

Legislative Analysis



EXPAND USE OF SCHOOL SINKING FUNDS

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House Bill 4313 as passed the House
Sponsor: Rep. Mark Meadows
Committee: Education

Second Analysis (4-23-09)

BRIEF SUMMARY: The bill would revise the purposes for, duration of, and pre-conditions governing the creation of school district sinking funds, allowing a levy of 5 mills against the taxable value of the real and personal property of the school district for the new purposes of buying buses, bus maintenance, and technology. These bonds could be levied for up to 10 years. (Districts could continue to levy mills whose revenue would pay-off bonds over a 20-year time-period, in order to purchase real estate and to construct and repair school buildings.)

FISCAL IMPACT: The bill would have no fiscal impact on the state but could create savings for school districts. If a district could use a sinking fund to pay up-front for costs they otherwise would have to bond for, it would allow them to avoid both interest costs and legal fees associated with bonding.

THE APPARENT PROBLEM:

Under the Revised School Code, school district voters can authorize up to five mills to establish a sinking fund. The millage levied for sinking funds can be used only for the purchase of real estate that will serve as school sites, and for the construction or repair of school buildings.

The voters in nearly half of Michigan's school districts have authorized sinking funds (sometimes called "infrastructure investment funds"), although more than 80 percent of those districts levy under two mills, instead of the five-mill maximum levy that is allowed. See *BACKGROUND INFORMATION* below. Overall, the millage rates of school districts with sinking funds range from a low of 0.2389 mills in Suttons Bay (Leelanau County) where taxable value per pupil is \$490,175 to a high of 5 mills in Inkster (Wayne County) where the taxable value per pupil is \$50,833.

School superintendents say that legal restrictions governing the uses of sinking fund revenues are far too limiting.

Some school administrators have proposed a change in the law to give them more flexibility in the ways they are able to use the revenue in their sinking funds.

THE CONTENT OF THE BILL:

House Bill 4313 would amend the Revised School Code to revise the purposes for, duration of, and pre-conditions governing the creation of school district sinking funds.

Currently, the code says a sinking fund is to be used only to purchase real estate for school buildings and for the construction or repair of school buildings. The bill would allow a school district to use a sinking fund for those purposes, and also for the purchase or major maintenance of school buses, or for the acquisition or upgrading of technology.

Under Section 1212 of the code, the board of a school district can, if approved by the voters, levy up to five mills on the district's state equalized valuation, for up to 20 years, in order to create a sinking fund that pays for real estate or construction. The bill would retain this provision. Further, it would allow for five mills for up to 10 years to purchase or maintain school buses or acquire and upgrade technology.

Under the bill, "technology" would be defined to mean that term as defined in Section 1351a of the code. [Section 1351a of the code delineates the purposes for which bonds may (and may not) be issued by a school district. Under Section 1351a(1) bonds may be issued for, among other things, "acquiring, installing, or equipping or re-equipping school buildings for technology." Under Section 1351a(5), "technology" means any of the following: (a) hardware and communication devices that transmit, receive, or compute information for pupil instructional purposes; (b) the initial purchase of operating system software or customized application software, or both, accompanying the purchase of hardware and communication devices under sub-division (a); (c) the costs of design and installation of the hardware, communication devices, and initial operating system software or customized application software authorized under this subsection.]

Finally, the law currently requires that the proposition submitted to voters, allowing them to decide whether to levy a sinking fund tax, be voted on at a regular or special school election. House Bill 4313 would retain that provision, and specify that this election be held on either the May regular election date, or the November regular election date, as provided under the Michigan Election Law.

MCL 380.1212

BACKGROUND INFORMATION:

The House Fiscal Agency has prepared a four-page report called "Sinking Fund Millage Rates - Fiscal Year 2008-2009," which identifies the 141 school districts in the state whose taxpayers have voted to levy millage to create sinking funds. (There are 554 school districts in the state.) The report lists the sinking fund millage rate of each school district, and also the taxable value per pupil as of December 15, 2008 (based on districts' November 2008 state aid status).

Sixty-eight of the 141 districts, or 48 percent, levy less than one mill. Forty-six others, or 33 percent, levy between one and two mills. Fourteen districts, or 10 percent, levy between two and three mills. Eight districts, or 6 percent, levy between three and four mills. Only four school districts (three percent) levy more than 4 mills: one in Calhoun County (Union City, where taxable value per pupil is \$118,644); two in Wayne County (Dearborn Heights, where taxable value per pupil is \$102,833, and Highland Park, where taxable value per pupil is \$63,013); and one in Oakland County (Clarenceville where taxable value per pupil is \$209,366). One school district--Inkster in Wayne County--levies five mills for its sinking fund, the maximum allowed.

Overall, the millage rates of school districts with sinking funds range from a low of 0.2389 in Suttons Bay (Leelanau County) where taxable value per pupil is \$490,175 to a high of 5.000 in Inkster (Wayne County) where the taxable value per pupil is \$50,833.

ARGUMENTS:

For:

School officials should have greater flexibility to use sinking fund revenue in ways that improve their programs. In particular, they should be able to urge electors to vote for up to five new property tax mills, and that revenue should be available to purchase or upgrade the computer technology so essential to the modern curriculum, and to buy or maintain the school buses that bring students from their homes to the schoolhouse door.

