Operating under an 8% reserve basis, each dollar of state bond authority by itself permits the guarantee of \$12.50 in endorsed loans which is further increased by a factor of 5 through the federal 80% reimbursement. Therefore, the \$4,000,000 loan authority provided by Article VIII, Section 2, provides a guarantee basis for a possible \$250,000,000 in principal amount of endorsed student loans of which some \$51,000,000 has been guaranteed initially with present outstanding balances of approximately \$38,000,000. Deprivation of the ability to issue bonds if, and as, necessary would effectively nullify the guarantee base of the guaranteed and insured student loan program and the amendment proposes to insure that it may not, if ratified, be

construed to prohibit the issue of such bonds which would be for purposes undoubtedly meeting the definition of current expenditures. Since the issue of bonds as authorized by Article VIII, Section 2, is predicated solely on the requirements to make good on defaulted loans purchased by its agent, the need is irregular and uncertain as to amounts. Interest and redemption appropriation are not provided in appropriation acts for contingent liabilities but only for interest and redemption of bonds already outstanding at the time of the drafting of the appropriations measure or definitely scheduled to be issued within the period. Nevertheless, the obligations of the State under this program, should the need to issue bonds occur, must not be delayed because no appropriation was provided specifically for that issue. The amendment proposes to authorize the treasurer to pay such debt service costs from unappropriated general fund revenues.

(Corson)  
NAME:

COUNTY: Somerset

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