



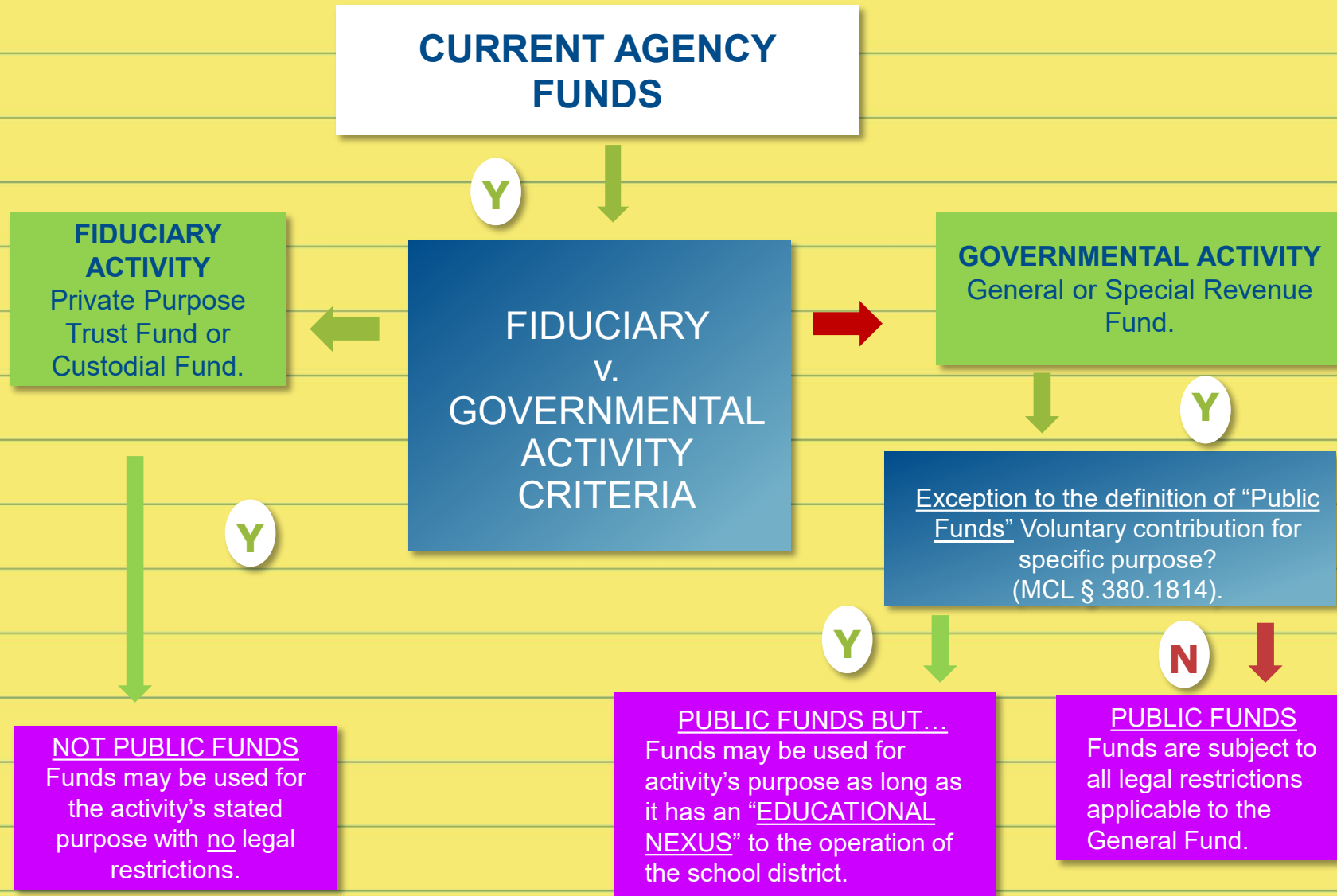
Michigan School Business Officials 2024 Annual Conference April 25, 2024

James M. Crowley, Esq.

**Miller, Canfield, Paddock and Stone, PLC
150 West Jefferson Avenue
Suite 2500
Detroit, Michigan 48226
(313) 496-7606
(248) 561-7188 (M)
crowley@millercanfield.com**

- **Permissible Expenditures.**
 - Generally / GASB 84.
 - Revenue Source Limitations.
 - Use Limitations.
 - Use Prohibitions.
- **Strategies to Comply.**
- **Questions?**

GASB 84: Permissible Expenditure of Public Funds



Three Questions:

1. What **powers** does the school district have to expend funds?
2. What are the specific **source and use limitations** or specific **prohibitions** on expenditures?
3. What is provided for in the school board-approved **policies** and **budget ...** or **collective bargaining agreements?**



The Michigan Constitution limits what public schools may spend money on:

Article VIII, Section 2: Free Public Schools

Sec. 2. The legislature shall maintain and support a system of free public elementary and secondary schools as defined by law. . .

