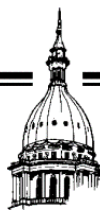




Senate Fiscal Agency  
P. O. Box 30036  
Lansing, Michigan 48909-7536

## BILL ANALYSIS



Telephone: (517) 373-5383  
Fax: (517) 373-1986

House Bill 4813 (Substitute H-4 as passed by the House)

House Bill 4815 (Substitute H-1 as passed by the House)

Sponsor: Representative Bill Rogers

House Committee: Education

**CONTENT**

House Bills 4813 (H-4) and 4815 (H-1) would amend the Revised School Code and the State School Aid Act, respectively, to provide for the dissolution of school districts under certain circumstances.

The bills are tie-barred to each other. House Bill 4815 (H-1) would take effect on October 1, 2013

House Bill 4813 (H-4) would establish the procedure for dissolution of a school district. A school district would have to be declared dissolved if the Superintendent of Public Instruction and the State Treasurer jointly determined that all of the following occurred: 1) the district either did not submit a deficit elimination plan as required, or submitted a deficit elimination plan but lacked the capability to both implement the plan and meet the district's obligations to provide educational services; 2) the school district was not financially viable and was unable to educate pupils in grades K-12 for a full school year; 3) the school district had fewer than 2,500 pupils in membership; and 4) the number of pupils in membership in the school district for the most recently completed school year was at least 10% less than the number of pupils in membership for the school year immediately preceding the most recently completed school year.

("Financially viable" would mean that a district has the financial resources to carry out at least the educational program required by law and pay its existing debts as they become due taking into consideration projected enrollment, cash flow, revenue, and borrowing capability.)

Territory & Pupils. If the dissolution criteria were met, the board of the intermediate school district (ISD) in which the dissolved district was located, or the Superintendent of Public Instruction if requested, would be required to dissolve the district and attach its territory to one or more other districts within the same ISD, taking into account the number of pupils transferred into each of the other districts relative to the numbers already enrolled and the numbers of pupils who qualified for free and reduced-price lunch among the other school districts.

The dissolved school district would have to account to the ISD for all records, funds, and property, and would have to make an equitable distribution of them to each receiving school district. Real property owned by and located in the dissolved district would become part of and owned by the receiving school district in which it was located.

Taxation & Outstanding Debt. If a dissolved district had outstanding debt, the district would have to retain a limited separate identity for the purpose of taxation until the debt was retired or refunded. The board and other officers of the school district in which the largest

share of the dissolved district's State equalized valuation had attached would have to satisfy the responsibilities of the board or other officials relating to the debt. Specifically, they would have to certify and levy taxes for satisfaction of the debt, hold debt retirement funds of the dissolved district separately from the receiving district's funds, and levy or renew a school operating tax. Renewal would require approval of the electors who lived within the dissolved school district.

School operating tax revenue (typically 18 mills levied on nonhomestead property under Section 1211 of the Revised School Code) would continue to be levied and used to pay off outstanding debt of the dissolved district. This differs from the current practice, in which the 18-mill revenue is used to offset the total cost of school foundation allowance funding.

("Debt" would be defined as in Section 103 of the Revised Municipal Finance Act, and any unpaid amounts payable by a dissolved school district to the Michigan Public School Employees' Retirement Board under the Public School Employees Retirement Act.)

If a tax in the receiving district were higher than in the dissolved district, the tax could not be levied in the dissolved district until approved by the electors in the dissolved district. A sinking fund levy authorized in the dissolved district would continue until the authorization expired; revenue generated would be distributed to each receiving district operating a school building previously operated by the dissolved district. A receiving district could not renew or authorize a new sinking fund tax that was levied only within the dissolved district.

Other Provisions. The bill specifies that test scores of pupils from a dissolved district could not be counted in a receiving district's test scores for three years after dissolution, to the extent allowed under Federal law. For the number of school years for which test scores of students from dissolved districts were not included in receiving districts, the scores also could not be used as a factor in any performance evaluation of an employee of the receiving school district. Pupils formerly enrolled in a dissolved district would have all of the rights of other pupils enrolled in the receiving district.

The bill would require the Superintendent of Public Instruction to grant each receiving school district Federal funds to implement the dissolution of the school district.

House Bill 4815 (H-1) would provide for implementation of the dissolution process outlined in House Bill 4813 (H-4). In general, House Bill 4815 (H-1) would remove from a receiving district's school aid calculations any taxable value, millage, and school operating revenue of a dissolved district that were used to satisfy debt obligations.

The bill also would create Section 20g to provide for grants to receiving districts for transition costs related to the enrollment of pupils who were previously enrolled in a dissolved district. The bill specifies this transition funding would be meant to continue for four years following the dissolution. The amount of a transition grant would be 10% multiplied by the lesser of the foundation allowance of the receiving district or the basic foundation allowance (currently \$8,049 for FY 2013-14). (For example, if the receiving district's foundation allowance were \$7,500, the transition grant would be \$750 for each pupil enrolled who had previously been enrolled in a dissolved district. If the receiving district's foundation allowance were \$12,000, the transition grant would be \$805 (10% of the basic which is \$8,049) for each pupil enrolled who had previously been enrolled in a dissolved district.) For this purpose, the bill would allocate up to \$2.2 million for FY 2013-14 from the General Fund money appropriated for public schools under the State School Aid Act.

