

**SFA**

BILL ANALYSIS

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**Senate Bill 40 (as enrolled)**  
**Sponsor: Senator Harry Gast**  
**Senate Committee: Finance**  
**House Committee: Appropriations**  
**Date Completed: 9-24-87**

**RATIONALE**

Under the State Revenue Sharing Act, the State shares revenues from State personal income and single business taxes with cities, villages, townships, and counties based on a formula that measures a local unit's "tax effort" (calculated by dividing the local unit's property, local income, and excise taxes by its State equalized valuation) and compares that to the statewide average. The higher a unit's local tax effort is, the more it will receive from the State in shared revenue payments.

Although the 1971 State revenue sharing law does not permit the inclusion of special assessments in the revenue sharing formula, until 1984 some local units of government had been including certain special assessments (primarily those for police and fire protection) in their reports of local tax rates to the Treasury Department. In October 1983, a study by a citizen's group noted this fact, and the following year the Treasury Department revised its reporting forms to require local units of government to identify clearly each tax or assessment they levied.

Since the total amount of revenue sharing money remained fixed, the change in reporting requirements meant that a shift in revenue sharing payments occurred, with payments to some local units — mainly large cities — increasing, while payments to other units — mainly townships — decreased. In addition, since revenue shared with the State represents anywhere from 15% (for some cities) to 40% (for small townships) of the operating funds of local governments, this shift in revenue sharing posed potentially serious financial problems for those townships and smaller cities whose payments would be significantly reduced if special assessments were no longer included in the calculation of their local tax effort. In 1985, the Legislature voted to appropriate money from the State General Fund to make up the losses suffered by townships and smaller cities due to the new reporting requirements. No such supplemental payment was voted for subsequent fiscal years, however, and those units experiencing reduced revenue sharing payments are faced with a total potential loss of nearly \$2.5 million.

Some people feel that this change has placed an unfair burden on some townships and smaller cities, and have requested legislation that includes certain special assessments in the determination of a local unit's tax effort, thereby restoring lost revenue sharing money to these local governments.

**CONTENT**

The bill would amend the State Revenue Sharing Act to include, after June 30, 1987, 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**

While Senate Bill 40 itself would have no fiscal impact on the State, in conjunction with enrolled Senate Bill 259 (which is tie-barred to Senate Bill 40, and which amends the Income Tax Act by altering the revenue sharing formulas) money dedicated to revenue sharing would increase by \$3 million and thus General Fund/General Purpose revenue would be reduced by the same amount.

**ARGUMENTS****Supporting Argument**

The proportion of revenue sharing payments that local governments 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 some local governments have included certain special assessments for police and fire protection in figures reported to the Treasury Department for determining local tax effort rates. A recent change in Department reporting requirements, however, 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 with relatively high taxes, mostly cities, 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 be levied only on real property and cannot be imposed on personal property. Because special assessments are different from all other taxes that local units impose upon their taxpayers, special assessments should not be included as tax revenue in calculating local tax effort.

**Response:** As the Citizen's Research Council pointed out in its study of special assessments, the theory underlying special assessments is that the general revenue of a governmental unit — that is, taxes — should not be used

**OVER**

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to finance improvements that do not benefit the entire community. Instead, a charge ("special assessment") is imposed for the payment of the costs of public improvements that confer a corresponding and special benefit upon the property assessed. Prior to the 1950s, public improvements financed through special assessments consisted exclusively of capital asset construction and maintenance, such as streets and street lighting, sewers, drains, and sidewalks. In recent years, however, the definition of "special assessment" has been expanded to include police and fire protection, refuse collection, and other municipal services, and the local governments authorized to assess for these operating services have levied the assessments throughout the entire jurisdiction on the value of the property ("ad valorem"). Under this expanded definition, "special assessments" often wind up being virtually indistinguishable from general ad valorem property taxes. In those cases in which there is no clear distinction between general taxes and special assessments — namely, when the special assessments are levied on an ad valorem basis over the entire community — it is only fair that these special assessments be included in the State's calculation of the local unit's tax effort.

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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.