



**House
Legislative
Analysis
Section**

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**EXPAND USE OF SCHOOL SINKING
FUNDS**

**House Bill 4824 (Substitute H-1)
First Analysis (10-11-01)**

**Sponsor: Rep. Doug Hart
Committee: Appropriations**

THE APPARENT PROBLEM:

School officials say that the restrictions that govern the uses for which the revenue in their “infrastructure investment funds” (often known in the parlance of accountants as “sinking funds”) can be used are far too limited. In contrast, the uses to which the revenue from bonds can be put, provide them with far greater flexibility.

For example, Section 1351a of the Revised School Code (which restricts the purposes for borrowing money and issuing bonds) specifies that a school district may borrow money and issue bonds to: defray all or a part of the cost of purchasing, erecting, completing, remodeling, or equipping or re-equipping (except for equipping or re-equipping for technology) school buildings (including library buildings, structures, athletic fields, playgrounds, or other facilities, or parts of or additions to those facilities); furnish or re-furnish new or remodeled school buildings; acquire, prepare, develop, or improve sites, or parts of or additions to sites, for school buildings (including library buildings, structures, athletic fields, playgrounds, or other facilities); purchase school buses; acquire, install, or equip or re-equip school buildings for technology; refund all or part of existing bonded indebtedness if the net present value of the principal and interest to be paid on the refunding bonds (excluding the cost of issuance), will be less than the net present value of the principal and interest to be paid on the bonds being refunded, as calculated using a method approved by the Department of Treasury; or, accomplish a combination of these purposes.

In contrast to the many purposes authorized under the law for bond revenues, the millage levied for sinking funds can be used only for the purchase of real estate for sites for school buildings, and for the construction or repair of school buildings.

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 4824 would amend the Revised School Code to allow school electors and school district officials to create sinking funds for any purpose for which money can be borrowed and bonds can be issued under section 1351a of the code.

Currently, to create a sinking fund, the board of a school district may levy a tax of five mills or less on the state equalized valuation of the district for a period not to exceed 20 years, with the approval of school electors. In contrast, House Bill 4824 would allow a district to levy a tax of five mills or less on the taxable value of the real and personal property of the district.

Further, currently sinking funds can be used for the purchase of real estate for sites for school buildings, and for the construction or repair of school buildings. Under House Bill 4824 a sinking fund could be used for any purpose for which a school district may borrow money and issue bonds under section 1351a. For a list of those purposes, see *APPARENT POLICY PROBLEM*, above. The bill also specifies that a school district with a sinking fund would be required to have an independent financial and compliance audit annually. Currently the law specifies that when the Department of Treasury determines from its audit report that a sinking fund has been used for an other than authorized purpose, the school district must repay the misused funds (to that fund) from the district’s operating funds, and the district may not levy a sinking fund tax after the treasury department makes its determination. The bill would retain this provision, and also prohibit use of the funds for “other than the purpose specified in the ballot language.”

House Bill 4824 (10-11-01)

Finally, House Bill 4824 specifies that in the ballot language required under the law, a school district could refer to the sinking fund by another appropriate descriptive term, such as “infrastructure investment fund.”

MCL 380.1212

FISCAL IMPLICATIONS:

Under the law, school district electors cannot authorize more than five mills to establish a sinking fund.

The House Fiscal Agency has prepared a three-page report called “Sinking Fund Millage Rates – Fiscal Year 2001,” which identifies the 91 school districts in the state whose taxpayers have voted to levy millage to create sinking funds. The report lists the sinking fund millage rate of each school district, and also the taxable value per pupil as of August 20, 2001.

Thirty-three of the 91 districts levy less than one mill. Thirty-seven others levy between one and two mills. Ten districts levy between two and three mills. Seven districts levy between three and four mills. Only four school districts levy more than 4 mills: two in Calhoun County (Lakeview, where taxable value per pupil is \$152,470, and Union City, where taxable value per pupil is \$63,530) and two in Wayne County (Dearborn Heights, where taxable value per pupil is \$82,388, and Highland Park, where taxable value per pupil is \$31,050). Overall, the millage rates of school districts with sinking funds range from a low of 0.3912 (Mancelona, where taxable value per pupil is \$180,525) to a high of 4.9970 (Highland Park City Schools, where taxable value per pupil is \$31,050). (10-10-01)

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 fund buildings, libraries, athletic fields, playgrounds, furnishings, site development, school bus purchases, and to make refunds to the Department of Treasury for bonded indebtedness. Currently, sinking fund revenue is restricted. Under the law, it 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.

For:

If school electors decided to create sinking funds for this wide array of purposes, 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 for this wide array of purposes, they can increase their investment in their local schools, and substantially improve the facilities that sustain their academic and athletic 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 likely will enable wealthier districts to expand their programs—a classic example of ‘them that gots, gets.’

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 Tekonsha, Lakeview, and Union City (in Calhoun County); Westwood Heights and Kearsley (in Genesee County); Napoleon (in Jackson County); Fitzgerald (in Macomb County); Big Jackson (in Newaygo County); Bangor Township (in VanBuren County); and Dearborn Heights and Highland Park (in Wayne County).

POSITIONS:

The Middle Cities Education Association supports the bill. (10-10-01)

The Rockford Public Schools support the bill. (10-10-01)

The Kent County Intermediate School District supports the bill. (10-10-01)

Grandville Schools support the bill. (10-10-01)

Analyst: J. Hunault

■ This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.