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BILL ANALYSIS

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Senate Bill 1010 (as introduced 1-09-08)
Sponsor: Senator Gilda Z. Jacobs
Committee: Finance

Date Completed: 8-7-08

CONTENT

The bill would amend the Revised School Code to do the following:

- Allow an intermediate school district (ISD) to establish an area early childhood education program, and levy up to one mill to operate it with voter approval.
- Allow an intermediate school board in which an area early childhood education program had been established to operate programs or contract with local school districts or with community colleges for the operation of the programs.
- Allow certain school districts to elect not to come under an area early childhood education program, and to reverse that election.
- In an ISD where voters failed to approve an area early childhood education program, allow contiguous constituent districts to establish a program, and provide for the allocation of funding to it.
- Require the audit of an ISD to address whether proceeds of a tax levied for area early childhood education program operating purposes were used for those purposes, and require repayment if the proceeds were used for other purposes.
- Require the Departments of Education and Treasury, in consultation with ISDs, to develop a definition of area early childhood education program operating purposes.

- **Require an intermediate school board operating under the bill to prepare annually an area early childhood education budget.**

Elections

Under the bill, an ISD could establish and operate an area early childhood education program if approved by a majority of the intermediate school electors of the ISD voting on the question. The election would have to be called and conducted in accordance with the Code and the Michigan Election Law. The establishment of the program could be rescinded by the same process.

The question of establishing an area early childhood education program could be submitted to the intermediate school electors of an ISD at a regular school election or at a special election held in each of the constituent districts. Subject to Section 641 of the Michigan Election Law, the intermediate school board would have to determine the date of the election and would have to give notice to the school district filing official at least 60 days before the date the ballot question was to be submitted to the intermediate school electors. (Section 641 of the Election Law governs regular and special election dates.)

The ballot for submitting the question of adopting Sections 641 to 649 (provisions of the Code proposed by the bill) and establishing an area early childhood education program to the intermediate

school electors of an ISD would have to be substantially in the following form:

"Shall _____ (legal name of intermediate school district), State of Michigan, come under Sections 641 to 649 of the Revised School Code and establish an area early childhood education program that is designed to encourage the operation of area early childhood education programs if the annual property tax levied for this purpose is limited to _____ mills?"

The intermediate school board, with the approval of the intermediate school electors, could levy not more than one mill of ad valorem property taxes for area early childhood education program operating purposes, subject to Section 625b of the Code (which limits the duration of the authorization for a tax to 20 years).

An ISD could not hold more than two elections in a calendar year concerning the authorization of a millage rate for area early childhood education program operating purposes.

Increasing the Millage Limit

An intermediate school board operating under the bill could direct that the question of increasing the millage limit on the annual property tax levied for area early childhood education be submitted to the intermediate school electors of the ISD. The election would have to be called and conducted in accordance with Section 661. (That section of the Code allows an intermediate school board, subject to the Election Law, to submit questions to intermediate school electors at a regular or special election held in each of the constituent districts.)

The ballot would have to be substantially in the following form:

"Shall the _____-mill limitation on the annual property tax previously approved by the electors of _____ (legal name of intermediate school district), State of Michigan, for the establishment and operation of area early childhood education programs, be increased by _____ mills?"

Operation of Programs

An intermediate school board in which an area early childhood education program had

been established could operate programs or could contract with local school districts or with community colleges for the operation of the programs. Programs operated under the bill would have to be submitted for review of the representatives of the constituent districts of the ISD at the annual budget review meeting held by June 1 under Section 624 of the Code. (That section provides for the preparation and review of an intermediate school board's annual general fund operating budget. By June 1 each year, the board of each constituent district must review the ISD's proposed budget, adopt a resolution of support or disapproval, and submit any specific objections and proposed changes.)

A board could spend funds for the operation of programs approved by the Superintendent of Public Instruction and the purchase of area early childhood education equipment, and could not spend the funds for purposes other than those set forth in the bill. A board also could spend funds received for the costs of a special election held to renew or increase the millage limit on the annual property tax levied for area early childhood education purposes. The treasurer of an intermediate school board would have to pay funds on order of the board.

An intermediate school board in which a program was established would have to make payments from funds to those constituent districts and community colleges under contract serving the ISD and operating area early childhood education centers. Payments would have to be computed by deducting the current State and Federal early childhood education reimbursement for a center from the total cost of the center. The intermediate school board would have to reimburse all or part of the resulting difference. If the funds were not sufficient to make up this difference, a like percentage of the difference would have to be paid to all centers in the ISD.