No public monies or property shall be appropriated or paid or any public credit utilized . . . directly or indirectly to aid or maintain any private, denominational or other nonpublic pre-elementary, elementary, or secondary school.

Article IX, Section 18: State Credit (*Lending of Credit*)

Sec. 18. The credit of the state shall not be granted to, nor in aid of any pension, association or corporation, public or private, except as authorized in this constitution.

Article XI, Section 3: Extra Compensation

Neither the legislature nor any political subdivision of this state shall grant or authorize extra compensation to any public officer, agent or contractor after the service has been rendered or the contract entered into.

School Code § 380.11a

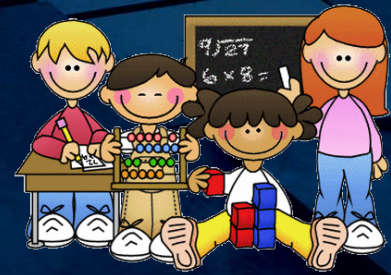
General Powers School Districts

- **Express Powers:**
 - Educating pupils
 - Providing for safety and welfare of pupils
 - Acquiring, constructing, and maintaining property
 - Hiring and supervising employees
 - Receiving, investing, and spending district money

- May also exercise those powers that are **implied** or **incidental** to these and exercise a power incidental or appropriate to the performance of any function related to the **operation of the school district in the interest of public elementary and secondary education** within the school district. MCL 380.11a

- Requirement of an “**Educational Nexus**”





Our Definition

Unless some specific **limitation** or **prohibition** has been placed on expenditures from the General Fund, so long as there is a reasonable “**educational nexus**” between the expenditure and the performance of any function related to the operation of a school district in the interests of public elementary and/or secondary education in the school district, the expenditure from the General Fund is **allowed**.

Revenue Source Limitations: Overview

- General Operating Fund:
 - State School Aid
 - Property Taxes
 - Other Sources
- Building and Site Sinking Fund Proceeds.
- Bond Proceeds.
- Federal COVID-19 Relief Funds (ESSER Funds).

State School Aid

- Section 1618 of the School Aid Act provides as follows:
 - [School districts]... shall apply the money received by the district or entity under this article to salaries and other compensation of teachers and other employees, tuition, transportation, lighting, heating, ventilation, water service, the purchase of textbooks which are designated by the board to be used in the schools under the board's charge, other supplies, **and any other school operating expenditures defined in Section 7.**
- Section 7 further defines “any other school operating expenditures” as follows:
 - Costs for school operating purposes include all expenditures necessary to carry out the powers of the district or intermediate district under the revised school code.

Revenue Source Limitations: General Operating Fund

Property Taxes -----

Operating Taxes
Non-Homestead
Hold Harmless



- Section 1211 of the School Code enables School Districts to levy millage “for school operating purposes”.
- Section 1216 provides that monies “raised by tax shall not be used for a purpose other than that for which it was raised without the consent of a majority of the school electors”.

Finally, we have...

Other Sources

- Federal appropriations (e.g., ESSER, Title I Funds, etc.).
- Grant funding.
- Other?

Statutory Requirements for a Sinking Fund

Pre-2017 Voter Authorization	Post-2016 and Pre 2023 Voter Authorization	Post-2022 Voter Authorization
<ul style="list-style-type: none"> Up to 5 mills for up to 20 years. 	<ul style="list-style-type: none"> Up to 3 mills for up to 10 years. 	<ul style="list-style-type: none"> Up to 3 mills for up to 10 years.
<ul style="list-style-type: none"> Purchase of real estate for sites for, and the construction or repair¹ of, school buildings. NO EQUIPMENT OR FURNISHINGS. 	<ul style="list-style-type: none"> Purchase of real estate for sites for, and the construction or repair¹ of, school buildings. NO EQUIPMENT OR FURNISHINGS OTHER THAN THE FOLLOWING: <ul style="list-style-type: none"> School Security Improvements³; Technology⁴; 	<ul style="list-style-type: none"> Purchase of real estate for sites for, and the construction or repair¹ of, school buildings. NO EQUIPMENT OR FURNISHINGS OTHER THAN THE FOLLOWING: <ul style="list-style-type: none"> School Security Improvements³; Technology⁴; Student Transportation Vehicles⁵ and parts, supplies and equipment to maintain these vehicles; Trucks and Vans⁶ and parts, supplies and equipment to maintain these vehicles.
<ul style="list-style-type: none"> NO MAINTENANCE² 	<ul style="list-style-type: none"> NO MAINTENANCE² 	<ul style="list-style-type: none"> NO MAINTENANCE²
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Statutory Requirements for a Sinking Fund - Footnotes

