



**House
Legislative
Analysis
Section**

Manufacturer's Bank Building, 12th Floor
Lansing, Michigan 48909
Phone 517/373-6466

DISTRICTS IN ISD CAN SHARE TAX GROWTH

House Bill 5885 (Substitute H-1)

House Bill 5886 (Substitute H-2)

First Analysis (9-18-90)

RECEIVED

Sponsor: Rep. William R. Keith
Committee: Education

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THE APPARENT PROBLEM:

In early 1989, the Grand Rapids Area Chamber of Commerce convened a task force on public education finance. That task force examined ways to improve the quality of education and reduce the funding inequities that exist among school districts. Among the recommendations made in its June 1989 report was to reduce funding inequities by pooling the growth in the industrial and commercial tax base within a labor market. The Grand Rapids Chamber was not alone in its attention to school finance that year after much legislative debate, two competing school finance reform proposals were placed on the fall ballot. After the defeat of ballot Proposals A and B, and in the face of the apparent impasse that had developed in efforts for school finance reform, the Grand Rapids Chamber and the Kent County school superintendents again began to look at the idea of tax base sharing within a labor market, and began to promote the idea in the legislature. House Bills 5885 and 5886 represent that plan after further refinement following public hearings and additional discussion.

THE CONTENT OF THE BILLS:

The bills, which are tie-barred to each other, would provide for a program under which the school districts within an intermediate school district (ISD) could voluntarily agree to share the revenue attributable to growth in the value of commercial and industrial property within the ISD. School districts would forward the revenue to the ISD, which would distribute the money on a per-pupil basis, however, payments would be adjusted to ensure that in-formula districts were funded to at least the same extent as they would have been without adoption of the tax base sharing plan. A participating out-of-formula school district would be exempted from state "recapture" of categorical state aid, such as state aid for pupil transportation and special education. Allocations under the School Aid Act would be based on the local tax yield the district would have received if tax base sharing had not been in effect. A more detailed explanation follows.

House Bill 5885 would amend the School Code to provide for the adoption of a commercial and industrial tax base sharing plan under which the constituent districts in an ISD could share in commercial and industrial SEV growth for a five-year period. Growth would be measured against the commercial/industrial SEV in the school fiscal year before the first fiscal year in which tax base sharing was in effect in the ISD.

Eligibility Commercial and industrial tax base sharing could be adopted only if the total of the average adjusted gross income per pupil (AGIpp) and average state equalized valuation per pupil (SEVpp) of the districts within an ISD was less than 150 percent of the total of the statewide average AGIpp and and SEVpp. If an ISD did

not meet this standard, it could combine with other ISDs to form a consortium that did.

Approval of tax base sharing plan Tax base sharing could be approved in two ways: by resolution of the school board in each constituent district, or by approval of a ballot proposal in each constituent district. For approval by board resolution, the resolutions would have to be adopted within a six-month period. For approval by a vote of the electorate, the ISD or consortium would put the issue before the voters if the ballot proposal was sought either by a majority of the boards of the constituent districts representing more than half of the total number of pupils involved, or by the board of each participating ISD. Wording and scheduling of the ballot proposal would be specified by the bill. A tax base sharing plan could be put before the electorate even though one was already in place as a result of local board resolutions. If approved by the voters, it would supersede the previous plan, if not, it would have no effect.

Duration of plan, opting out A plan adopted by board resolution generally would be in effect for five years, except that it would not be in effect in any fiscal year which a constituent board withdrew from participation by adopting a resolution by the preceding April 1. A plan adopted by ballot proposal would be effective for five years unless a majority of the voters in each constituent district voted to terminate the plan. A proposal to terminate would be put before the voters under procedures paralleling those for a proposal to adopt a plan; that is, the proposal would come about by board resolution.

Notification of Department of Education A tax base sharing plan for the 1991-92 school fiscal year could not take effect unless the ISD or consortium notified the Department of Education by April 1, 1991. For any succeeding fiscal year, the deadline would be December 31 of the calendar year immediately preceding the school fiscal year in which tax base sharing is to take effect.

Collection and distribution of revenue Beginning on the July 1 after plan adoption, each constituent district would deliver to its ISD an amount equal to commercial and industrial SEV growth multiplied by the district's school operating millage for that fiscal year. Unless the district and the ISD agreed to another arrangement, the payment would be made according to the schedule set forth in the General Property Tax Act. Within three days after receiving the revenue, the ISD would calculate the per-pupil allocation by dividing the total amount of revenue received by the total membership of the constituent districts. Within five days after receiving the revenue, the ISD would distribute to each district an amount equal to the per pupil allocation multiplied by the number of district pupils as of the last membership count day; alternatively, the amount would be calculated on another basis agreed to by the boards of the constituent districts. In any event,

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distributions to constituent districts would be adjusted to ensure that each in-formula district is funded to at least the same extent as if tax base sharing had not been adopted.

MCL 380.622 et al.

House Bill 5886 would amend the State School Aid Act to specify that as of October 1, 1991, provisions for "recapture" of state categorical aid would not apply to a district in any state fiscal year in which that district was participating in commercial and industrial property tax base sharing under House Bill 5885 (the exemption would apply for the school fiscal year ending during that state fiscal year). The bill also would specify that state aid to a participating school district be based on the local tax yield the district would have received if the tax base sharing had not been in effect.