A constituent district or community college maintaining an area early childhood education facility designated by the Superintendent of Public Instruction could enter into a contract with the intermediate school board and would have to become a center by contracting with the board to accept nonresident children assigned to its facility by the board.

A school district of 18,000 or more pupils, a first class school district, or a school district offering or making available to its residents a comprehensive early childhood education program approved by the Superintendent of Public Instruction could elect not to come under an area early childhood education program by resolution adopted by its board within 30 days after receiving notice that the question of establishing the program would be submitted to the school electors of the district. A school district electing not to come under the program subsequently could elect to come under the program if, at a special or regular school election, a majority of the electors voting approved the operation of the program and the annual tax rate for that purpose in effect in the other constituent districts of the ISD.

Constituent District Programs

In an ISD where the school electors had voted upon and failed to approve the ballot question, a combination of two or more contiguous constituent districts, by resolution of their boards, could elect to establish a program, if approved by resolution of the intermediate district board and designated by the State Board of Education. The requirement of contiguity would not apply if one or more of the districts that constituted the basis of contiguity declared their intent, by board resolution, not to be part of the proposed program. At any time within six months after the enactment of the resolution establishing the program in a local school district, school electors equal in number to at least 5% of the votes cast in the most recent school election could petition their local school district board to submit the resolution to the school district filing official for submission to the electorate, in a form and manner to be prescribed by the Secretary of State, and the district's participation in the program would have to be terminated if not approved by a majority of the school electors voting on the question.

Programs established by constituent districts would have to receive appropriate State funding or Federal funding allocated by the Superintendent of Public Instruction on exactly the same basis as area early childhood education programs and centers established by ISDs. Constituent districts establishing an approved program could

designate, by board resolution, specific amounts of either authorized operating millage or operating millage being requested from the school electors to be used solely for the program, in a manner to be prescribed by the Superintendent of Public Instruction, and the specified amount of millage would have to be regarded as area early childhood education millage rather than local school district operating millage in all computations made by the Department of Education to determine State aid. The revenue obtained from the millage designated, together with appropriate State and Federal funds, could be spent for the same purposes specified for intermediate district programs under the bill, including contracts with the ISD, another local school district, or a community college for area early childhood education programs and services.

A contiguous district desiring to become part of a program established under these provisions could do so with the approval of each participating school district, the ISD, and the State Board. Constituent districts operating an approved program could subsequently elect not to participate, or subsequently elect to participate, in an ISD program in exactly the same manner prescribed for school districts of at least 18,000 pupils, a first class school district, or a school district offering or making available to its residents a comprehensive early childhood education program approved by the Superintendent of Public Instruction.

Use of Proceeds; Audit

Under Section 622a of the Code, an ISD is subject to an audit of the matters described in the section conducted by an independent auditor under the direction of the Department of Treasury. An audit must be based in part on an examination of an ISD's accounts, financial records, and accounting procedures and must address at least three aspects of the ISD's operations, as directed by the Department. One of the aspects described in the section is whether proceeds from a tax levied for area vocational-technical education operating purposes, or from a tax levied for special education operating purposes have been spent for a purpose other than the purpose for which the tax was levied. Under the bill, this provision also would apply to proceeds from a tax levied for area early childhood education program operating purposes.

An ISD that levied a tax for area early childhood education program operating purposes could not use proceeds from the tax for any other purpose, and would have to submit to the Department of Treasury a copy of the report from the audit of the ISD conducted under Section 622a. If the Department determined from the audit report that the proceeds from the tax had been used for a purpose other than area early childhood education program operating purposes, the Department would have to notify the ISD of that determination. If the ISD disputed the determination or claimed that the situation had been corrected, the ISD could submit an appeal of the determination to the Department within 15 days after receiving it.

Within 90 days after receiving the appeal, the Department would have to consider it and determine whether the initial determination was correct or incorrect and whether the situation had been corrected. If the Department found that the initial determination was correct and that the situation had not been corrected, then the Department would have to file a copy of the report with the Attorney General. The Attorney General would have to review the report and, if he or she considered it appropriate, commence or direct the prosecuting attorney for the county in which the violations occurred to commence appropriate proceedings against the intermediate school board or the official or employee. These proceedings would have to include at least a civil action in a court of competent jurisdiction for the recovery of any public money determined by the audit to have been illegally spent and for the recovery of any public property determined by the audit to have been converted or misappropriated.

If the Attorney General determined from a report that an ISD had misspent tax proceeds and notified the ISD of the determination, the ISD would have to repay to its area early childhood education program operating fund an amount equal to the amount the Department determined had been used for a purpose other than program operating purposes. The ISD would have to make this repayment from funds of the district that lawfully could be used for making such a repayment.

