

COMMUNITY DISTRICT EDUCATION TRUST FUND

Phone: (517) 373-8080
<http://www.house.mi.gov/hfa>

House Bill 5383 (as passed by the House with amendments)

Sponsor: Rep. Amanda Price

Committee: Appropriations

Complete to 5-6-16

Analysis available at
<http://www.legislature.mi.gov>

SUMMARY:

House Bill 5383 would amend the Michigan Trust Fund Act to divert \$72.0 million per year, up to a total of \$500.0 million, from the state's Tobacco Settlement Revenue into a new Community District Education Trust Fund to replace local 18-mill property tax revenue that will be used instead to pay off debt associated with the Detroit Public Schools (DPS), as described in more detail below.

The State Treasurer could receive money or other assets from any source for deposit in the Community District Education Trust Fund, would direct the investment of the fund, and would credit to the fund interest and earnings from the fund's investments. Money in the fund at the close of the fiscal year would remain in the fund and not lapse to the General Fund. The Department of Treasury would be the administrator of the fund for auditing purposes.

Under the bill, the department could expend money from the Community District Education Trust Fund, upon appropriation, only to offset the absence of local school operating revenue when funding the foundation allowance for a community district organized under Part 5B of the Revised School Code. Under the provisions of House Bill 5384, DPS would become such a district.

House Bill 5383 is tie-barred to House Bill 5384.

FISCAL IMPACT:

The bill would have no net impact on state revenues. It would reduce the amount of tobacco settlement revenue available for existing appropriations by \$72.0 million per year until the cumulative total equals \$500.0 million, which would include fiscal years (FYs) 2016-17 through 2022-23. Those funds would instead be available for appropriation from the Community District Education Trust Fund.

The state currently receives roughly \$250 million in tobacco settlement revenue per year, of which a large portion is dedicated to debt service costs related to past securitizations of the revenue, an annual transfer to the 21st Century Jobs Fund, and repayment to the Budget Stabilization Fund for the state's payment toward the City of Detroit settlement. Of the approximately \$100 million in revenue remaining, the largest appropriations are for the state's Medicaid program and Family Independence Program. The redirection of tobacco

settlement revenue under this bill would require either the appropriation of GF/GP funds to backfill the revenue for those or other programs, or reductions to those appropriations.¹

Under the larger package of bills related to DPS being considered (House Bills 5384 and 5387 and Senate Bills 711, 820, and 822), the bills would redirect local revenues in order to pay off debt totaling approximately \$500.0 million. The appropriations from the trust fund are anticipated to be made in the School Aid budget to backfill revenue from Detroit's 18-mill levy that would be utilized to pay down debt over time (by the "old" DPS district) and would, therefore, no longer be available to support the new Detroit community district's foundation allowance. The estimated total debt would include approximately \$467.0 million in accumulated operating deficits as well as \$33.0 million to finance start-up costs and cash flow issues for the new district.

Fiscal Analysts: Kyle I. Jen
Bethany Wicksall

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

¹ For additional details on tobacco settlement revenue and appropriations, see the table attached to the HFA memo linked below. Note that the projected FY 2015-16 balance of \$48.7 million shown there has subsequently been appropriated to address short-term cash flow needs for DPS via PA 54 of 2016.
http://www.house.mi.gov/hfa/PDF/SchoolAid/DPS_Funding_Plan_Memo_Feb11.pdf