MCL 388.1621

FISCAL IMPLICATIONS:

A preliminary analysis by the House Fiscal Agency notes that to exempt participating out-of-formula school districts from categorical recapture would be to shift the recapture burden to non-participating out-of-formula districts. With greater numbers of participants, the burden would be borne by fewer out-of-formula nonparticipants, to the point where if nonparticipants were unable to meet the recapture amount assumed by the School Aid Act, the difference would have to be made up by the general fund. (9-17-90)

According to information provided by House Democratic Research Staff, the dollar amounts represented by the exemption from state recapture of categorical aid would be about \$2.7 million for the Kent ISD, and about \$2.0 million for the Midland ISD. The statewide average AGIpp is about \$53,013, and the statewide average SEVpp is about \$84,415. (9-14-90)

ARGUMENTS:

For:

With statewide school finance reform at least temporarily stalled, a proposal to allow the school districts within an ISD to share in commercial and industrial growth has several virtues: it reduces funding inequities on a regional basis; it does not take existing revenues from wealthier districts, but rather redistributes revenues attributable to future growth; and it directs business's tax effort to the geographical area from which it draws its labor force. Employers would benefit from a presumably better-educated labor force, while the in-formula school district whose residents commute also would benefit from its indirect contribution to the growth occurring in an out-of-formula school district. By making participation voluntary, the bills preserve local control and forestall misgivings that some school districts may have about committing to a plan.

Voluntary participation combined with funding guarantees would make the proposal attractive for both in-formula and out-of-formula school districts, while a criterion basing eligibility on wealth would prevent an ISD from simply sharing growth within a collection of wealthy school districts. Although the bills may not hold attraction for the schools of every ISD in the state, they do offer a means of funding reform for ISDs where strong commercial or industrial growth is localized in one or two school districts. Prompt enactment is important: the Midland ISD, which along with the Kent ISD has expressed interest, expects an SEV increase of roughly \$250 million in 1991 due to the Midland Cogeneration Venture; delay in enacting the

legislation would prevent Midland from including this growth in its tax base sharing plan.

Response: The bills tend to equate educational quality with funding equity. Further, they assume that an ISD represents an accurate approximation of an economic region, but in fact a major commercial or industrial facility may draw support from taxpayers and ratepayers well outside the boundaries of an ISD. The bills fall short of what is truly needed: statewide school finance reform.

Against:

By exempting out-of-formula school districts from state "recapture" of funding for categoricals, the bill would place a funding burden elsewhere. Because state recaptures are by statute limited to \$72 million (strict application of recapture formulae would generate somewhat more than that — about \$83 million according to one estimate), the effect of the exemption would be to have non-participating out-of-formula school districts make up the difference; that is, the proration for out-of-formula school districts would be adjusted. However, if many out-of-formula school districts participated, the amount generated by categorical recaptures could fall below existing revenues, meaning that money to maintain school funding would have to be found elsewhere in a time of budgetary shortfalls.

Response: The financial concerns are largely academic. At present, only two ISDs appear likely to implement tax base sharing, and they represent less than \$5 million in categorical recapture money. How any cost of the bills might be distributed essentially is yet to be determined, as the legislature may choose any number of ways to preserve overall funding: adjustment of the categorical recapture proration, adjustment of categorical increases, increasing general fund contributions, or any combination of these or other mechanisms.

Against:

The bills could have unanticipated consequences for statewide school finance reform and matters of educational equity. By introducing regional reform, they could reduce the impetus for much-needed statewide reform. By keeping wealth within a region, they could keep revenues from being redirected to the most needy areas of the state. By providing a model for finance reform, they could be used by the courts to implement permanent, statewide reform.

Response: Such concerns are speculative. The bills provide a step in the right direction toward equity in school finance, and if anything, should help to forestall court intervention. If the concept can be shown to work on a regional basis, it may inspire further efforts toward statewide school finance reform.

Against:

Various criticisms have been directed to the details of the bills. The bills place no limit on the amount an out-of-formula school district may gain through its exemption from categorical recapture; many believe that the amount gained through the exemption should be limited to the amount contributed under the tax base sharing plan. The eligibility criterion, while preventing wealthy districts from unduly benefiting from the proposal, may also prevent benefits for in-formula districts in ineligible ISDs. The bills may need clarification on how dissolution of a plan may affect revenues going to plan participants. While supporting the growth sharing concept, various people believe it would be strengthened by making districts commit to participation for a minimum amount of time, by providing for a longer term of participation, by increasing

the authority of the electorate to initiate or cancel participation, or by some combination of such changes. Some are distrustful of how the bills could be manipulated to thwart the intended objectives; the bills do not limit the use of tax abatements and tax increment financing authorities to artificially "reduce" SEV growth, nor do they assuage the fears that some may have over what subsequent legislatures may do with categorical recapture provisions.

Response: The bills represent a workable solution. Changes in the way school boards may opt in or out of participation could cause some to retreat from the proposal. Fears that the proposal could be twisted for future gains ignore the reality that the legislature would act to stop such behavior.

POSITIONS:

The Grand Rapids Area Chamber of Commerce supports the bills. (9-11-90)

The Kent Intermediate School District supports the bills. (9-17-90)

The Michigan Federation of Teachers supports the bills. (9-12-90)

A representative of the Michigan State Chamber of Commerce testified in support of the bills. (9-11-90)

The Department of Education supported the original bills, but does not have a formal position on the substitutes at this time. (9-12-90)

The Legislative Committee of the Michigan Association of School Administrators supports the concept of voluntary and collaborative efforts toward tax base sharing as contained within the bills. (9-12-90)

The Michigan Association of School Boards generally supports the concept of the bills, but has not yet taken a formal position on them. (9-12-90)

The Michigan Education Association is neutral on the bills. (9-17-90)