For the purpose of these provisions, the Department of Education and the Department of Treasury, in consultation with ISDs, would have to develop and make available to them a definition of area early childhood education program operating purposes.

Annual Budget & Tax Rate Allocation

An intermediate school board operating under the bill would have to prepare annually an area early childhood education budget, which would have to be in the same form as that required in local school districts. The budget would have to be delivered to the county clerks of the counties in which the ISD was located, except in counties that had established separate tax limitation millage rates pursuant to the Property Tax Limitation Act. The county clerk would have to deliver the budget to the tax allocation board in the same manner as local school district budgets are handled.

County tax allocation boards would have to receive area early childhood education budgets from their respective county clerks; treat them as local school district budgets are treated; and allocate tax rates to ISDs for the purposes of the bill. The allocations would have to be handled in the same manner as other allocations for local school districts. The allocations could not be made within the 15-mill limitation and could not exceed the limit authorized under the bill.

When an intermediate school board received an allocation on the basis of its area early childhood education budget, the board would have to certify for collection to the officials of the local property tax collecting unit a statement of the amount of taxes to be levied. The certification would have to be made in the same manner as local school districts, but the rate certified for levy could not exceed the amount allocated.

On receipt of the statement from the intermediate school board, the officials responsible for levying and collecting these taxes would have to spread on the tax roll an area early childhood education tax equal to the amount ordered spread, and would

have to collect the taxes in the same manner as other taxes are collected.

Taxes collected by a city or township treasurer would have to be paid to the treasurer of the intermediate school board pursuant to the General Property Tax Act, or to the county treasurers in the same manner as other county taxes are paid, and similar accounts and records would have to be kept. The county treasurers would have to pay all funds received to the treasurer of the intermediate school board.

Deposit & Investment of Funds

Under the Code, an intermediate school board must select financial institutions for the deposit of school funds, keep a set of coded accounts to be approved by the Superintendent of Public Instruction, and have its books audited at least annually by a certified public accountant. General operating funds, building and site funds, cooperative education funds, special education funds, vocational-technical education funds, and debt retirement funds must be maintained separately, except as the board authorizes for the purpose of investing in an investment pool.

The treasurer of an ISD, if authorized by the board, may invest general operating funds, special education funds, area vocational-technical education funds, building and site funds, cooperative education funds, and debt retirement funds of the district. Investments are restricted to those specified in the Code.

Under the bill, area early childhood education program funds would be subject to these provisions.

Transfer of Constituent Districts

The Code allows a constituent district, by resolution of its board, to transfer and become constituent to another contiguous ISD if approval is given by each intermediate school board affected. If the ISD to which transfer is proposed has established an area vocational-technical education program, or has bonded indebtedness outstanding for area vocational-technical education facilities, the school electors of the district to be transferred must vote on the acceptance of those sections and the assumption of the

district's pro rata share of bonded indebtedness outstanding for area vocational-technical education facilities. The transfer is effective only if the applicable issues relating to special education programs, area vocational-technical education programs, and bonded indebtedness for special education and area vocational-technical facilities are approved at an election in the constituent district proposing the transfer.

The bill would include area early childhood education programs in these provisions.

MCL 380.605 et al.

Legislative Analyst: Craig Laurie

FISCAL IMPACT

The bill would have no fiscal impact on the State.

The bill would allow the levy, with voter approval, of up to one mill within the boundaries of an intermediate school district, for the purpose of funding area early childhood education programs. Attached is a list of intermediate school districts, and how much funding would be raised within each ISD if one mill were levied on the taxable value of the property. If all ISDs had levied one mill for area early childhood education programs in fiscal year 2007-08, approximately \$355.0 million would have been raised statewide. Funds raised under this levy would pay for costs associated with establishing and operating area early childhood education programs.

Fiscal Analyst: Kathryn Summers-Coty

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This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.

