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SENATE ANALYSIS SECTION

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Senate Bill 40 (as reported without amendment)

Sponsor: Senator Harry Gast

Committee: Finance

Date Completed: 2-12-87

RATIONALE

The State Revenue Sharing Act provides that portions of collections from the State's sales tax, intangibles tax, personal income tax, and single business tax be distributed to cities, villages, townships, and counties. These local units of government may use funds from revenue sharing in any way their governing bodies deem appropriate. Tax collections from the sales tax and intangibles tax are distributed to local units on a per-capita basis using each local unit's population. Collections from the personal income tax and single business tax, however, are distributed according to a tax effort formula, calculated by dividing a local unit's property, local income, and excise taxes by its state equalized valuation. The result is then compared to a statewide average tax effort rate and used in a further calculation to determine a relative tax effort rate for each local unit in the State, which is in turn used to determine each unit's revenue sharing payment.

The Act provides that if a local unit levies a special assessment (which may be used for a wide variety of purposes, such as police and fire protection, public works projects, sewers, etc.), the taxes generated are excluded in calculating the local unit's tax effort rate and relative tax effort rate. There has been some inconsistency, however, in what the Department of Treasury has or hasn't considered to be a special assessment. For many years the Department routinely included special assessments for police or fire protection in calculating local tax effort rates, provided the assessment had been levied on an ad valorem basis on all property subject to taxation within a unit. In 1984, however, the Department reversed its position and stopped including any special assessments in the local tax effort calculation. As a result of this policy change, a number of cities received increased revenue sharing payments, while a number of small units, mostly townships, had their payments reduced. Some people feel that this sudden change placed an unfair burden on some local units, and that the Act needs to specify that certain special assessments should be considered part of a local unit's tax effort.

CONTENT

The bill would amend the State Revenue Sharing Act to include special assessments in the computation of a local government's tax effort rate used in determining revenues distributed to locals under the Act, provided the assessment was levied on an ad valorem basis against all real property in an entire city, village, or township.

MCL 141.904

FISCAL IMPACT

The bill would have no fiscal impact at the State level; statewide total allocations for State revenue sharing would

remain unchanged. However, the bill would result in an estimated shift of \$2.5 million of State revenues among cities, villages, and townships during FY 1987-88.

Approximately 50 local units (mostly cities) would experience State shared revenue reductions totaling \$2.5 million as a result of this bill. Approximately 90 local units (mostly townships) would receive increased State revenue sharing allocations, again totaling \$2.5 million.

ARGUMENTS**Supporting Argument**

The proportion of revenue sharing payments local units receive from the State depends upon calculations involving a local unit's tax effort rate, that is, how much of a tax burden a local unit places on its taxpayers relative to other local units in the State. In the past the Department of Treasury has included certain special assessments for police and fire protection in determining local tax effort rates; however, a recent reversal of policy excluded any special assessments from consideration as part of a local unit's tax burden. This decision caused adjustments in calculations that resulted in those local units, mostly cities, with relatively high taxes gaining in revenue sharing payments, while those that made extensive use of special assessments, mostly townships, lost revenue. The bill would restore the revenue sharing levels of those who suddenly lost revenue, and would prevent further inconsistencies in the calculation of local tax efforts, by specifying that special assessments would be recognized as a local tax effort.

Opposing Argument

Special assessments are not subject to millage limitations or truth in taxation procedures, and in many instances can be levied without voter approval. In addition, special assessments can only be levied on real property and cannot be imposed on personal property. Because special assessments are different than all other taxes that local units impose upon their taxpayers, they should not be included as tax revenue in calculating local tax effort.

Response: When taxpayers receive their tax bill, it matters little whether the amount of taxes showing is from a special assessment or a regular assessment; the only thing that matters is that it is property tax owed. From the standpoint of the taxpayer, then, the bill would correct an inequity by including special assessments as part of the total tax burden.

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This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.

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