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**SFA****BILL ANALYSIS**

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Senate Bill 779 (as introduced 10-30-97)

Sponsor: Senator Virgil C. Smith, Jr.

Committee: Finance

Date Completed: 11-18-97

## CONTENT

**The bill would amend the Municipal Finance Act to revise current provisions that allow the issuance of delinquent tax anticipation notes by the City of Detroit for unpaid property taxes owed to the Detroit school district. The bill specifies that notes or bonds could be used to pay for delinquent taxes owed to the school district or the city; specifies that the city could establish procedures for collecting delinquent taxes and enforcing tax liens; and provides that the school district and the city would have to pay their pro rata shares if the collection of delinquent taxes were insufficient to repay notes and bonds.** Under the bill, "delinquent taxes" would mean delinquent ad valorem taxes levied on real or personal property or a delinquent special ad valorem levy, special assessment, user fee or charge for unpaid rates or charges for services, or other charge imposed by or on behalf of the city or school district, or collected by the city or school district.

Currently, the city, by resolution upon the school district's request and without a vote of the electors, may borrow money and issue delinquent tax notes to pay the school district's share of delinquent ad valorem taxes that have been delinquent for up to three years. The delinquent taxes owed to the school district may be pledged to the payment of the principal and interest on the notes issued by the city. The bill provides that the city could issue delinquent tax notes or bonds in one or more series to pay delinquent taxes, or levies that would become delinquent taxes prior to the final maturity of the notes or bonds to the city or, upon request of the school district, to the school district. The bill would delete the three-year delinquency limitation. The bill specifies that the notes or bonds would not be a debt of the city within the meaning of any constitutional, statutory, or charter limitation. Currently, upon the establishment of a delinquent tax fund, all delinquent taxes pledged that are due and payable to the school district are due and payable to the city for deposit to the delinquent tax fund. The bill provides that all delinquent taxes pledged that were due and payable to the city or the school district, or both, would be due and payable to the city for deposit in the fund.

Currently, the city must pay to the delinquent tax fund the interest charges and penalties established by law. Under the bill, the interest charges and penalties also could be established by charter or an ordinance authorized by charter. Further, the bill specifies that the city could establish procedures for collecting delinquent taxes, and enforcing tax liens for delinquent taxes, and could impose interest charges and penalties at rates established by charter or an ordinance authorized by charter. In addition to any other fee or charge authorized by law, charter, or an ordinance authorized by charter, the city could charge a school district a pro rata allocation of all of the costs of issuance and administration of the notes or bonds issued, and that charge could be retained from the proceeds of the notes or bonds otherwise payable to the school district.

Under the Act, the proceeds of the collection of the delinquent taxes pledged, and the interest on the delinquent taxes, must be placed in a segregated debt service fund. The taxes placed in the segregated fund may not be used for any other purpose until the principal and interest on the notes are paid. The bill provides, instead, that the proceeds of the delinquent taxes pledged would have to be placed in one or more segregated debt service funds or accounts as provided by the

authorizing resolution. The taxes placed in the segregated debt service funds or accounts could not be used for any other purpose until the funds or accounts contained an amount sufficient to pay the annual principal of and interest on the notes or bonds, and any mandatory redemption requirements or other payments required under the authorizing resolution. To the extent permitted by the authorizing resolution, any excess amounts could be considered surplus and transferred to the city or the school district on a pro rata basis.

Currently, if the proceeds of the collection of delinquent taxes pledged to pay for the notes, together with penalties and interest, are not sufficient to pay off the notes, upon demand of the city the school district must pay the city for deposit in the fund an amount to pay the insufficiency. The bill provides that the school district would have to pay its pro rata share if delinquent taxes collected were insufficient to pay the principal of and interest on the notes and bonds; and the city could pay its pro rata share from the city's general fund or from any additional tax it could levy within its constitutional, statutory, or charter limitations. "Pro rata share" would mean the proportion of the proceeds of the original issue of notes or bonds, less costs of issuance, that the city or school district had received.

The bill would allow the city to issue refunding tax notes or bonds in one or more series to refund tax notes or bonds issued, if the city determined that refunding tax notes or bonds was expedient, whether or not the tax notes or bonds to be refunded had matured. The proceeds of the refunding notes or bonds would have to be applied to the purchase, redemption, or payment of the notes or bonds refunded.

Currently, notes may be issued at an original issue discount not to exceed 2% of the face value of the notes issued. The bill provides, instead, that obligations issued could be issued at an original issue discount to exceed 10% of the principal amount of the obligation, unless a waiver of the limitation was obtained from the Department of Treasury.

MCL 134.20 et al

Legislative Analyst: G. Towne

### **FISCAL IMPACT**

The bill would allow the City of Detroit to issue bonds in anticipation of the collection of delinquent taxes. The City of Detroit also could establish procedures for collecting delinquent taxes, imposing interest charges and penalties, and enforcing tax liens. In addition, Detroit could charge the school district a pro rate allocation of the costs associated with the issuance and administration of the notes or bonds, which could be retained from the school district's portion of the proceeds. If the collection of delinquent taxes were not sufficient to pay off the notes or bonds, then the City of Detroit and the school district each would pay its pro rata share of the insufficiency.

Fiscal Analyst: R. Ross

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