

Legislative Analysis



COMMUNITY DISTRICT EDUCATION TRUST FUND

Phone: (517) 373-8080
<http://www.house.mi.gov/hfa>

House Bill 5383 (H-2) as enrolled
Sponsor: Rep. Amanda Price
House Committee: Appropriations
Senate Committee: None (Placed directly on General Orders)
Complete to 6-9-16

Analysis available at
<http://www.legislature.mi.gov>

SUMMARY:

House Bill 5383 would amend the Michigan Trust Fund Act to divert \$72.0 million per year, up to a total of \$617.0 million, from the state's Tobacco Settlement Revenue into a new Community District Education Trust Fund. This revenue will be used to replace local 18-mill property tax revenue, and that local revenue will be used instead to pay off debt associated with the Detroit Public Schools (DPS), as described in more detail below.

The State Treasurer could receive money or other assets from any source for deposit in the Community District Education Trust Fund, would direct the investment of the fund, and would credit to the fund interest and earnings from the fund's investments. Money in the fund at the close of the fiscal year would remain in the fund and not lapse to the General Fund. The Department of Treasury would be the administrator of the fund for auditing purposes.

Under the bill, the department could expend money from the Community District Education Trust Fund, upon appropriation, only to offset the absence of local school operating revenue when funding the foundation allowance for a community district organized under Part 5B of the Revised School Code. Under the provisions of House Bill 5384, DPS would become such a district.

The bill provides that to the extent that the deposits into the Community District Education Trust Fund are insufficient to fully offset the absence of the local school operating mills in the foundation allowance of the community district, and while the community district is prohibited from levying local school operating mills (because the former district is still doing so for the purpose of repaying debt), the General Fund shall reimburse the School Aid Fund.

House Bill 5383 is tie-barred to House Bill 5384.

FISCAL IMPACT:

The bill would have no net impact on state revenues. It would reduce the amount of tobacco settlement revenue available for other purposes by \$72.0 million per year until the cumulative total equals \$617.0 million, which would include fiscal years (FYs) 2016-17 through 2024-25. Those funds would instead be available for appropriation from the Community District Education Trust Fund.

The state currently receives roughly \$250 million in tobacco settlement revenue per year, of which a large portion is dedicated to debt service costs related to past securitizations of the revenue, an annual transfer to the 21st Century Jobs Fund, and repayment to the Budget Stabilization Fund for the state's payment toward the City of Detroit settlement. Of the approximately \$100 million in revenue remaining, the largest appropriations are for the state's Medicaid program and Family Independence Program. The redirection of tobacco settlement revenue under this bill would require the appropriation of GF/GP funds to backfill the revenue. Such adjustments are included in the final FY 2016-17 budget.

Under the larger package of DPS-related bills being considered (House Bills 5384 and Senate Bills 711, 820, and 822), the bills would redirect local revenues in order to pay off debt totaling approximately \$617.0 million, plus interest. The appropriations from the trust fund would be made in the School Aid budget to backfill revenue from Detroit's 18-mill levy that would be utilized to pay down debt over time (by the "old" DPS district) and would, therefore, no longer be available to support the new Detroit community district's foundation allowance. The estimated total debt service would total \$705.0 million including approximately \$415.0 million in accumulated operating deficits, as well as \$150.0 million to finance start-up costs and cash flow issues for the new district, and a potential \$140.0 million in interest costs, based on recent Treasury debt service scenarios.

In years FY 2024-25 and 2025-26, when the deposits into the Community District Education Trust Fund end, but the estimated debt service payments are expected to continue, the bill provides that the General Fund would reimburse the School Aid Fund for the costs of offsetting the local school operating funds. Based on current estimates, the total debt service would exceed the Community District Education Trust Fund deposits by \$88.0 million.

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