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BILL



ANALYSIS

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Senate Bill 384 (as reported without amendment)  
Sponsor: Senator Dale W. Zorn  
Committee: Finance

Date Completed: 6-28-17

### **RATIONALE**

Under the Revised School Code, the board of a school district, if approved by the school electors of the district, may levy a tax on the taxable value of the real and personal property of the school district each year for the purpose of creating a sinking fund. A sinking fund tax may be used for the purchase of real estate for sites for, and the construction or repair of, school buildings. A sinking fund tax authorized on or after March 29, 2017, also may be used for school security improvements or for the acquisition or upgrading of technology. (March 29, 2017, is the effective date of Public Act 319 of 2016, which amended the Code to allow the use of a sinking fund for those purposes.) For several reasons, such as increased pupil safety and lower maintenance costs, it now has been suggested that the Code should allow the use of sinking funds for the purchase of school buses, which apparently are outdated in some districts.

### **CONTENT**

**The bill would amend the Revised School Code to allow a sinking fund tax authorized on or after March 29, 2017, to be used for purchasing school buses.**

The bill would amend Section 1212(1)(a) of the Code, which provides for the allowable uses of a sinking fund tax authorized on or after March 29, 2017. The bill specifies that this subdivision would not impose a cap on the total amount of money that could be spent on the purchase of school buses using a sinking fund tax, but the tax could not be used for compensation for school bus drivers or for costs relating to servicing or maintaining a school bus.

The bill would take effect 90 days after its enactment.

MCL 380.1212

### **ARGUMENTS**

*(Please note: The arguments contained in this analysis originate from sources outside the Senate Fiscal Agency. The Senate Fiscal Agency neither supports nor opposes legislation.)*

#### **Supporting Argument**

According to Senate Finance Committee testimony, there are approximately 15,000 school buses in Michigan that transport 700,000 children over 900,000 total miles each school day; of those 15,000 buses, 5,000 were manufactured before 2007. Also, 693 of the 1,700 school buses operating in Wayne County reportedly are more than 10 years old. These buses are the most expensive to operate, as they are not as reliable and efficient as newer buses. In addition, the older buses are not as safe, and pollute the most.

The need for updated buses is especially apparent in school districts operating in rural areas where buses must cover a large area and traverse roads that are often in poor condition. According to

Committee testimony, for example, the Britton-Deerfield school district has 11 school buses that are up to 16 years old. The district is located in Lenawee and Monroe Counties, and these buses cover 74 square miles each school day and operate for up to 120 minutes on each route. Clinton Community Schools, also in Lenawee County, borders Deerfield and reports a fleet of 13 buses that travel more than 450 miles a day in a 52-square-mile district. For many rural districts, leasing buses is not a viable financial alternative because the buses must operate over many miles each day, leaving those districts few options besides purchasing new buses.

The safe transportation of students to school, educational programs, and extracurricular events is essential and requires reliable buses with modern safety features. The bill would give school districts another financial tool to update their buses. Moreover, because new buses would require less maintenance than older buses do, the purchase of new buses would reduce the amount of money that must be allocated toward upkeep, allowing districts to spend more on pupil education.

### **Supporting Argument**

People should have the ability to determine if and how their tax dollars are spent. This is especially relevant to a discussion of whether the law should allow a tax to be levied and used to enhance the safety of students being transported by a school district. In addition, a competitive school system remains critical for the financial health and growth of many communities, especially those that are small. Safe and efficient transportation and the ability to adequately transport students to appropriate educational programs are important for a district's success. Without a competitive school system, or with no school at all, a small community, such as Britton or Deerfield, could realize a reduction in property value, which could lead to the community's decline. If residents wish to vote on a tax to support their school district, they should have that chance. The bill would give taxpayers this opportunity.

### **Supporting Argument**

Currently, bonding is one of the few financial means a school district has to finance new buses. This method is expensive, as it requires long-term interest payments, and provides one-time funding. For some school districts, an annual, ongoing source of revenue, such as a sinking fund tax, might be a better financial tool for updating a fleet of school buses on a regular schedule. By giving school districts this option, the bill could reduce a district's expenses and future liabilities.

### **Opposing Argument**

The bill would create additional disparities between Michigan schools, as the use of a sinking fund to purchase school buses would be contingent on the approval of voters. That is, a school district that did not receive voter approval would be at a financial disadvantage compared to a district that did. In addition, although charter schools are public schools under the law, they are not allowed to levy millages or sell bonds. Therefore, the bill also would put charter schools at a further financial disadvantage compared to traditional public school districts. Reportedly, the funding gap between charter schools and traditional school districts is already \$1,600 per pupil. In addition, the bill would deviate from Proposal A (approved in 1994), which focused on equal funding between all school districts, and would shift the financial burden of bus costs to the taxpayer. All students should be treated equally, no matter where they live or what school they attend.

**Response:** Inequities already exist. Some school districts, for example, receive the same amount of money even though they are different sizes, but both are expected to provide a quality education. The bill would give any district an opportunity to use a financial mechanism that could overcome inequality and help the district remain competitive. Furthermore, the taxpayers already bear the burden of bus costs in one way or another; under the bill, the use of sinking funds for this purpose would be up to the school electors.

### **Opposing Argument**

Traditionally, sinking funds have been used for capital purposes, such as the purchase of land and the construction of buildings. While the recent expansion of sinking funds to include security and technology improvements was relatively narrow, the use of sinking funds to purchase buses would be an unprecedented development. Investments in land or school repairs create long-term capital,

while buses, although important, do not. A long-term financial tool should not be used to purchase a short-term asset.

### **Opposing Argument**

Many school districts have investigated privatization, or consolidation or cooperation with other districts, for the provision of student transportation, among other things. Often, this creates an opportunity for school districts to analyze expenditures and use current funds efficiently. The bill would dilute the fiscal responsibility of the school districts where a sinking fund was approved.

Legislative Analyst: Drew Krogulecki

### **FISCAL IMPACT**

The bill would have no fiscal impact on the State and a positive impact on local school districts. By allowing districts to use a sinking fund tax to purchase school buses, the bill would enable districts to offset general fund dollars that presently go toward the purchase of school buses. Local districts then could use freed-up general fund dollars for other programs and services in the districts. Due to local discretion in the use of sinking fund taxes, it is not possible to estimate an average amount of general fund offset savings throughout the State.

Fiscal Analyst: Cory Savino

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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.