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IFT REVENUE TO CERTAIN ISD'S

House Bill 4854 as introduced
First Analysis (5-23-95)

Sponsor: Rep. Willis Bullard, Jr.
Committee: Tax Policy

THE APPARENT PROBLEM:

The passage of Proposal A in March of 1994 put in place a new school financing system that more or less eliminated the distinction between "in-formula" and "out-of-formula" school districts. (That distinction was between school districts that received state aid under a formula adjusted each year and those that raised all their revenue locally, except for special categorical grants.) This is, generally speaking, because more of the dollars for education now flow to school districts from the state in the form of a basic grant or allowance. The new financing plan, as a result, altered statutes so that some revenues that previously went to local school districts would now go to the state school aid fund for use in supporting the basic grants. This is true of revenues from certain specific taxes; that is, taxes levied in lieu of property taxes, such as the industrial facilities tax (IFT). That tax is paid by industrial facilities that have received a tax abatement under Public Act 198 of 1974. The revenue from the IFTs that previously would have gone to school districts is now directed to the state treasury. This approach, however, does not work for all intermediate school districts, according to some ISD officials. Some ISDs remain "out-of-formula" in the sense that they do not receive state millage equalization payments for special education and vocational-technical education, because of their relatively high state equalized valuation (SEV) per pupil. These districts say they ought to be able to retain IFT revenues. A provision permitting such districts to keep IFT revenues was included in Proposal A implementation legislation that applied to Public Act 198. However, it applied only for taxes levied in 1994 (reportedly with the expectation that the issue would be addressed comprehensively later). If the provision is not extended, some 23 intermediate school districts stand to lose revenues they are currently collecting.

THE CONTENT OF THE BILL:

The bill would amend the plant rehabilitation and industrial development act (known as Public Act 198 of 1974) to extend indefinitely a provision that currently only applies to taxes levied in 1994. That provision allows certain intermediate school districts to keep revenue from the industrial facilities tax, which is the specific tax levied in lieu of property taxes on industrial facilities that have received tax abatements under PA 198. The provision applies to taxes levied for either: a) mills allocated to an intermediate school district for operating purposes as provided for by the Property Tax Limitation Act; or b) an intermediate school district that is not receiving state aid under Section 56 (special education) or Section 62 (vocational-technical education) of the State School Aid Act.

MCL 207.561

BACKGROUND INFORMATION:

According to information from the Department of Treasury distributed by staff to the House Tax Policy Committee, the following intermediate school districts are affected by the bill: Alpena-Montmorency-Alcona; Bay-Arenac; Berrien; Charlevoix-Emmet;Cheboygan-Otsego-PresqueIsle; Eastern U. P.; Traverse Bay; Huron; Ingham; Iosco; Kalamazoo Valley; Kent; Livingston; Macomb; Manistee; Mason-Lake; Midland; Monroe; Oakland; Ottawa; Roscommon-Crawford-Ogemaw-Oscoda; St. Clair; and Washtenaw. (Staff memo 5-17-95)

FISCAL IMPLICATIONS:

A representative from the Kent County Intermediate School District has said the loss of revenue to his district without this bill would amount to $1.1 million and has made a preliminary estimate of the loss to all the districts involved of $10 million. Obviously, the dollars lost to the intermediate school districts would be gained by the school aid fund. (5-22-95)

ARGUMENTS:

For:

The bill will allow some 23 intermediate school districts in the state to keep revenue they are currently receiving from the industrial facilities tax. Without an extension of this special provision, which applies only to 1994 taxes, revenue that these districts are currently receiving will be sent to the state treasury. This will be a significant loss of revenue for some districts. The ISDs involved are those that do not receive certain state funds for special education or vocational education because their SEV per pupil is beyond the threshold for aid.

Against:

The agreement that allowed the ISDs to retain this revenue was for one year only, according to the Department of Treasury. According to the department, the districts had been improperly receiving these dollars since a change in the law in 1983. The law was not being implemented properly. The discovery of this during the development of Proposal A implementation led to the one-year agreement. Further, as budget specialists point out, the issue can be seen as part of the larger school funding appropriations process. If the revenue in question goes to the state treasury, its use would be determined by the school aid budget. It could, for example, be used to lower the SEV-per-pupil threshold so that some ISDs that are currently only marginally out-of-formula would become in-formula and gain aid based on millage equalization provisions. It could be used in other ways to benefit schools.

POSITIONS:

The Department of Treasury is opposed to the bill. (5-23-95)

A representative from the Kent ISD testified in support of the bill before the House Tax Policy Committee. (5-18-95)