Legislative Analysis

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INCLUDE SCHOOL LOAN REVOLVING FUND DEBT IN DEFINITION OF OPERATING OBLIGATION

House Bill 6255 as introduced
Sponsor: Rep. Regina Weiss
Committee: Education
Complete to 12-10-24

SUMMARY:

House Bill 6255 would amend the Revised School Code to include loans issued from the School Loan Revolving Fund in the definition of an ***operating obligation***.

> ***Operating obligation*** means debt of a school district incurred for purposes of financing the operation of a school district or public schools operated by that district. It does not include debt incurred for the purpose of constructing, renovating, maintaining, or otherwise improving school facilities unless the debt is incurred as transitional operating costs.

Under the code, a *qualified school district* is dissolved once all its operating obligations have been repaid and have been certified as fulfilled by the state treasurer. Currently, Detroit Public Schools (DPS), the public school district in the city of Detroit that was reformed as the Detroit Public Schools Community District (DPSCD), is the only entity that meets the definition of a *qualified school district*. The former DPS exists as a separate legal entity that receives the proceeds from millages dedicated to repaying bond debt incurred before the creation of DPSCD. Once all operating obligations are repaid and repayment verified by the state treasurer, the former DPS would be dissolved.

MCL 380.12b

FISCAL IMPACT:

House Bill 6255 would create costs for the state and would create cost savings for Detroit Public Schools Community District.

Under current law, the old DPS district must redirect local revenue from its 18-mill nonhomestead property tax levy to pay off its operating debt while the state backfills the local portion of the foundation allowance for the new district (DPSCD) in the School Aid budget. The operating debt is anticipated to be paid off by March 2024, at which point the redirection of local revenue would cease and DPSCD would be required to take over the local portion of its foundation allowance.

Under the bill, the definition of "operating obligation" would expand to include School Loan Revolving Fund loans, meaning that the 18-mill nonhomestead property tax revenue would continue to be redirected toward paying down debts, and the state would continue to fund DPSCD's local portion of the foundation allowance until the School Loan Revolving Fund loans were paid off. In FY 2024-25, DPSCD's 18-mill nonhomestead property tax revenue is estimated to be $111.2 million, or about $2,460 per pupil. This amount is projected to increase in future fiscal years as taxable values rise.

When DPS first split into two entities in 2016, the state was able to cover the local foundation cost for DPSCD using $617.0 million ($72.0 million annually) in tobacco settlement fund revenues earmarked into the Community District Education Trust Fund (CDTF). Beginning in FY 2020-21, CDTF funding was insufficient, and a transfer from the general fund into the School Aid Fund (SAF) reimbursed additional costs ($33.7 million in the prior fiscal year, FY 2023-24). The last CDTF appropriation is in the current fiscal year, FY 2024-25, and is a partial amount of $41.0 million. The general fund is estimated to provide an additional reimbursement of $70.2 million to cover the full DPSCD local foundation cost. Beginning in FY 2025-26, there will no longer be CDTF funds available, and DPSCD foundation costs would be paid exclusively from a general fund transfer to the SAF.

The bill would therefore create a cost shift for DPSCD's local foundation costs, resulting in an increased cost to the state and an equal amount of cost savings for DPSCD of at least $111.2 million annually until the district's School Loan Revolving Fund debt is paid off.

According to DPS's June 30, 2024 audit , the district holds $348.5 million in School Loan Revolving Fund debt.

DPSCD would also save an additional amount in interest payments on the School Loan Revolving Fund debt if the 18-mill nonhomestead property tax revenue pays the debt down faster than the current schedule.

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