- ¹ **“Repair”** – putting back in good condition – curative.
- ² **“Maintenance”** – keeping in good condition – preventative.
- ³ **“School Security Improvements”** - any capital improvement or purchase that is designed to act as a deterrent to unauthorized entry of persons or items onto school premises or to otherwise promote security, including, but not limited to, metal detectors, locks, doors, lighting, cameras, and enhancements to entryways. School security improvement also includes a mobile telephone application that provides the ability to communicate with personnel on site while also connecting an emergency telephone call to a 9-1-1 center. School security improvement does not include personnel costs or operation costs related to a capital improvement or purchase or related to a mobile telephone application.
- ⁴ **“Technology”** – as defined in Section 1351a of the Revised School Code which is as follows

As used in this section, "technology" means any of the following:
 - (a) Hardware and communication devices that transmit, receive, or compute information for pupil instructional purposes.
 - (b) The initial purchase of operating system software or customized application software, or both, accompanying the purchase of hardware and communication devices under subdivision (a).
 - (c) The costs of design and installation of the hardware, communication devices, and initial operating system software or customized application software authorized under this subsection.
- ⁵ **“School Transportation Vehicles”** – defined by Treasury to mean school buses or other school related vehicles that are used to transport students.
- ⁶ **“Trucks and Vans”** – must be registered under the Michigan Vehicle Code and used to carry parts, equipment and personnel for or in the maintenance of school buildings.

Allowable Use of Bond Proceeds

- **Capital improvements and purchases.**
- **Definition of “technology”.**
 - Hardware, software limitations
- **Cannot use bond proceeds for:**
 - Maintenance;
 - Repairs;
 - Lease payments;
 - Employee salaries;
 - Automobiles, trucks or vans;
 - Moving or staging costs related to construction projects;
 - Bond instruments - Y; Uniforms - N;
 - Library Books – Y; Textbooks – N;
 - Modulars?



- Investment Income – MCL 380.1223
- Tax Deferred Annuity - 380.1224
- Expense Reimbursement – MCL 380.1254
- Insurance - MCL 380.1269
- Construction – MCL 380.1263
- Purchasing – MCL 380.1274
- Transportation – MCL 380.1321 et. seq.
- Professional Development – MCL 380.1525
- Michigan Campaign Finance Act



Use Limitations: Reimbursement Expense

Section 1254 of the School Code provides that:

“... a school district may pay **actual and necessary** expenses incurred by its **board members and employees** in the discharge of official duties or in the performance of functions authorized by the board.”

Use Limitations: Reimbursement Expense

Section 1254 further provides as follows:

- Expenses incurred by a board member must be approved in advance by the board and must be consistent with the board's adopted policy on categories of reimbursable expenses.
- A board may not issue board members credit cards or debit cards that pledge payment of funds from a school district account except in compliance with law.



- **Alcohol, jewelry, gifts, golf fees and other illegal items – MCL 380.1814**
- **Sectarian Schools – MCL 380.1217 – except transportation**
- **Foreign Goods – MCL 388.1764c – if US goods are available and competitive**
- **Rental Cars & Chauffeurs – MCL 380.1217a and 388.1764**
- **Performance-Enhancing Drugs – MCL 380.1318**
- **ISD Specific Legislation – MCL 380.634 - 2004**
- **Mercury – MCL 380.1274b**

Effective in 2015, Section 1814 prohibits:



Specific Prohibitions under Section 1814



MCL §380.1814.

