SFA BILL ANALYSIS

Senate Fiscal Agency • Lansing, Michigan 48909 • (517) 373-5383

Senate Bill 259 (as reported without amendment)
Sponsor: Senator Harry Gast
Committee: Finance

Date Completed: 5-13-87

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.

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 when calculating the local unit's tax effort rate and relative tax effort rate. There has been some inconsistency, though, in what has or hasn't been considered to be a special assessment. For many years local units included special assessments (primarily those for police and fire protection) in the formula used to calculate local tax effort rates, particularly assessments that had been levied on an ad valorum basis on all property subject to taxation within a unit. In 1984, however, the Department of Treasury revised its reporting forms to require local units clearly to identify each tax or assessment they levied.

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 General Fund to make up the losses suffered by townships and smaller cities due to the new reporting requirements. No such supplemental payment was passed 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 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. To address this concern, the Senate passed Senate Bill 40. Senate Bill 40, as passed the Senate, would amend the State Revenue Sharing Act to include special assessments in the computation of a local unit's tax effort rate. It has been pointed out, however, that restoring $2.5 million to some local units (mostly townships) by this method would cause other local units (mostly cities) to lose shared revenues by a like amount. It has been suggested that legislation be passed in conjunction with Senate Bill 40 to restore money to local units that would experience revenue reductions with the passage of Senate Bill 40.

CONTENT

The bill would amend the Income Tax Act, by altering formulas in the Act, to increase the amount of income tax revenue dedicated to State revenue sharing for disbursement to local governments. The bill would cause an increase in the amount of payments earmarked for cities, villages, and townships, but leave unchanged the amount dedicated to counties.

The bill is tie-barred to Senate Bill 40 (discussed above), which is currently in Conference Committee.

MCL 206.481

FISCAL IMPACT

Based on current Senate Fiscal Agency revenue estimates, the passage of Senate Bill 259 would increase total income tax revenue sharing payments from $289.6 million to $292 million in FY 1987-88. This revenue sharing increase of $2.4 million would come from General Fund/General Purpose revenues. The estimated portion of these payments earmarked for counties would remain unchanged at $101.4 million, while the portion earmarked for cities, villages, and townships would increase from $188.2 million to $190 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, certain special assessments were included 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 a gain in revenue sharing payments for those local units, mostly cities, with relatively high taxes, while those that made extensive use of special assessments, mostly townships, lost revenue.

Senate Bill 40, as passed by the Senate, would, by including certain special assessments in the calculation of local tax effort, result in a redistribution of revenue sharing dollars among cities, villages, and townships. Approximately 50 local units (mostly cities) would

OVER

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. Senate Bill 259 would permanently increase available revenue sharing dollars to help insure, in conjunction with Senate Bill 40, that a local unit would not have its revenue sharing payments reduced as a result of including certain special assessments in the computation of tax effort rates.

Legislative Analyst: G. Towne
Fiscal Analyst: G. Olson
