November 11, 2014

Reeths-Puffer Schools 2014-15 Debt Millage Background and FAQ

Reeths-Puffer Schools has borrowed money from the School Bond Loan Fund and the School Loan Revolving Fund over the past several decades. This has allowed the district to pass bond issues and make major improvements, such as the construction of R-P High School, the renovation of R-P Middle School, extensive infrastructure improvements including new boilers and an integrated energy management system, and installation of instructional technology in every classroom. Many districts throughout the region and the State participate in the program. R-PS was listed as one of the 30 largest borrowers in the fund as of June 30, 2012. This list is a mixture of districts from Western, Central, and Eastern Michigan. Typical districts on the list are suburban districts in the Lower Peninsula without a large industrial or commercial tax base. However, there are urban and rural districts represented as well.

The district's levy for debt service for the past ten years has been 8.37 mills on all eligible property. The amount generated by the debt levy does not cover our annual obligations for bond principal and interest. As a result, we borrow the excess needed from the State pool, also known as the School Loan Revolving Fund. Once we get to a point where our millage will generate excess funds, we will begin to repay the State for the money borrowed.

Since the district sold bonds for approximately $22 million in early 2010 to fund improvements approved by voters in November, 2009, two major factors have changed which will impact the district's position with regards to debt levy, debt repayment, and the ability to do future borrowing.

First, the State of Michigan substantially changed the rules surrounding the School Loan Revolving Fund. Public Act 437 passed in 2012 (PA 437) significantly restricts the ability of districts like Reeths-Puffer to do issue any future bonds for improvements. This law even restricts our ability to refinance existing bonds at a lower rate and pass the cost savings on to taxpayers. Further, it caps the total state pool at a level which could throttle school construction efforts statewide in the near future. The main clause of this new law that will concern us is the need to recalculate our SLRF repayment date on an annual basis. Like many districts, we've seen a decline in property values since our last bond issue – and more on that in a minute. This means the total tax revenue produced by the 8.37 mills has declined and we won't be able to enter repayment mode as fast as anticipated.

Second, our largest taxpayer, also the largest taxpayer in the whole County – Consumers Energy – received a huge taxable value judgment in a settlement with the City of Muskegon. In June 2012, prior to this judgment, Consumers Energy had approximately $77.2 million in property taxable value within the R-PS district. As of the June 30, 2014 audit report, that amount had declined to approximately $37.4 million. All told, taxable values declined district-wide by over 6% as a result of this one change.

When we consider the impact of these two factors converging, it will unfortunately result in Reeths-Puffer being forced by the State to increase the debt levy starting in 2014-15. The increase needed is 1.0 mills, or an increase of 11.49% over the previous 8.37 mill levy. This was approved by the Reeths-Puffer board of education in June, 2014.

Some Frequently Asked Questions on this topic:

Q: Why is the district choosing to increase taxes on R-P taxpayers?

A: The district is not choosing to increase taxes. A new State law passed in 2012 is forcing us to do so.

Q: When voters approved the November 2009 bond issue, weren't they voting to extend the rate at 8.37 mills?

A: This is a common misunderstanding since bonds are typically described as an 'extension' when the millage rate will not increase automatically after the sale. Technically, however, the question posed to voters does not address the millage rate. The voters were simply approving the sale of approximately $22 million in bonds and authorizing the district to levy the proper millage to pay them off according to the law. In this case, that requires increasing the debt levy in 2014-15.

Q: I thought the State made up the money that schools lost from taxable value judgments?

A: The State does hold school districts harmless on the general fund operating side. However, we are legally required to keep debt millage funds separate, and the State does not make up any lost revenue in this area. If the district does not raise the proper amount from its debt millage, it can risk defaulting on its bond obligations.

Q: Why is Reeths-Puffer raising taxes and other districts are not?

A: PA 437 is projected to impact multiple districts in Muskegon County and will cause taxes to go up in several districts. In addition, other districts around West Michigan have been forced to increase their debt levy in recent years due to taxable value declines.

Q: Who should I contact with further concerns or questions?

A: Feel free to contact Jason Helsen, R-PS Director of Finance, at (231)744-4736.