



**House  
Legislative  
Analysis  
Section**

Washington Square Building, Suite 1025  
Lansing, Michigan 48909  
Phone 517/373-6466

**RIVERVIEW SCHOOLS: UNPAID TAXES**

**House Bill 4019 Substitute (H-4)**

**First Committee: Education**

**Second Committee: Appropriations**

**RECEIVED**

**APR 08 1987**

**House Bill 4179 Substitute (H-2)**

**Committee: Taxation**

**Mich. State Law Library**

**Sponsor: Rep. Vincent J. Porreca**

**First Analysis (3-17-87) Floor Copy**

**H.B. 4019 et al (3-17-87)**

**THE APPARENT PROBLEM:**

McLouth Steel Products Company's state equalized valuation (SEV) constitutes 24 percent of the Riverview Community School District's total SEV. Its personal property taxes alone account for 16 percent of the total district tax bill. The financially struggling company, however, has not been paying its taxes: according to school officials, McLouth owes about \$2.7 million to the Riverview schools (although the district expects \$760,000 from the company by May of this year under a newly arranged payment plan, and has received about \$260,000 from the county revolving fund for delinquent 1985 real property taxes). Obviously, this has produced major disruptions to the district, which serves 2,400 students in the downriver section of Wayne County. The school board has voted significant reductions in the local program, eliminating junior and senior high transportation, ending financial support for junior and senior high athletics, closing an elementary school, and reducing the school day for all students from six hours to five. Even with these cuts, and with the anticipated partial payments by McLouth this year, the district anticipates a deficit for 1987-1988. Covering the deficit, restoring the educational program to modest levels, and addressing asbestos and roof problems will require voters to approve 9.21 new mills, according to school officials, up to a total of 46.11 mills. (Two millages failed late in 1986.) The Gibraltar School District is also affected. McLouth's SEV is 5.6 percent of the district's SEV, and the district is owed over \$350,000.

The State School Aid Act allows property constituting at least five percent of a district's total valuation to be taken off the tax rolls if the delinquent taxpayer is bankrupt. McLouth, however, is not bankrupt (and community leaders do not want to force its bankruptcy), so its property stays on the rolls even though local units of government cannot collect the taxes due. If the company's SEV was removed from the school district's total SEV, the Riverview district would become an "in-formula" district and would qualify for state aid. Gibraltar is already in-formula, but would receive additional aid. Local officials have urged the legislature to find a way to help these districts.

**THE CONTENT OF THE BILL:**

House Bill 4019 would amend the School Aid Act to provide that when a company or group of companies under common control or ownership fails to pay property taxes levied in 1986 for operating purposes constituting five percent or more of the valuation of a district that levied for operating purposes 36.0 or 36.9 mills in 1986-1987,

the total valuation of the district would be reduced by the valuation of the property on which taxes were unpaid. The credits obtained this way by a district would remain a lien against the district and would have to be paid by the district to the school aid fund when the taxes were collected or received. The reduction in valuation would only be implemented upon verification by the Department of Education that the district had taken proper action to attempt to secure payment of the taxes by the debtor and had taken actions to ensure that the district was operating with a balanced budget for the current year.

The bill would also allow a similar reduction in SEV in another instance: When taxes levied and due during 1979-1980 and 1980-1981 were not paid to a school district that levied 30.5 mills in 1980-1981 and that was annexed in 1984, the district's SEV would be reduced for the purpose of recomputing its 1979-1980 and 1980-1981 school aid (MCL 388.1724).

House Bill 4179 would amend the General Property Tax Act to impose an additional one percent per month penalty on unpaid property taxes that cause a reduction on the valuation of a school district as permitted by House Bill 4019. The penalty is in addition to the one percent per month (or fraction of a month) penalty already imposed on delinquent property taxes and would be imposed from the date of the valuation reduction. The additional interest and penalty could not be pledged to the delinquent tax revolving fund but would be paid to the state treasury to the credit of the state school aid fund. The bill would also put into statute clear authority for the imposition of a one percent per month penalty on delinquent personal property taxes (which would make the statute conform to the Department of Treasury's understanding of current law). MCL 211.46a

The two bills are tie-barred.

**FISCAL IMPLICATIONS:**

According to the House Fiscal Agency, House Bill 4019 will result in an additional \$1.355 million in school aid expenditures, with \$954,000 going to the Riverview Community School District and \$361,000 to the Gibraltar School District, although that could be reduced to \$250,000 if the district fails to qualify for certain incentive-based aid. The fiscal agency points out that without this bill, the Riverview District stands to lose \$1,751,000 and the Gibraltar District \$361,000. The bill would also provide \$37,000 to the district that annexed the Bessemer School District.

## **ARGUMENTS:**

### **For:**

House Bill 4019 is a stop-gap measure to help the Riverview Community School District and, to a lesser extent, the Gibraltar School District. Because of the financial difficulties of McLouth Steel, nearly one-quarter of Riverview's state equalized valuation (SEV) is not producing tax revenue, creating enormous problems for a district that on paper appears well off. Dropping McLouth's SEV from the district's tax rolls temporarily will allow Riverview to qualify for state aid (to become an in-formula district). Although the state aid will not make up for all of the lost tax revenue, it will provide some stability to the district's financial planning and should help with the passage of local millage increases needed to restore educational programs for the 2,400 children in the school system. Similar assistance is provided to the Gibraltar schools. The bill also makes up for revenue lost by the former Bessemer School District under similar circumstances some years ago.

### **Against:**

It would be unfortunate if this bill lets large taxpayers faced with financial difficulties think they can forgo paying school property taxes without harm to the schools because the state will, in effect, pay their taxes for them.

**Response:** As a disincentive, House Bill 4179 assesses an additional one percent per month penalty on taxpayers whose failure to pay property taxes results in their property being dropped from the tax rolls. As written, the bill applies only to the current tax year and only to specific circumstances.

### **Against:**

Some people who support the major provisions of the bill have objected to including replacement funds for money lost by a school district about seven years ago on the grounds that it may be setting an unwise precedent or else treating districts that faced similar circumstances unfairly.

**Response:** The district would have received this money from the state years ago had a local official not erred in dealing with delinquent taxes on bankrupt property, so the successor district deserves the funds.

## **POSITIONS:**

Representatives of the Riverview School District and the City of Trenton have testified in support of House Bills 4019 (2-10-87).

The Michigan Association of School Boards supports the bills (2-10-87).

The Michigan Association of School Administrators supports the bill (2-10-87).