Currently, the uses for sinking fund revenue are restricted. Under the law, the revenue can be used only to buy real estate and construct or repair school buildings. This legislation would retain those purposes, and also expand the uses to which revenue from sinking funds could be put. In order to avoid excessive millage levies, the bill limits to 10-years (instead of 20-years) the length of time for bus and technology millage levies. This limitation to require shorter-term bonds aligns with the useful life of a school bus or computer.

For:

If school electors decide to create sinking funds for these new uses, they could reduce the district's need to bond or borrow overall. This could reduce interest costs associated with bonded or borrowed debt.

For:

If school electors authorize new sinking funds to purchase or upgrade technological resources in the school district, they can substantially improve the facilities that sustain their academic programs.

Against:

This legislation thwarts the intent of Proposal A (Michigan's school reform ballot proposal), the primary aims of which were to reduce the reliance on the property tax overall, and to close the spending gap between high- and low-value school districts. A sinking fund levies authorized mills against the property value of a district. The higher

the property value, the more revenue a district can raise at low millage rates, without inflicting hardship on taxpayers. This legislation gives wealthier districts an advantage over districts with fewer resources.

Against:

The bill should be amended to require greater financial transparency from school administrators. Specifically, it should be amended to prohibit a levy for or the renewal of a sinking fund tax unless the school district posted all of its spending information on a school district website, and updated that information at least quarterly.

Against:

This is well-intended legislation, but it would have the result of hurting job providers if it raised their property taxes. The bill should be amended to exempt all or some portion of the commercial and industrial property tax base from the 5-mill sinking fund levy.

Against:

Several school districts are near the five-mill maximum rate that caps sinking fund levies. These districts would not be able to shift the revenue they currently dedicate to their sinking funds and apply it to the new purposes allowed in this legislation. Neither could they levy new mills that would take their districts beyond the cap. Arguably, the districts that currently levy between three mills and five mills would be most disadvantaged. They are Union City (in Calhoun County); Westwood Heights and Kearsley (in Genesee County); Fulton Schools (in Gratiot County); Camden-Frontier (in Hillsdale County); Michigan Center (in Jackson County); Fitzgerald (in Macomb County); Clarenceville (in Oakland County); Owosso (in Shiawassee County); and Dearborn Heights, Highland Park, and Inkster (in Wayne County).

Against:

This bill limits the uses for sinking funds far too narrowly. School district officials should have flexibility in the way they can spend the revenue in sinking funds. That way, they can save taxpayers money by using sinking fund revenue instead of going into debt, and paying off bonds at high rates of interest. As introduced, this bill accomplished that aim.

Originally, the bill said that sinking fund revenue and bond revenue could be used for the same things--that is, for any reason listed in Section 1351a of the Revised School Code. There, it says that a school district may borrow money and issue bonds of the district to defray all or a part of the cost of purchasing, erecting, completing, remodeling, or equipping or reequipping school buildings (except for equipping or reequipping for technology), including library buildings, structures, athletic fields, playgrounds, or other facilities, or parts of or additions to those facilities; furnishing or refurnishing new or remodeled school buildings; acquiring, preparing, developing, or improving sites, or parts of or additions to sites, for school buildings, including library buildings, structures, athletic fields, playgrounds, or other facilities; purchasing school buses; acquiring, installing, or equipping or reequipping school buildings for technology; or a combination of those purposes. The section also says that the bond proceeds are to be used for capital

expenditures and to pay costs of bond issuance, and are not to be used for maintenance costs.

School officials should be able to use sinking fund revenue for all of these purposes, not only real estate, construction, buses, and technology.

POSITIONS:

The following groups support the bill, several offering testimony at public hearings convened by the House Education Committee on 2-19-09 and 3-12-09:

The Michigan Association of School Boards; the St. Joseph and Lakeshore School Districts; the AFT-Michigan; the Michigan Education Association; Oakland Schools; Michigan Elementary Principals Association; Genesee ISD; Michigan PTSA; Northern Michigan Schools Legislative Association; Macomb ISD; MAISA-Region 8 (Washtenaw, Jackson, Monroe, Lenawee, Hillsdale ISDs); Wayne RESA; Kalamazoo, Muskegon, and Ottawa ISD; East Lansing Board of Education; Middle Cities Education Association; Michigan Association of School Administrators; Mona Shores Public Schools; Grandville Public Schools; Lowell Area Schools; and Elkton, Pigeon, Bayport Schools.

During those hearings, the following groups indicated their opposition to the bill:

The Association of Michigan Realtors; the International Brotherhood of Electrical Workers; the Michigan Chamber of Commerce; Michigan Manufacturers Association; Michigan Charter Schools; the Detroit Regional Chamber of Commerce; the National Federation of Independent Businesses; and the Grand Rapids Chamber of Commerce.

The following groups were neutral on the bill:

The Michigan Department of Treasury; the Michigan Association of Pupil Transportation; the Michigan Small and Rural Schools; and the Van Buren Legislative Consortium.

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