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House Bill 4824 (Substitute H-1 as passed by the House)
Sponsor: Representative Doug Hart
House Committee: Appropriations
Senate Committee: Education

Date Completed: 2-20-02

CONTENT

The bill would amend the Revised School Code to permit the board of a school district, if approved by the school electors, to create sinking funds for any purpose for which money may be borrowed and bonds may 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 school district each year for up to 20 years, if approved by the school electors. The bill would permit a district to levy a tax of five mills or less on the taxable value of the real and personal property of the district, each year for up to 20 years.

Sinking funds are to be used only for the purchase of real estate for sites for, and the construction or repair of, school buildings. Under Section 1351a of the Code, however, a district may borrow money and issue bonds to defray all or part of the cost of any of the following:

- Purchasing, erecting, completing, remodeling, or equipping or reequipping (except for equipping or reequipping technology) school buildings, 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.
- Refunding 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.
- Accomplishing a combination of the above purposes.

Further, the Code requires any school district that levies a sinking fund tax have an independent audit of its sinking fund conducted annually. The bill would require an annual independent financial and compliance audit.

Currently, the Code provides that, when the Department of Treasury determines from its audit report that a sinking fund has been used for a purpose other than those authorized, the district must repay the misused funds (to the sinking fund) from the district's operating funds, and the



district must not levy a sinking fund tax after the Department of Treasury makes its determination. The bill would retain this provision, and also prohibit the use of the funds for a purpose other than the purpose specified in the ballot language. (The Code requires a district to describe on the ballot the purpose for which the sinking fund will be used.)

Finally, under the bill, a school district could refer to the sinking fund on the ballot by another appropriate descriptive term, such as "infrastructure investment fund".

MCL 380.1212

Legislative Analyst: Claire Layman

FISCAL IMPACT

The bill would have no fiscal impact on State government.

The increased flexibility in the use of sinking fund revenues under this proposal could result in the approval of more sinking funds and thus increase property taxes for residents approving these proposals. Currently, 91 school districts already levy sinking fund millage and those districts would continue to be capped at the five-mill limit for sinking funds. These districts would not be able to take full advantage of this legislation until that debt was paid off, which could be up to 20 years in some cases.

Fiscal Analyst: Joe Carrasco, Jr.