MCL 380.12 et al. (H.B. 4813)  
388.1607 et al. (H.B. 4815)

Legislative Analyst: Kathryn Summers  
Glenn Steffens

## **FISCAL IMPACT**

At this time, two districts are determined to have met all four criteria that would be established under House Bill (H.B.) 4813 (H-4) and are under review: Inkster and Buena Vista. According to 2012 audits, Inkster's deficit was \$12.8 million, and Buena Vista's deficit was \$1.0 million. If, at some point in the future, other districts met all four criteria, the costs mentioned below would increase. This analysis will focus on the two districts that currently do meet all four criteria as laid out under the substitutes.

Under the process outlined in H.B. 4815 (H-1), the portion of foundation allowance costs that previously was paid for with local money would be shifted to the State for the duration of time that the 18-mill revenue was used to satisfy outstanding debt of the dissolved district. Once the outstanding debt was repaid, the taxable value, millage, and school operating revenue that had been diverted would revert to the receiving district and the State would no longer make up the cost of that diverted revenue.

The estimated cost of shifting foundation allowance costs to the State for the time that the 18-mill revenue was used to satisfy the dissolved district's outstanding debt (as provided under Section 22a) is \$2.7 million out of the General Fund for the two districts under review.

The estimated cost of the grants for transition costs under proposed Section 20g is \$2.2 million out of the General Fund.

The State would see fiscal impacts in the following ways: the use of 18-mill revenue to pay off outstanding debt, a Michigan Public School Employees Retirement System (MPERS) rate cap cost, and the 10% transition grant for four years. The receiving districts would see fiscal impacts in the short term due to the 10% transition grant payments. Unlike consolidation or annexation (which is voluntary), the receiving districts would not see a permanent change in their foundation allowances once the pupils and taxable values from the dissolved district were combined with the receiving district. (In the introduced version of HB 4815, there had been a pupil-weighted foundation allowance calculation for the receiving district, but this was removed in the (H-1) discussed here.)

Impact of 18-Mill Revenue Diversion to Pay Outstanding Debt. As mentioned above, the bills would provide for a dissolved district's operating revenue (typically 18 mills levied on nonhomestead property) to be used to pay off any outstanding debt. This revenue is currently counted as the local portion of the district's foundation allowance and used to offset the total foundation allowance costs paid under the School Aid Act. With the diversion of this revenue to pay outstanding debt, the State would pick up that portion of foundation allowance costs previously borne by local revenue until the outstanding debt of a dissolved district was repaid.

For the two districts currently under review, the 18-mill local revenue generated yearly is estimated at \$1.7 million for Buena Vista, and \$1.0 million for Inkster. As of June 2012, these districts' outstanding debt (not deficit, which was mentioned above) levels were roughly \$3.0 million and \$18.0 million, respectively. If those debt levels are fairly constant at the present time, then it would take about two years to pay off Buena Vista's debts using the district's 18-mill revenue, and 18 years to pay off Inkster's debt. Therefore, the State cost of diverting the 18-mill revenue to pay outstanding debt would be \$2.7 million in the first year, \$2.3 million in the second year, and then \$1.0 million for the next 16 years. These payments are added to Section 22a of the School Aid Act in the bill. If any subsequently eligible district(s) were found eligible for dissolution, additional cost would be incurred under this section, until its outstanding debts were repaid and the 18-mill revenue reverted to supporting the receiving district's foundation allowance.

Impact of 10% Transition Payment. It is estimated that the cost of providing a 10% transition payment for students previously enrolled in dissolved districts would range from \$1.7 million up to \$2.2 million General Fund, focusing only on the two potential districts under review, and the final cost would depend on how the foundation allowance of the receiving district compared to the basic foundation allowance. The cost would be higher if more districts came under review and qualified for dissolution as prescribed by the bills. This adjustment would occur for four years after dissolution. House Bill 4815 (H-1) would allocate the maximum estimated \$2.2 million cost in Section 20g.

MPSERS Rate Cap. There also would be a fiscal impact associated with the potential loss of covered payroll if the employees of the dissolved districts were not hired by the receiving districts. The stranded costs associated with the dissolved districts would be borne by the State to the extent covered payroll did not transfer to the receiving districts. This cost could be up to \$4.0 million for Buena Vista and Inkster, and higher if other districts were dissolved. This cost is not included in H.B. 4815 (H-1) due to the unknown status of the extent of payroll that would or would not be picked up by receiving districts; therefore, the extent of the stranded costs is as yet undetermined. However, it is likely that, if funds were not included at this point, a supplemental could be necessary to pay for any stranded costs due to this phenomenon, once the extent of the stranding became known.

Cumulative State Impact. Adding the three fiscal impacts described above for the two potential districts under review, the total State impact could range from \$8.4 million to \$8.9 million in the first year, if MPSERS rate cap costs are included, or \$4.4 million to \$4.9 million if MPSERS rate cap costs are excluded at this time. This would decline as debt was repaid and the 18-mill nonhomestead revenue reverted to offset the cost of foundation allowance funding at the receiving district.

Local Impacts. After the four-year transition payment ended, a receiving district would retain its original foundation allowance and would not be adjusted to a pupil-weighted average based on the dissolved district's foundation allowance. Therefore, the long-term effect would be the loss of the transition payments alone.

Date Completed: 7-10-13

Fiscal Analyst: Kathryn Summers

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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.