**Analysis of Senate Bill 1010:
Funds Raised with a One-Mill Levy on ISD Taxable Values**

<u>Intermediate School District Name</u>	<u>County</u>	<u>FY 2007-08 Taxable Value</u>	<u>Dollars Raised With a 1 Mill Levy</u>
ALLEGAN AREA EDUCATIONAL SERVICE AGENCY	ALLEGAN	\$ 2,647,346,931	2,647,347
ALPENA-MONTMORENCY-ALCONA ESD	ALPENA	1,846,328,486	1,846,328
BARRY ISD	BARRY	934,986,415	934,986
BAY-ARENAC ISD	BAY	3,510,662,798	3,510,663
BERRIEN ISD	BERRIEN	6,452,253,150	6,452,253
BRANCH ISD	BRANCH	1,127,816,996	1,127,817
CALHOUN ISD	CALHOUN	3,483,110,046	3,483,110
LEWIS CASS ISD	CASS	1,337,830,144	1,337,830
CHARLEVOIX-EMMET ISD	CHARLEVOIX	5,104,502,880	5,104,503
CHEB-OTSEGO-PRESQUE ISLE ESD	CHEBOYGAN	3,170,157,688	3,170,158
EASTERN UPPER PENINSULA ISD	CHIPPEWA	1,973,537,281	1,973,537
CLARE-GLADWIN RESD	CLARE	1,812,453,910	1,812,454
CLINTON COUNTY RESA	CLINTON	1,799,280,275	1,799,280
DELTA-SCHOOLCRAFT ISD	DELTA	1,385,711,741	1,385,712
DICKINSON-IRON ISD	DICKINSON	1,258,558,714	1,258,559
EATON ISD	EATON	2,611,749,045	2,611,749
GENESEE ISD	GENESEE	12,376,187,796	12,376,188
GOGEbic-ONTONAGON ISD	GOGEbic	663,254,883	663,255
TRAVERSE BAY AREA ISD	GRAND TRAVERSE	9,413,987,893	9,413,988
GRATIOT-ISABELLA RESD	GRATIOT	2,088,694,906	2,088,695
HILLSDALE ISD	HILLSDALE	1,114,845,818	1,114,846
COPPER COUNTRY ISD	HOUGHTON	918,349,458	918,349
HURON ISD	HURON	1,550,090,583	1,550,091
INGHAM ISD	INGHAM	9,120,495,563	9,120,496
IONIA ISD	IONIA	1,685,082,001	1,685,082
IOSCO RESA	IOSCO	1,513,453,416	1,513,453
JACKSON ISD	JACKSON	4,479,988,994	4,479,989
KALAMAZOO R.E.S.A.	KALAMAZOO	7,333,593,119	7,333,593
KENT ISD	KENT	21,571,539,378	21,571,539
LAPEER ISD	LAPEER	2,775,478,374	2,775,478
LENAWEE ISD	LENAWEE	3,324,838,315	3,324,838
LIVINGSTON ESA	LIVINGSTON	7,736,141,914	7,736,142
MACOMB ISD	MACOMB	32,419,027,532	32,419,028
MANISTEE ISD	MANISTEE	984,203,131	984,203
MARQUETTE-ALGER RESA	MARQUETTE	2,013,068,795	2,013,069
MASON-LAKE ISD	MASON	1,968,174,853	1,968,175
MECOSTA-OSCEOLA ISD	MECOSTA	1,892,303,992	1,892,304
MENOMINEE ISD	MENOMINEE	535,222,111	535,222
MIDLAND COUNTY ESA	MIDLAND	3,557,633,284	3,557,633
MONROE ISD	MONROE	5,913,437,512	5,913,438
MONTCALM AREA ISD	MONTCALM	2,086,067,924	2,086,068
MUSKEGON AREA ISD	MUSKEGON	4,489,667,404	4,489,667
NEWAYGO COUNTY RESA	NEWAYGO	1,262,379,583	1,262,380
OAKLAND SCHOOLS	OAKLAND	64,207,305,345	64,207,305
OCEANA INTERMEDIATE SCHOOL DISTRICT	OCEANA	647,606,707	647,607
OTTAWA AREA ISD	OTTAWA	10,875,532,299	10,875,532
C.O.O.R. ISD	ROSCOMMON	2,952,535,182	2,952,535
SAGINAW ISD	SAGINAW	5,126,580,807	5,126,581
ST. CLAIR COUNTY RESA	SAINT CLAIR	6,032,836,824	6,032,837
ST. JOSEPH COUNTY ISD	SAINT JOSEPH	1,958,979,176	1,958,979
SANILAC ISD	SANILAC	1,422,648,971	1,422,649
SHIAWASSEE REGIONAL ESD	SHIAWASSEE	2,000,599,099	2,000,599
TUSCOLA ISD	TUSCOLA	1,640,220,557	1,640,221
VAN BUREN ISD	VANBUREN	3,241,412,564	3,241,413
WASHTENAW ISD	WASHTENAW	15,156,011,946	15,156,012
WAYNE RESA	WAYNE	52,787,036,463	52,787,036
WEXFORD-MISSAUKEE ISD	WEXFORD	1,752,526,805	1,752,527
Statewide Totals		\$355,045,327,777	\$355,045,328