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HURON MORTGAGE LOAN

House Bill 4301 (Substitute H-3)
First Analysis (3-17-93)

Sponsor: Rep. Vincent J. Porreca
Committee: Education

THE APPARENT PROBLEM:

The Huron School District has recently encountered an unexpected financial setback that affects its current budget, according to testimony by the superintendent before the House Education Committee. The district had sold a parcel of property (using basically a three-step payment process) with the expectation that the proceeds would go to the district's general fund. The buyer, however, after making an initial payment, defaulted on the later payments, and the district has taken the property back. At the same time, proceeds anticipated from the sale of a house being built by a building trades program will also not be forthcoming because the house will not be sold until next budget year. The district has elected to repair its revenue gap by mortgaging the property it thought it had sold, but it needs to be sure that such a transaction is allowed by the School Code.

THE CONTENT OF THE BILL:

The bill would amend the School Code to permit the board of a fourth class school district that was a constituent district of an intermediate school district with a population of 1.5 million or more to mortgage real property owned by the board to secure a loan of not more than \$700,000 from a financial institution. The term of the loan could not exceed 10 years. The board would be allowed to repay the loan from the district's general fund. The bill would require that if the school district sold the mortgaged property, the proceeds from the sale would have to be used to pay the entire unpaid principal of the loan. The bill's provisions would be repealed effective January 1, 1994.

MCL 380.143a

FISCAL IMPLICATIONS:

There is no information at this time.

ARGUMENTS:

For:

The bill would allow the Huron School District to obtain a mortgage of up to \$700,000 on property for which a sale has fallen through in order to repair a hole in its current budget created when the buyer defaulted on the agreement.

POSITIONS:

The Superintendent of the Huron School District testified in support of the bill. (3-16-93)

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