

**SFA**

BILL ANALYSIS

RECEIVED

MAY 22 1987

Senate Fiscal Agency

Lansing, Michigan 48909

(517) 373-5383

Mich. State Law Library

**House Bill 4332 (Substitute H-1 as reported without amendment)****Sponsor:** Representative Thomas L. Hickner**House Committee:** Education**Senate Committee:** Education and Mental Health**Date Completed:** 5-6-87**RATIONALE**

The School Code classifies school districts into first, second, third, and fourth class districts according to various criteria, most notably the number of pupils enrolled. Each class of school district is governed by a separate section of the code, in addition to general provisions that govern all school districts, and the powers granted to each class of district vary. Of the state's approximately 565 school districts, 405 are fourth class districts. Reportedly, the Pinconning Area School District, a fourth class school district, needs to add classroom space to an existing school building, and has sufficient resources within the district's county-allocated millage to fund the construction project. Under the school code, however, a fourth class district is not authorized to use its allocated millage for capital improvement projects. In order to levy taxes for capital improvements, a fourth class district either must establish a Building and Site Sinking Fund, which requires a vote of the electorate, or use the provision of the State School Aid Act that allows a district to spend up to 5% of its State aid for capital costs or debt service. The second option is not available to districts that do not receive State aid under the Act's membership formula. The board of a first, second, or third class school district, however, is authorized under the code to use the district's county-allocated millage for any purpose within the board's power. Some people believe that this authority should be extended to fourth class school districts as well.

**CONTENT**

The bill would amend the School Code to add a new section to Part 3 of the code, which governs fourth class school districts, to require the board of a fourth class district to estimate annually, on a day that would be determined by the board, the amount of taxes that would be necessary for the ensuing year for expenditures the board was empowered to make. The estimate would have to specify the amounts required for different purposes.

The board would be required to certify the taxes to be levied for the school district to the proper assessing officer, who would be required to apportion the school taxes in the district in the same manner as other city or township taxes are apportioned. The amount apportioned would be assessed, levied, collected, and returned for each portion of the district in the same manner as taxes of the city or township in which the portion of the school district is located. If the district extends beyond the limits of a single municipality, the board would be required to certify to the county board of commissioners the amounts that would be raised in the school district for school purposes.

The county board of commissioners would be required to apportion the school taxes to municipalities that had territory in the school district in proportion to each municipality's assessed valuation and would be required to certify the apportionment to the proper municipal officer.

(A fourth class district is a district having more than 75 and less than 2,400 pupils (MCL 380.102).)

Proposed MCL 380.126

**BACKGROUND**

Of the 405 fourth class school districts that do not have the authority to expend local allocated tax dollars for capital outlay, 291 received State aid in 1986-87. This aid ranged from \$12,424 to \$9,813, 307. Under the 5% provision in the State School Aid Act, which allows a district to spend up to 5% of its State aid for capital costs or debt service, a school's expenditure for capital purposes could range from \$620 to \$490,665.

The power to levy a tax for building and site purposes is subject to the 15-mill limitation contained in Article IX, Section 6 of the State constitution. A school district normally has a limitation allocated to it by the Tax Allocation Board or by permanent fixed allocation in a county, with additional increases in the tax-rate limitation approved by the electors for a specific term of years. The increases in the tax rate limitation approved by the electors usually are limited to "operating purposes". Thus, taxes levied within the voted increases would not be available for building and site purposes. The basic allocated rate, however, is not earmarked for any particular purpose.

**FISCAL IMPACT**

House Bill 4332 (H-1) could result in a small savings to the State in the form of reduced general membership State aid payments to local school districts. Such savings would result if fourth class districts that receive general membership State aid (i.e., are "in-formula") move county-allocated millage from operational purposes to capital outlay purposes. Such a shift of millage would reduce State membership aid payments since millage levied for school operations is "equalized" by State matching aid, while millage levied for capital outlay is not.

**ARGUMENTS****Supporting Argument**

The bill would extend to fourth class school districts the authority to spend a portion of their county-allocated

H.B. 4332 (5-6-87)

millage for capital improvements, thereby eliminating the need for an election to pay for small projects that are within the existing financial resources of such districts. This authority is already granted to other classes of schools districts. In fact, the language proposed in the bill is identical to that in the section governing third class districts. Prior to the 1978 tax limitation amendment to the State constitution, all school districts were authorized by law to issue bonds of up to 5% of their State equalized valuation for capital improvements without a vote of the electorate. Since that option is no longer available, fourth class districts are rather limited in their options for funding capital improvements. Fourth class school districts, such as Pinconning, should have the flexibility to spend local tax dollars for capital outlay purposes when the project in question is too small to justify a bond issue requiring voter approval.

### ***Supporting Argument***

Fourth class districts may use provisions in the State Aid Act, which allow schools to spend up to 5% of their total State school aid membership funding for capital costs or debt services contracted after December 8, 1932. Of the 405 fourth class districts, however, 114 are out-of-formula and receive no membership funding, while many others receive very little membership funding. Allowing these school districts to use 5% of their total State aid does not provide the districts with the ability of funding large capital expenditures. House Bill 4332, therefore, would give these districts the authority they need to spend allocated or local tax money, that has not been earmarked, for capital outlay purposes.

### ***Opposing Argument***

Authorizing fourth class school districts to use tax money for capital outlay purposes would have the detrimental effect of reducing the funds available for general operations. In addition, these school districts could pursue major capital outlay projects, such as constructing and remodeling school buildings or purchasing and developing school sites, without the vote of the people.

Legislative Analyst: L. Arasim

Fiscal Analyst: M. Addonizio

---

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.