

Legislative Analysis



REGIONAL ENHANCEMENT MILLAGE ALLOWED FOR CHARTER SCHOOLS, CYBER SCHOOLS, & ISDs

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Senate Bill 574 as enacted
Public Act 23 of 2018
Sponsor: Sen. Dave Hildenbrand
House Committee: Education Reform
Senate Committee: Education
Complete to 2-13-19

BRIEF SUMMARY:

Senate Bill 574 would amend the Revised School Code to provide that public school academies (PSAs, or charter schools) and intermediate school districts (ISDs) themselves, for certain pupils, would be eligible to receive a portion of funds obtained through a regional enhancement property tax levied by an ISD, for a regional enhancement millage approved after the bill is effective. (MCL 380.705)

FISCAL IMPACT:

The bill would have no fiscal impact on the state but would have an indeterminate impact on the future distribution of newly authorized ISD enhancement millage revenue.

The bill would not affect regional enhancement property tax millages that have already been approved by voters, but would affect future millages. Including additional pupils who are enrolled in PSAs or counted in membership in an ISD would decrease the per pupil revenue received by each entity, all other things being equal. However, the extent of the decrease would vary by ISD depending on the proportion of their overall pupil population that attends PSAs and whether an ISD operates center programs. Additionally, the impact would vary depending on changing pupil populations and taxable values and whether any of the ISDs with existing enhancement millages increased their millage proposals in response to the bill's changes. The table below summarizes the six currently approved enhancement millages, including when each expires and their current per pupil revenue distribution.

Currently Authorized ISD Regional Enhancement Millages

Intermediate District	New/ Renewal	Number of Mills	Initial Tax Year	Final Tax Year	FY 2017 Total Revenue	FY 2017 Per Pupil Revenue
Kalamazoo	Renewal	1.5000	2017	2019	\$10,901,264	\$323
Kent ¹	New	0.9000	2017	2026	\$19,270,690	\$211
Midland	Renewal	1.5000	2014	2018	\$4,867,313	\$423
Monroe	Renewal	0.9866	2017	2021	\$5,394,761	\$274
Muskegon	New	1.0000	2014	2023	\$4,156,739	\$162
Wayne	New	2.0000	2016	2021	\$77,820,119	\$375

¹Kent ISD's millage revenue will begin for FY 2018, but for comparison purposes is estimated based on FY 2017 taxable value and pupil information.

THE APPARENT PROBLEM:

According to the bill sponsor, in May of 2017, a regional enhancement millage of 0.9 mills was placed before and approved by voters in Kent ISD. The millage will raise almost \$20.0 million a year for ten years. However, the 14,000 students attending charter schools in that district do not benefit from the collection of the millage, as it is directed to the students of “traditional” public schools within the ISD. The bill sponsor went on to say that there are six regional enhancement millages across the state in six different ISDs; over 73,000 charter school students residing within the boundaries of those ISDs do not benefit from those millages.

Supporters argue that levying a millage within an ISD and limiting the revenue of that millage to traditional public schools creates an inequity among public school students within the ISD. This legislation is intended to address that supposed inequity.

THE CONTENT OF THE BILL:

Senate Bill 574 would provide that public school academies (PSAs, or charter schools) and intermediate school districts (ISDs) themselves, for certain pupils, would be eligible to receive a portion of funds obtained through a regional enhancement property tax levied by an ISD, for a regional enhancement millage approved after the bill is effective.

Regional enhancement millages are intended to supplement the operations of school districts within an ISD. If approved by voters, a regional enhancement property tax is collected within the ISD and distributed to constituent districts within the ISD, a term which currently applies only to “traditional” public school districts.

The bill would add a provision that, for purposes of Section 705 of the Code, which governs regional enhancement property taxes, a charter school would be considered a single constituent district of an ISD if it meets both of the following criteria:

- The charter school operates at least one site located in that ISD.
- The charter school counts in membership students enrolled at the site or sites located in that ISD on the state membership count day.

The bill would also specify the following criteria, under which a cyber school (a type of charter school operating under Part 6E of the Code) would be considered a single constituent district of an ISD for purposes of Section 705:

- The administrative office of that cyber school is located within the ISD.
- At least 100% of the students enrolled in the cyber school reside within the ISD.
- The cyber school counts in membership students enrolled in the cyber school on the state membership count day.

