House Legislative Analysis Section
House Office Building, 9 South
Lansing, Michigan 48909
Phone: 517/373-6466

TAX DELINQUENCY NOTES

Senate Bill 971 (Substitute H-1)
Sponsor: Sen. Shirley Johnson

Senate Bill 973 as passed by the Senate
Sponsor: Sen. Dianne Byrum

House Committee: Tax Policy
Senate Committee: Finance

First Analysis (2-28-02)

THE APPARENT PROBLEM:

The Revised Municipal Finance Act takes effect March 1, 2002. It was created by Public Act 34 of 2001 (Senate Bill 29). Most of the old Municipal Finance Act is repealed on the same date. The new act will govern nearly all municipal borrowing and it puts in place, among other things, a new bond approval process whereby municipalities could qualify annually with the Department of Treasury and then could issue debt without prior departmental approval. The adoption of the new act, however, requires that a great many other statutes be amended as well. Generally speaking, borrowing by governmental units takes place under a general act, such as the Revised Municipal Finance Act, and a specific act authorizing a particular kind of entity to issue debt for particular purposes. There are perhaps as many as 170 bills needed to make all the various statutes on borrowing conform to the Revised Municipal Finance Act!

Two of the bills address delinquent tax anticipation notes issued by counties. Counties make payments to local units, such as school districts, to cover the revenue the local units are unable to collect due to tax delinquencies. Tax specialists say these payments can amount to hundreds of thousands of dollars, even millions of dollars. To make these payments, counties sometimes need to borrow by issuing notes, which are paid off when the delinquent taxes are collected. Tax specialists say that these notes represent a special case and legislation has been drafted so that they will not be subject to the Revised Municipal Finance Act.

THE CONTENT OF THE BILLS:

The bills would each amend the General Property Tax Act to address the issuing of delinquent tax revolving notes by counties. Generally speaking, Senate Bill 971 adds new language to Section 87c of the General Property Tax Act that is currently found in Section 89. Senate Bill 973 eliminates the same language from Section 89. Further, Senate Bill 971 would specify that delinquent tax revolving notes would be exempt from the Revised Municipal Finance Act. The bill also would delete provisions that currently require a county to seek approval from the Department of Treasury for the notes or to seek an exception from prior approval. (The Revised Municipal Finance Act, which takes effect March 1, 2002, eliminates this approval and exception process for local unit borrowing.)

MCL 211.87c and 211.89

HOUSE COMMITTEE ACTION:

The House Committee on Tax Policy adopted a substitute for Senate Bill 971 that specifies that delinquent tax revolving notes would not be subject to the Revised Municipal Finance Act. As passed by the Senate, Senate Bill 971 would have specified that such notes were subject to the Revised Municipal Finance Act.

FISCAL IMPLICATIONS:

Taken together, the bills would have no fiscal impact, according to the House Fiscal Agency. (HFA fiscal noted dated 2-27-02)

ARGUMENTS:

For:

Proponents say that the bills would allow counties to continue to issue delinquent tax anticipation notes as they do today so that they can make payments to local units, including school districts, to cover the impact of delinquent taxes on revenues. The notes are later repaid from collecting the delinquent taxes. These notes would be specifically exempt from the Revised Municipal Finance Act. The bills also rewrite two sections of the General Property Tax Act to move provisions dealing with delinquent tax notes from one section to another without making substantive changes to the provisions. The bills are part of a large package of mostly technical bills that amend various government borrowing statutes to take account of the Revised Municipal Finance Act. For example, two sections referring to the old act would be repealed by Senate Bill 971. That bill would also delete provisions that currently require a county to seek approval from the Department of Treasury for delinquent tax anticipation notes or to seek an exception from prior approval because the new act by and large eliminates this approval and exception process for local unit borrowing.

POSITIONS:

The Michigan Association of County Treasurers supports the bills. (2-27-02)

The Oakland Schools supports the bills. (2-27-02)

The Ottawa Area Schools has indicated support for the bills. (2-27-02)

The Michigan Municipal League supports the bills. (2-27-02)

Analyst: C. Couch

■This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.