



Senate Fiscal Agency
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BILL ANALYSIS



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Senate Bill 866 (as passed by the Senate)
Sponsor: Senator Jud Gilbert, II
Committee: Education

Date Completed: 2-7-06

RATIONALE

Until recently, the St. Clair County Intermediate School District (ISD) was purchasing certain special education transportation services from a private company. During that time, the ISD submitted the costs associated with those services to the Department of Education for reimbursement of approximately 70% of the costs, as allowed under the State School Aid Act. The ISD determined that it could purchase the same services from one of its constituent districts at a significantly lower cost, because the constituent district could offer lower maintenance fees, storage costs, and fuel prices.

After the ISD had transferred the services to the constituent district, however, the Department of Education declared that it could no longer reimburse the ISD for the cost of the services, because the constituent district was the entity actually incurring the costs (e.g., the employment of mechanics, heating of garage, storage costs, and tools). The law does not allow both the ISD and the local district to submit the costs for the same services. Neither does it allow the local district to isolate those costs associated with the contract and deduct them from its own submission for reimbursement. Without a change in law, only the constituent district, which bears the actual cost of the service, may submit the costs for reimbursement, and the ISD will incur more costs while using the cheaper services (due to lack of reimbursement by the State) than if it had continued to use the more expensive private contractor. Some have suggested that the law be changed to allow the ISD to be reimbursed for the cost of certain services provided by a constituent district.

CONTENT

The bill would amend the State School Aid Act to allow an intermediate school district that purchased a special education transportation service from a constituent district under specific conditions, to continue to report to the State for reimbursement the cost associated with the service; and require the Department of Education to remove that amount from the costs reported by the constituent district.

Under the bill, beginning with calculations for 2004-2005, if an ISD purchased a special education pupil transportation service from a constituent district at a lower cost, adjusted for changes in fuel costs, than the cost of the service when previously purchased from a private entity, and if the cost shift from the ISD to the constituent district did not result in any net change in the revenue that the constituent district received under Sections 22b and 51c of the Act, then upon request the Department would have to direct the ISD to continue to report the cost associated with the special education pupil transportation service, and would have to adjust the costs reported by the constituent district to remove the cost associated with that specific service.

(Section 22b includes a special education hold harmless provision that requires the State to maintain special education funding at or above the FY 1997-98 level. Districts whose special education funding under Proposal A is below the 1997-98 level receive a supplemental payment under Section 22b to bring their funding up to the 1997-98 level. Section 51c provides for the reimbursement of a portion of the costs of special education and special education

transportation as required under *Durant, et al. v State of Michigan.*)

MCL 388.1651

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

Local school districts have been asked to consolidate services and look for ways to save money. The St. Clair County ISD has made an effort to do just that by contracting for services with a constituent district, which owns a garage and is able to provide the services at a significantly lower cost than charged by a private firm. Current law, however, prevents the ISD from receiving the full benefit of those cost savings, because the Department of Education is unable to reimburse the ISD for services purchased from a constituent district. Ironically, it costs the ISD more to purchase the services at a lower cost from the constituent district, because the ISD is no longer being reimbursed for the cost by the State. In fact, without passage of the bill, the ISD may have to go back to the higher-cost provider. The St. Clair County ISD has identified an obvious way to cut costs for both the district and the State, and that effort should be encouraged. Local districts should be allowed to seek the lowest-cost provider for services, regardless of whether the source is a private company or a provider within the school district. The State previously was reimbursing the ISD for the special education transportation services when they were purchased from a private company, and there is no reason that the ISD should not be reimbursed for the same services when purchased from a local district. The law should be modified to allow for reimbursement for these services.

Legislative Analyst: Curtis Walker

FISCAL IMPACT

State: Compared with current law, and assuming the ISD continues to use the services at the local district (which actually is more expensive for the ISD), if this bill were enacted, the State would see an increased cost estimated at \$46,000, since the ISD's claim for reimbursement would

become allowable under this bill. However, compared with the State's reimbursement costs if the ISD returned to using the private contractor (which would save the ISD money under current law, but would cost the State more dollars due to higher reimbursement), the State would see savings estimated at \$34,000.

Local: The ISD in question would see \$46,000 more in revenue from the State compared with current law, if this bill were enacted.

Fiscal Analyst: Kathryn Summers-Coty

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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.