[However, cyber schools that would otherwise qualify under this section would not qualify if their two most recent annual financial audits indicated unresolved material findings. Additionally, in order to qualify, the cyber school would have to provide MDE

documentation establishing that it had a special education program in compliance with state and federal law.]

For the purposes of Section 705, an ISD would also be considered to be a single constituent district of the ISD for regional enhancement property taxes initially authorized and levied or renewed after the bill would take effect, as long as it enrolls pupils that are counted in membership of the ISD and not in the membership of another ISD, district, or charter school. (This is intended to account for students attending special education center programs within the ISD).

The bill would provide that a non-cyber charter school receiving revenue from a regional enhancement property tax under this section must use that money only for expenditures that directly benefit a site operated by the charter school that is located in the ISD in which the tax was approved.

Generally, the bill would not be retroactive, meaning it would not apply to existing regional enhancement property taxes. However, it would make exceptions for the communities of Muskegon Heights and Highland Park. In those communities, the original school districts exist to pay off debt, with the education of students and school buildings managed by a K-12 charter system. However, the charter schools share in the regional enhancement property taxes levied and collected by the respective ISDs in which they reside—Muskegon for Muskegon Heights and Wayne for Highland Park—through an agreement allowed under Section 705. Once the existing regional enhancement property taxes for those two ISDs expire, the charter schools operating in Muskegon Heights and Highland Park would not be able to receive revenue under a renewal unless they meet the proposed requirements for a charter-school-as-constituent-district, described above.

BACKGROUND INFORMATION:

The Code provides that an ISD may place the question of levying a regional enhancement property tax on the ballot for a regular school election, state primary, or general election. The tax may not exceed three mills and may not exceed a term of 20 years. If approved by a majority of voters in the ISD, the tax is approved.

Then, not later than ten days after the ISD receives the revenue, the ISD must calculate and pay each of its constituent districts a portion based on the district's membership.

ARGUMENTS:

For:

Proponents argue that all public school students in an ISD should receive equal funding. Charter schools are public schools, they stress, and limiting millage revenue to traditional public schools sends the message that charter school students are worth less than traditional public school students. Instead, they argue, the funding must follow the student, and to do any differently would be to pass judgment on the school choices made by parents and to elevate one choice above all others.

Against:

Opponents argue that allowing charter schools to share in the revenue would dilute its effect in traditional public schools. As described in ***Fiscal Impact***, the effect will vary by ISD depending on how many of the ISD's students attend traditional or charter schools, but the per pupil amount will decrease for traditional public school students.

Some argue that this hardly seems fair, as traditional public schools and public charter schools are inherently different, with different responsibilities and oversight. For example, a portion of state funding to traditional public schools goes directly to legacy costs; the enhancement millages may offset some of the funds directed to MPSERS payments. Also, some opponents purport that, unlike charter schools, traditional public schools must educate all students, even those with physical or developmental difficulties that require additional resources.

Moreover, they argue that locals voted to authorize a millage for the benefit of public school students, not for-profit entities. According to a September 2017 *New York Times Magazine* article,¹ “[t]oday, all but seven states have some version of a charter law, though few have adopted a model as extreme as Michigan’s. Twenty-one states have a charter cap, 31 require charters to submit annual reports and 33 have statewide authorizing bodies. Michigan, abiding by none of those rules, has allowed 80 percent of its own charters to be operated by for-profit E.M.Os. Only 16 percent of charters nationwide are run by for-profit companies.”

The committee defeated an amendment that would have prohibited a charter school “subject to a management agreement with a for-profit educational management organization” from receiving revenue from the millage.

Some also expressed concern that the bill as introduced would apply to communities that had approved millages, and that people would have voted differently if they had known that for-profit companies running charter schools would benefit from the millage.

Response:

The bill as enacted states clearly that charter schools would only share in the revenue for millages approved after the bill takes effect (with the exception of Muskegon Heights and Highland Park).

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■ 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 “Michigan Gambled on Charter Schools. Its Children Lost.”
<https://www.nytimes.com/2017/09/05/magazine/michigan-gambled-on-charter-schools-its-children-lost.html>