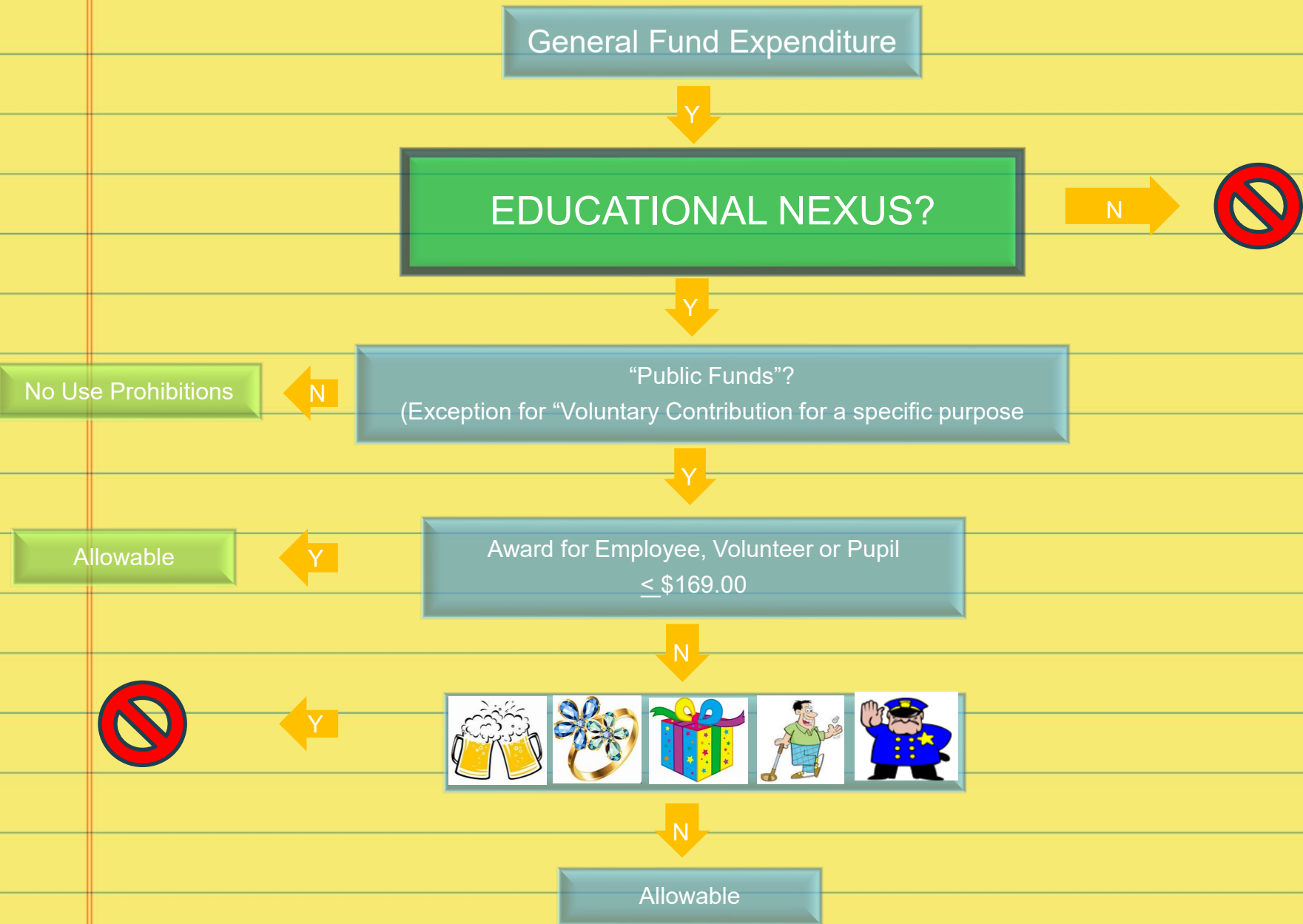
(1) Except as otherwise provided in subsection (2), a person shall not use school district ... funds or other public funds under the control of a school district ... for purchasing alcoholic beverages, jewelry, gifts, fees for golf, or any item the purchase or possession of which is illegal.

(2) Subsection (1) does not prohibit the use of public funds for the purchase of a plaque, medal, trophy, or other award for the recognition of an employee, volunteer, or pupil if the purchase does not exceed \$100.00 per recipient. [Indexed to \$169 for the 2023-24 school year]

(5) As used in this section, "public funds" means funds generated from taxes levied under this act, state appropriations of state or federal funds, or payments to a school district, ... for services, but does not include voluntary contributions made for a specific purpose by a school district, ... board member; ... employee; another individual; or a private entity.

