



**House
Legislative
Analysis
Section**

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DEBT RETIREMENT TAXES IN ANNEXATION

House Bill 5528 as introduced
First Analysis (5-10-90)

Sponsor: Rep. Robert Bender
Committee: Education

THE APPARENT PROBLEM:

The School Code provides annexation procedures for an intermediate school district (ISD) board to follow, under the direction of the State Board of Education, if a constituent school district which has not operated during the previous two years fails either to reopen for operation or attach itself totally or in part to one or more operating school districts. Usually, when a school district decides not to operate and sends its students to another district or districts, it makes provisions to attach itself to the other district(s) and outlines how existing debts, millage, or taxes will be handled. The act, however, currently specifies that an annexed school, though subject to other taxes levied by the annexing district, is not subject to taxes levied by the annexing district to retire outstanding bonded indebtedness. Thus, the children of residents in an annexed district are able to use an annexing district's facilities even though property owners in the annexed territory are not paying a fair share of the annexing district's tax burden. Such a situation currently exists in the Ionia ISD where residents of the Benedict school district, which has failed to operate for over two years, have not been paying debt retirement taxes to the Ionia Public School District even though children from this area have been attending Ionia schools. Legislation has been proposed that would correct what appears to be an inequitable situation.

THE CONTENT OF THE BILL:

The School Code provides annexation procedures for an intermediate school board to follow, under the direction of the State Board of Education, if a constituent school district which has not operated during the previous two years fails either to reopen for operation or attach itself totally or in part to one or more operating school districts. The procedures for annexation specify, among other things, that as of the date of attachment of a non-operating district to an operating one, territory attached to an operating district is part of the operating district for all purposes, including the levy of all taxes except for those "levied for the retirement of outstanding bonded indebtedness." The bill would amend the act to specify that for territory attached to an operating district after January 1, 1990, the territory would be subject to taxes levied for the retirement of outstanding bonded indebtedness and all other taxes levied by the operating school district.

MCL 380.922

FISCAL IMPLICATIONS:

According to the Department of Education, the bill would not affect state expenditures but could have fiscal implications for local school districts. A school district that annexed a non-operating district would, as a result of the bill, levy a lower millage rate for bonded indebtedness due to the increase in SEV resulting from inclusion of the annexed property. According to a spokesman from the

Ionia ISD, the Ionia Public School District currently levies between 7.69 and 7.72 mills for bonded debt retirement. (5-8-90)

ARGUMENTS:

For:

The bill would correct an unfair situation in the Ionia ISD. After the Benedict School District failed to operate for two years, the Ionia ISD began implementing annexation procedures in which the non-operating district's children began attending Ionia public schools. In most situations where annexation such as this occurs, the annexed district works out a plan to begin paying taxes to the annexing district. But because the act provides that the annexed district is not subject to taxes levied for debt retirement (apparently, to prevent taxation of citizens without a vote), residents of the territory which formerly was the Benedict school district are not required to pay debt retirement taxes to any district even though children in the area are using Ionia public school facilities. The bill would correct this by providing that when attachment of territory in a non-operating district to an operating district occurred after January 1, 1990, the attached territory would be subject to all taxes levied in the operating district including those taxes levied for bonded debt retirement.

Against:

While recognizing that an unfair situation exists in the Ionia district, the bill could establish a bad precedent of taxation without a vote by citizens in an attached school district territory.

POSITIONS:

The Ionia Intermediate School District supports the bill. (5-8-90)

The staff of the Department of Education will recommend that the State Board of Education support the bill. (5-8-90)

The Michigan Association of School Administrators has not yet taken a position on the bill. (5-8-90)

H.B. 5528 (5-10-90)