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BILL ANALYSIS

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Senate Bill 356 (Substitute S-3 as reported)
Sponsor: Senator Ken Horn
Committee: Appropriations

CONTENT

The bill would amend the Revised School Code to allow a receiving school district to levy school operating taxes within the geographic area of a dissolved school district, and use that millage revenue to pay down outstanding nonbonded debt, if any, or to support the foundation allowance in the absence of outstanding debt. The receiving school district could levy the operating mills only when a dissolved school district was no longer authorized to do so.

As background, Section 12 of the Revised School Code provides for the dissolution of school districts under certain conditions. It was envisioned that dissolved school districts would retain their legal status as a taxing authority until any outstanding debt was repaid, by continuing to levy operational mills (to pay operating debt) and to levy debt mills (to pay bonded capital or building debt). For nondissolved districts, the operating mill revenue is counted by the State as the local share or support of the foundation allowance. However, when a district is dissolved, that operating mill revenue instead is diverted to pay outstanding debt, if any, for as long as the mills are authorized. (Under current law, the diversion of operating mill revenue from supporting the cost of the foundation allowance to instead paying down operating debt indirectly results in a cost to the State, by increasing the State share of the foundation allowance cost in the affected district(s).)

In one of the dissolved school districts (Buena Vista), the operating mill revenue assessed on nonhomestead property, that was intended to be levied after dissolution to pay down debt, was not renewed by voters. In the absence of any change in law, it is anticipated that the only way to attain revenue to pay down the debt will be a judgment levy on all taxpayers (home- and business-owners) in the geographic area of the dissolved district. However, this bill instead would allow the receiving school districts to levy the operating mills on nonhomestead property in the geographic territory of the dissolved school district, and use that revenue to pay the outstanding nonbonded debt of the district. Once the debt was repaid, the operating mill revenue then would be returned to its original purpose as local support of the foundation allowance.

MCL 380.12 & 380.1211

FISCAL IMPACT

As noted above, under current law, when operating mill revenue (typically the 18 mills levied on nonhomestead property) is diverted from its original purpose as local support of the cost of the foundation allowance to instead pay down outstanding operational debt, it results in a cost to the State because the State is paying a higher share of the foundation allowance until that 18-mill revenue is returned to support the foundation allowance.

This bill would continue that diversion, by allowing a receiving district to levy the operating mills when a dissolved district was no longer authorized to levy them, such as when the voters in the dissolved district did not vote to renew an authorization. This would result in an increased State cost compared to the cost of allowing the debt to be paid off via a judgment levy, if a judgment levy could be imposed in a timely and efficient manner.

However, if a judgment levy were delayed, or if the repayments under the judgment levy were spread out over a number of years, then there actually could be a higher cost to the State compared to the continued diversion of operating mill revenue as the bill would allow. The higher cost could result because the geographic territory of the dissolved district would not be officially transferred to the receiving district until the debt was entirely repaid, meaning the 18-mill operating revenue could not be collected until the judgment was entirely satisfied. Therefore, if a judgment levy were delayed or debt were not fully resolved in a timely manner, then this bill would result in State savings because, again, the operating mill revenue would return to its original purpose of supporting the foundation allowance sooner than under a prolonged judgment levy.

In the specific case of Buena Vista, the yearly 18-mill operating revenue generates roughly $1.6 million. Until the debt is repaid, the State is indirectly paying that $1.6 million by a higher share of the receiving districts' foundation allowances, since the districts cannot collect that 18-mill revenue and use it for the foundation allowance until the outstanding debt is gone. If the receiving districts had the ability to levy the operating mills as this bill would allow, the operating debt (estimated at less than $700,000) could be repaid in one year, and the $1.6 million would return as local support of the foundation allowance, thereby reducing State costs in the same amount.

Date Completed: 6-17-15 Fiscal Analyst: Kathryn Summers