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BILL ANALYSIS

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Senate Bill 63 (as enrolled) *(enacted version)*
Sponsor: Senator Dayna Polehanki
Senate Committee: Education
House Committee: Education

Date Completed: 5-1-23

RATIONALE

Currently, a school district may pay for transportation costs, such as school buses, with money from the district's general fund or by issuing bonds. Additionally, school districts may levy taxes for a sinking fund, a savings account into which a school district deposits voter approved millage revenue in order to pay cash for certain purposes as they arise. Under the Revised School Code, these purposes include building maintenance and school security improvements, among others, but they do not include transportation costs. Some people believe that allowing the use of sinking funds for transportation would offer school districts more flexibility to meet their pupil transportation needs.

CONTENT

The bill would amend the Revised School Code to allow a sinking fund tax authorized on or after the bill's effective date to be used for the purchase of real estate for school buildings, for school security improvements, for the acquisition or upgrading of technology, for the acquisition of student transportation vehicles, or for the acquisition of vehicles used in the maintenance of school buildings.

The Code allows the board of a school district, if approved by the school electors of the district, to 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 authorized before March 29, 2017, 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. Under the bill, this provision would apply until the bill's effective date.

In addition, under the bill, for a sinking fund tax authorized on or after the bill's effective date, the sinking fund tax could be used for the following:

-- Purchase of real estate for sites for, and the construction or repair of, school buildings.
-- School security improvements.
-- The acquisition or upgrading of technology.
-- The acquisition of student transportation vehicles, and the acquisition of parts, supplies, and equipment used in the maintenance of student transportation vehicles.
-- The acquisition of trucks and vans registered under the Michigan Vehicle Code and used to carry parts, equipment, and personnel for or in the maintenance of school buildings, or for the acquisition of parts, supplies, and equipment used to maintain those trucks and vans.

The bill would take effect 90 days after its enactment.

MCL 380.1212

PREVIOUS LEGISLATION

(Please note: The information in this summary provides a cursory overview of previous legislation and its progress. It does not provide a comprehensive account of all previous legislative efforts on the relevant subject matter.)

The bill is similar to Senate Bill 384 from the 2017-2018 Legislative Session. The bill was reported from the Senate Committee on Finance but received no further action.

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

Expanding the uses of a sinking fund to include transportation costs would allow a school district to provide more in-classroom support to students. School busing provides a vital service to many communities, especially those with a high percentage of dual income households; however, it is expensive. School districts must pay to repair, maintain, and fuel buses. They must also pay to replace them and expand their fleet. For example, in 2021, the Ionia Public School District purchased three new school buses for a total of $282,003, $94,001 per bus. The district received $68,000 in grant funding but paid the remaining $214,003 balance out of its general fund.[1] In rural school districts, school buses often travel greater distances, incurring greater wear and tear and costlier gas bills. In addition, replacing, maintaining, and fueling other school vehicles, like trucks and vans, provides additional costs.

School districts may issue bonds to alleviate the financial burden; however, taxpayers ultimately pay bond issuance costs and interest charges. Most districts, like Ionia, pay for transportation out of their general funds, taking away money that could be used for other purposes, such as student programming or student support. Allowing school districts to access this alternate source of funding for transportation costs would lessen their financial burden and allow them to direct a greater share of their general funds into the classroom.

Supporting Argument

Allowing a school district to fund transportation through a sinking fund could potentially alleviate school districts' future financial challenges. According to testimony before the Senate Committee on Education, school districts will face a steep decline in available funding during Fiscal Years 2024 and 2025 as Federal COVID-19 relief reaches its deadline. Districts will have to make budget adjustments and cuts, exacerbated by funding restrictions.

Additionally, the electrification of district school buses will bring its own challenges. Diesel-fuel buses will need to be decommissioned and replaced. While safer, more reliable, and better for the environment, electric buses are even more expensive than diesel-fuel buses. The average electric school bus costs around $375,000.00, with an additional $1,200 to $10,000 for an electric charger and other associated costs.[2] While Federal and State funding may help reduce the expense, building a fleet of electric buses will greatly cost a school district. The same would apply to replacing diesel-fuel vehicles with electric vehicles. Expanding the use of sinking funds to cover transportation costs could allow a school district to make funding adjustments and prepare for these challenges.

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[1] Sasiela, Evan, "Ionia schools to purchase 3 new buses," *Ionia Sentinel-Standard*, Feb. 17, 2021.

[2] Kane, Roni, "Rural Michigan schools are considering electric school buses with EPA cash", *Bridge Michigan*, Aug. 10, 2022.

Supporting Argument

According to testimony before the Senate Committee on Education, residents want more of a voice in the way their local school district is run. Allowing school districts to fund transportation through a sinking fund would enable residents to have greater control over school transportation funding. Residents could vote to support or deny the adoption of a millage, directly influencing their school district's budget.

Response: Businesses would have no influence over a school district's budget and would be unduly harmed by a sinking fund expansion. Businesses do not vote on millage adoptions but could see an increase in property taxes if a millage was raised.

Opposing Argument

Allowing a school to use a sinking fund for transportation costs would be fiscally unwise. Buses have a short life-expectancy. On average, a bus may last around 12-16 years; however, several factors may reduce this period, such as the number of miles travelled.[3] A millage, on the other hand, is paid out over 10 to 20 years. Without a limitation on the length of the millage, expanding the use of sinking funds to include school transportation would lead to taxpayers taking on increased property taxes for a short-term asset.

Opposing Argument

Introducing variation in school district funding would increase inequity between school districts. A sinking fund relies on the adoption of a millage and generates revenue based on property taxes. School districts with higher property values would generate more revenue for the sinking fund even if they adopted the same millage. Allowing schools districts to utilize sinking funds would benefit wealthier school districts more than poorer school districts that may have more need.

Opposing Argument

Sinking funds generate revenue based on property taxes, a concept Michigan voters rejected through the adoption of Proposal A in 1994. In the early 1990s, Michigan had one of the highest property tax rates in the nation, 33% above the national average.[4] In response to widespread discontent, in 1993 the Michigan Legislature passed Public Act 145, which effectively eliminated the usage of local property taxes to fund K-12 and intermediate school district operating revenues. The following year, the Legislature placed Proposal A before voters, which passed with 69% of the vote.[5] Proposal A increased the sales and use tax rate by two-percentage points and amended several other tax rates to serve as an alternate source of funding for the School Aid Fund, instead of property taxes.[6] In 1994, Michigan voters made it clear that they wanted to limit the usage of property taxes for new funding. Expanding the usage of mills levied for a sinking fund would contradict this choice.

Legislative Analyst: Abby Schneider

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 for the acquisition of school transportation vehicles, the bill would enable districts to offset general fund dollars that presently go toward school transportation. School districts then could use their freed-up general fund dollars for

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[3] "School Bus Fleet Age: The Hidden Problem Impacting Schools", www.ridezum.com. Retrieved on 5-1-2023.

[4] Lockwood, Andrew, *School Finance Reform in Michigan Proposal A: Retrospective*, p. 1, Dec. 2002.

[5] *Id*. p 7.

[6] *Id*. pp. 3-4.

other programs and services in their districts. Because of local discretion in the use of sinking fund taxes, it is not possible to estimate an average amount of general fund savings offset throughout the State.

Fiscal Analyst: Cory Savino, PhD

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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.