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BILL ANALYSIS



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Senate Bill 553 (as introduced 10-8-15)
Sponsor: Senator Rick Jones
Committee: Education

Date Completed: 12-6-16

CONTENT

The bill would amend the Revised School Code to do the following:

- **Allow the board of a constituent district of an intermediate school district (ISD) to adopt a resolution to cease to participate in ISD services provided under the Code or the State School Aid Act.**
- **Specify that the ISD would have to cease providing services to the constituent district or its pupils if it adopted a resolution.**
- **Require the ISD to continue levying taxes but, for each collection, require the ISD to pay the constituent district 80%, and refund to taxpayers 10%, of the tax attributable to property within the constituent district.**
- **Specify that taxes levied for area career and technical education program operating purposes, or for special education operating purposes, could be used for making payments to a constituent district or refunds to taxpayers.**
- **Specify that the electors of a district that adopted a resolution would not be eligible to vote on the question of issuing bonds for technical or special education purposes within the ISD, or for levying a tax to repay those bonds, and that an ISD could not levy a tax on property in a constituent district to repay the bonds.**

The bill would take effect 90 days after its enactment.

Resolution to Cease Participation in ISD Services

The bill would allow the board of a constituent district of an ISD to adopt a resolution to cease to participate in ISD services provided under the Code or, except as otherwise provided, under the State School Aid Act. Before adopting a resolution, a board would have to hold at least two meetings with proper notice indicating that the issue of adopting the resolution would be on the agenda.

If the board adopted the resolution, the ISD would have to cease providing services to the constituent district or pupils enrolled in the district under the Code and the State School Aid Act. The district would have to assume and provide to pupils enrolled in the district all services that otherwise would have been provided by the ISD, and would have to use funds received from the ISD for this purpose.

The ISD would have to continue levying taxes authorized under Sections 625a, 681, and 1724a but, for each levy and collection of those taxes, the following would apply: a) within one business day after receiving the proceeds, the ISD would have to pay to the constituent district 80% of the money it received from that collection that was attributable to property located within the constituent district; and b) within five business days after receiving the

proceeds, the ISD would have to refund to each person who paid taxes attributable to property within the constituent district 10% of the money it received from that collection. The State Treasurer would have to prescribe procedures for the refund. (Sections 625a, 681, and 1724a allow an ISD to levy ad valorem property taxes for operating purposes, an area career and technical education program, and special education operating purposes, respectively.)

The ISD would have to pay to the constituent district 90% of any money it received from the State School Aid Act or Federal funding attributable to the constituent district or a pupil enrolled in the district within one day after receiving money. The Superintendent of Public Instruction would have to prescribe standards and procedures for those payments. The ISD would have to continue to audit enrollment and attendance data under the School Aid Act.

If an ISD's constituent district had a resolution in effect, that district would have to perform the functions otherwise required under Part 7 (Intermediate School Districts) to be performed by the ISD on behalf of pupils or residents of the district, and would have to use funds received from the ISD as described above for this purpose.

Technical & Special Education Funding

Under the Code, an ISD that levies a tax for area career and technical education program operating purposes, or for special education operating purposes, may not use proceeds from the tax for any other purpose. Under the bill, those proceeds could be used for making payments to a constituent district or refunds to taxpayers, as described above.

Section 687 allows an intermediate school board in which an area vocational-technical education program is established to borrow money and issue bonds to defray the cost of purchasing, erecting, completing, improving, furnishing, or equipping area vocational-technical buildings and other facilities, and other related costs. Section 1731 allows an ISD to do the same with respect to buildings for special education facilities, and other similar costs. For bonds that were issued after the bill's effective date under each of these sections, both of the following would apply: a) the constituent district's school electors that had in effect a resolution adopted as described above would not be eligible to vote on the question of issuing bonds or levying a tax to repay those bonds, and b) the ISD could not levy a tax to repay the bonds on property that was located in a constituent district that had a resolution in effect.

MCL 380.681 et al.

Legislative Analyst: Jeff Mann

FISCAL IMPACT

The bill would result in minimal additional costs to the State and likely additional costs to local school districts and intermediate school districts (ISDs). If a significant number of districts removed themselves from ISDs, then the programs that the Department of Education typically administer through ISDs, such as some special education programs, and career and technical education, would require additional administrative costs at the State level to administer, monitor, and report on the various programs for those districts. This would likely result in a minimal additional administrative costs to the Department.

The decision of districts to cease to participate in their local ISD would have a variety of impacts on ISDs, districts that remained with the ISD, and the districts that ceased to participate in their local ISD. The impact would largely depend on the size of the district that chose to leave relative to the other districts in the intermediate school district.

If a district in an ISD ceased participation, that ISD would likely experience a decrease in revenue that would be greater than the administrative savings from moving those services to the district, due to the overall cost sharing nature of ISDs. For example, if an ISD had 2.0 full-time equated employees (FTEs) who provided accounting assistance to six districts and

one of those districts ceased to participate, the ISD would likely still need to have 2.0 FTEs to cover the remaining districts; however, the ISD would have less revenue to support those positions, or would need to eliminate one position and would not be able to provide the same level of services to the remaining districts. This would be the scenario for most services that ISDs provide, which would be greater if the districts that ceased participation were large or had a large tax base.

A district that ceased participation in an ISD would likely have administrative costs that were greater than the portion of revenue it received from the ISD, due to less economy of scale and increased duplication of services. Using the example for accounting service, if the true costs to perform the service for a district were 0.33 FTE position, and the district had to hire a new position or create a 0.5 FTE hybrid position that required additional cost, the district would likely be paying more for the same service that it was receiving for the ISD. Some of these services could privatize to bring the costs down the "true cost" of performing the services. However, if a school district had to create an entirely new program (such as a career and technology program), the upfront cost for the program would likely be far greater than the revenue portion received from the ISD. A common case that could arise involves students who are blind or deaf, who require additional services that otherwise would be covered by the ISD; most schools would likely bear costs far greater than at the ISD level, due to less economy of scale. Only large districts with a significant tax base and enough students would have the economy of scale necessary for the revenue to cover the additional costs. Most districts would likely require additional funding to order to support these services.

One way that the bill could result in savings to ISDs is through increased motivation due to threat of districts' ceasing to participate. This could result in ISDs more actively streamlining services to reduce costs and increase efficiency and performance of the ISD. With this additional motivation, ISDs could streamline services to the extent that it would become extremely cost prohibitive for a district to choose to cease participation in its ISD.

Overall, since it is difficult to predict costs for an individual ISD or district due to the various ISD and district scenarios, it is impossible to accurately estimate costs or savings throughout the State. If a significant number of districts started to cease participation in their ISD, there would likely be additional costs overall due to reduced economies of scale and increased duplication of services. However, if almost all districts remained in ISDs and only threats of ceasing participation occurred, then the costs at the ISD level could potentially decrease overall due to increased motivation to streamline services and operations.

Fiscal Analyst: Cory Savino

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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.