



**House
Legislative
Analysis
Section**

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

RIVERVIEW SCHOOLS: UNPAID TAXES

RECEIVED

House Bill 4019 as enrolled
First House Committee: Education
Second House Committee: Appropriations
Senate Committee: Education and Mental Health
MAY 07 1987
Michigan State Law Library

Sponsor: Rep. Vincent J. Porreca Second Analysis
(4-14-87)

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.

MCL 388.1724

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.

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.

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.

H.B. 4019 (4-14-87)