

## DISSOLVED DISTRICT DEBT REVISIONS AND SCHOOL BUILDING DEMOLITION

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**House Bill 4644 (H-4)**  
**Sponsor: Rep. Tim Kelly**  
**Committee: Appropriations**

Analysis available at  
<http://www.legislature.mi.gov>

**Senate Bill 173 (H-2)**  
**Sponsor: Sen. Ken Horn**  
**Senate Committee: Appropriations**  
**House Committee: Appropriations**

**Complete to 6-16-15**

### **SUMMARY:**

House Bill 4644 and Senate Bill 173 would amend the Revised School Code (MCL 380.1 et. al.) and the School Aid Act (MCL 388.1601 et. al.), respectively, to provide alternative mechanisms for the repayment of a dissolved district's operating debt and to create conditions for the sale or demolition of a school building that was received from a dissolved district. The bills are summarized individually in more detail below.

### **HOUSE BILL 4644**

House Bill 4644 would amend the Revised School Code to do all of the following:

- Revise the conditions under which a district receiving territory from a dissolved district could begin to levy school operating taxes in that territory.
- Require a receiving district to use the proceeds of school operating taxes assessed in the dissolved district to pay the dissolved district's operating debt.
- Require the proceeds of the sale of property from a dissolved district to be used to first eliminate or reduce the dissolved district's operating debt, and second eliminate or reduce a receiving district's debt.
- Prohibit the demolition of a school building received from a dissolved district unless certain conditions are met.

### ***Dissolved and Receiving Districts - School Operating Taxes***

Currently, a dissolved district is a former school district that retains a limited separate identity as a taxing unit for the purposes of levying school operating mills (up to 18 mills assessed on non-homestead property under MCL 380.1211), from which the revenue is used to pay off any remaining debt until the debt is eliminated. A receiving district cannot begin to levy its school operating taxes in the territory attached to it from the dissolved district until the dissolved district's debt is paid and the dissolved district no longer exists as a separate identity.

The bill would allow a receiving district to begin to assess school operating mills in that territory once a dissolved district is no longer authorized to levy them. The receiving district would be authorized to levy mills at a rate that does not exceed the rate of school operating mills authorized in either the receiving or dissolved districts, whichever is less. This would allow a receiving district to begin assessing school operating taxes if the voters in a dissolved district fail to renew the dissolved district's school operating mills before its debt is paid. The bill would require that the receiving district use the proceeds to eliminate or reduce the dissolved district's operating debt. Each receiving district would pay a percent of the operating debt equal to its share of the dissolved district territory.

### ***Sale of Former Dissolved District Property***

Currently when a district is dissolved, its property is transferred to the receiving district in which it is located. The bill would make the property transfer subject to the following if a dissolved district has outstanding debt and a receiving school sells the property beginning on or after August 1, 2015:

- The receiving district must forward the proceeds of the sale to the intermediate school district (ISD) in which the dissolved district is located and the ISD must use the proceeds first to pay or reduce any outstanding operating debt of the dissolved district.
- If there is any balance remaining after the dissolved district debt is paid, the ISD shall remit the balance to the receiving district, which first must use the money to pay or reduce its own outstanding debt, if any.

The bill would prohibit a district or intermediate district from demolishing a building received from a dissolved district unless the district or intermediate district has offered the building for sale, lease, or rent for at least 12 months after the effective date of the bill before the demolition and has not received any fair market value offers for the sale of the building.

Finally, the bill would prohibit a receiving district from applying for or receiving grant funding under Section 20g of the School Aid Act (dissolved district transition grants in the School Aid budget) for the costs of demolishing a building if the district refuses a fair market offer for the sale of a building that it received as a result of the dissolution of another district.

### **SENATE BILL 173**

Senate Bill 173 would amend Section 20 of the School Aid Act, which provides for the calculation of school district foundation allowances to adjust the calculation for the state and local shares of the foundation allowance of a receiving district.

The bill would exclude the dissolved district territory from the calculation of a receiving district's total taxable value (for the purposes of calculating the local share of its foundation allowance) if the receiving district is collecting school operating mills on that territory, but is also required to use that funding to pay the dissolved district's debt, as would be required under House Bill 4644. The bill would prevent a reduction in state aid, which would

otherwise happen automatically due to the increase in the receiving district's taxable value after that territory is attached to the receiving district, until the dissolved district's debt is fully paid.

### **TIE-BARS**

House Bill 4644 and Senate Bill 173 are tie-barred with each other as well as with Senate Bill 356, which means none of them would take effect until all three bills have been enacted.

### **FISCAL IMPACT:**

#### ***Dissolved District School Operating Taxes***

By allowing a receiving district to begin levying school operating taxes within territory received from a dissolved district as soon as that dissolved district is no longer authorized to do so, rather than waiting until the dissolved district debt has been repaid, the bills would generate additional local school operating revenue that otherwise could not be collected. The revenue would first be used to pay off any remaining dissolved district operating debt, and second, would increase the local portion of a district's foundation allowance thereby allowing for a decrease in the offsetting state portion and reducing State costs.

This would address the current situation in the dissolved Buena Vista school district, where voters twice have voted down a renewal of school operating mills for the now dissolved district prior to the district's debts being fully paid, thus preventing both the elimination of the debt and the receiving districts' (Frankenmuth, Bridgeport/Spaulding, and Saginaw) ability to begin levying mills in that territory to direct toward the foundation allowances of their pupils. The foundation allowance formula currently backfills that loss through a higher state portion, leaving the cost of approximately \$1.6 million to the State for each year until the debt is paid.

Under the bills, the operating debt would be paid with the same revenue stream as under current law – the revenue from the 18 mill nonhomestead school operating tax – but it would be collected and paid by the receiving districts rather than the dissolved district. In the absence of a legislative change, the solution to repay the debt would likely be a court-ordered judgement levy assessed on all Buena Vista taxpayers, rather than just nonhomestead taxpayers. A judgement levy is not likely until the summer of 2016 at the earliest and could be assessed over a number of years, which would prolong the amount of time for which no school operating taxes could be collected and for which the state must make up the loss of the local revenue.

#### ***Sale of Former Dissolved District Property***

House Bill 4644 would have a fiscal impact on both local school districts and the state School Aid budget. By directing the proceeds of the sale of a dissolved district building to first paying off the dissolved district operating debt, it would redirect the local school operating millage being used for debt repayment toward the foundation allowances in the receiving district, thus reducing the state cost of backfilling the foregone local revenue.

However, this also would reduce funding from the sale of the building anticipated by a receiving district, which it may have intended to use for its own purposes as allowed under current law.

Additionally for a district that received a building from a dissolved district that it intended to demolish, it could incur additional costs of maintaining a building for 12 months after the effective date of these bills.

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