[Emphasis Added]

Section 1814 FlowChart



Permissible? Yes/No/Maybe

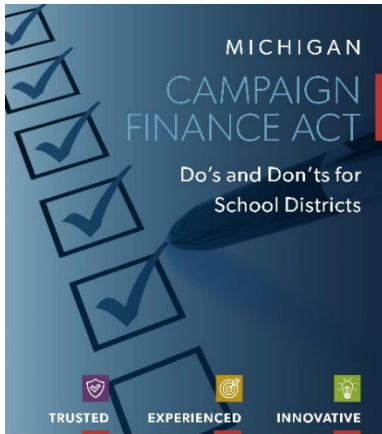
- Employee/staff appreciation expenditures?
- Candy and prizes to students as part of a reward/incentive program?
- Can school district pay for flowers to be sent to a former employee's funeral?
- Can school district pay for lunch during a teacher professional development day?
- Provide staff coffee and donuts?
- Pay for staff to play in school district's educational foundation golf outing?
- Contribution to School District's Education Foundation?
- Scholarships?
- Board member tickets to fundraising events?





- De Minimis Fringe Benefits
- Achievement Awards

- **Board Policy:**
 - Specific Board Policy may be required in certain circumstances.
 - Board Policy may be more restrictive than the law.
- **Approve budget with category/amount for miscellaneous expenditures.**
- **Prior Approval of Expenditures.**
- **Educate Staff on Legal Boundaries of Prohibited Expenditure.**
- **Be Aware of Purchasing Cards:**
 - In addition to credit card policy required under MCL 129.243, make policy clear that any unauthorized use of credit card is liability of employee.
- **Conduct Regular Internal Audits.**

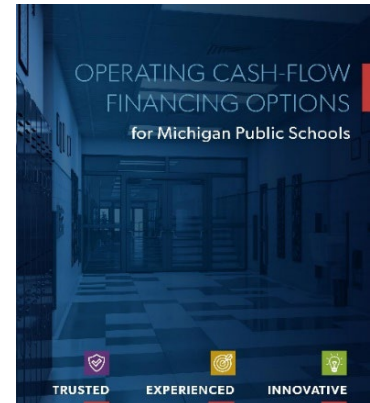


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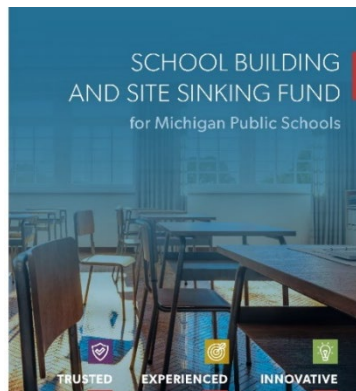


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This practice guide discusses generally the Michigan sales tax obligations of Michigan public schools under the Michigan General Sales Tax Act, Act 167, Public Acts of Michigan, 1933, as amended (MCL 207.51 et seq.). The Act imposes a tax on most retail sales of tangible personal property at a rate of 6% of the seller's gross proceeds from the sale. Under the Act retail sales to public schools for their own use, storage or consumption are generally exempt from sales tax and retail sales made by public schools are generally subject to sales tax. However, exceptions apply for various types of sales made by public schools.



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This practice guide discusses the requirements for the levy of a building and site sinking fund tax by a school district under Section 1212 of the Michigan Revised School Code (MCL §380.1212). Section 1212 provides that, with voter approval, a school district may levy a sinking fund tax to pay for certain allowable capital improvement projects and purchases which include the construction and renovation of school buildings, the purchase of real property, the repair of school buildings and the purchase of certain equipment.



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Construction-Related Agreements	Cash Flow Borrowings
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CANFIELD
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James M. Crowley
Principal
(313) 496-7606
crowley@millercanfield.com



Amanda Van Dusen
Senior Counsel
(313) 496-7512
vandusen@millercanfield.com



Thomas D. Colis
Principal
(313) 496-7677
colis@millercanfield.com



Katrina P. Desmond
Principal
(313) 496-7665
desmond@millercanfield.com



Alan D. Szuma
Principal
(313) 496-7604
szuma@millercanfield.com



Ashley Higginson
Principal
(517) 483-4912
higginson@millercanfield.com



Ronald Liscombe
Principal
(313) 496-7906
liscombe@millercanfield.com



Ahmad Chehab
Senior Attorney
(313) 496-7504
chehab@millercanfield.com



Emily J. Barr
Associate
(313) 496-7553
barr@millercanfield.com

Thank you! Any Questions?

- This document is not intended to give legal advice and does not establish any attorney-client relationship. It is comprised of general information. School Districts facing specific issues should seek the assistance of an attorney.

