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**SFA****BILL ANALYSIS**

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Senate Bill 1165 (Substitute S-2 as passed by the Senate)  
Senate Bill 1166 (Substitute S-1 as passed by the Senate)  
Sponsor: Senator John J. H. Schwarz, M.D. (S.B. 1165)  
Senator Harry Gast (S.B. 1166)  
Committee: Finance

Date Completed: 3-19-02

### **RATIONALE**

Governor Engler's budget recommendations for fiscal year (FY) 2002-03 include a proposed \$200 per pupil increase in the school aid foundation grant. In order to fund this increase, in light of the State's present economic conditions, the Governor also proposed that the collection of the State education tax (SET) be accelerated.

The State Education Tax Act levies six mills on all nonexempt real and personal property subject to the general property tax. The SET is collected at the same time as other taxes levied by a school district are collected. Depending on where they live, some taxpayers pay the six mills in their winter tax levy (due in February); some pay the six mills in their summer tax levy (due in September); and some pay three mills in the winter and three mills in the summer. Local treasurers are required to collect the SET and remit it to their county treasurers, who must deliver the tax to the State for deposit in the State School Aid Fund. The Governor suggested that moving the collection of the six mills to the summer of 2003, thereby capturing all of the tax at that time, would increase revenue to the State School Aid Fund in FY 2002-03 sufficiently to allow for the increased per pupil grant.

### **CONTENT**

**Senate Bill 1165 (S-2) would amend the State Education Tax Act to require collection of the State education tax in the summer of 2003 and each summer thereafter; provide that for 2003 the SET would be reduced from six mills to five mills; and provide for the collection of the SET by local taxing units, counties, and the State. Senate Bill 1166 (S-1) would**

**amend the General Property Tax Act to prohibit a local taxing unit from increasing the proportion of mills it levies in the summer of 2003.**

### **Senate Bill 1165 (S-2)**

The bill provides that, beginning in 2003, the SET would have to be collected in the summer levy. The tax would have to be collected by each city and township (unless a school district or intermediate school district collected the SET in the summer). If a city or township collected the SET, the State would have to transmit to that city or township \$2 for each parcel of property in the city or township on which the SET was collected.

In a city or township (or that portion of a city or township) in which no property taxes other than village taxes or the SET were levied in the summer of 2003 and any summer thereafter, the city or township would have to collect the tax unless, before November 1, 2002, and each year thereafter, the legislative body of a city or township adopted a resolution declining to collect the SET. (For a township, the township treasurer would have to concur, in writing, with the resolution.) If a resolution were adopted (and concurred in by the treasurer, if required), the appropriate assessing officer would have to send a copy of the resolution (and the concurrence) to the State Treasurer and the local county treasurer.

A county that received a copy of a resolution declining to collect the tax (and for a township the written concurrence) would have to collect the tax unless, before February 1, 2003, and each year thereafter, the county board of commissioners adopted a resolution declining

to collect the tax, and the county treasurer concurred in writing with that resolution. If the county board of commissioners adopted the resolution and the county treasurer concurred, the county treasurer would have to send a copy of the resolution and the concurrence to the State Treasurer. If a county did collect the SET, the State would have to transmit to the county \$2 for each parcel of property in the county on which the tax was levied.

If a county, city, or township did not collect the SET, the State Treasurer would have to collect the tax under the provisions of the General Property Tax Act. The collection of the SET would not be subject to the revenue Act. The tax would be subject to a 1% administration fee.

The following would apply to the collection of the SET by a county treasurer or the State Treasurer:

- By June 1, the township or city for which the tax was being collected would have to deliver to the county treasurer or the State Treasurer, as applicable, a certified copy of each assessment roll for taxable property located in the township or city. Each assessment roll would have to include the taxable value of each parcel subject to the collection of the tax. The county treasurer or State Treasurer would have to remit the necessary cost incident to the reproduction of the assessment roll to the township or city.
- By June 30, the county treasurer or the State Treasurer, as applicable, would have to spread the millage levied under the SET Act against the assessment roll and prepare the tax roll.
- The county treasurer or the State Treasurer, as applicable, could impose all or a portion of the fees and charges authorized under Section 44 of the General Property Tax Act, on taxes paid before March 1. The county treasurer or the State Treasurer would retain the fees and charges regardless of whether the township or city had waived all or part of the fees and charges. (Section 44 allows a local unit to collect a property tax administration fee for property taxes paid on time, and a higher property tax administration fee, late penalty charge, and interest on taxes paid late. A local unit also may waive fees,

charges, or interest under certain circumstances.)

A county treasurer or the State Treasurer, as applicable, would have powers and duties similar to those prescribed by the General Property Tax Act for township supervisors, township clerks, and township treasurers regarding the assessment, collection, and spreading of taxes. The bill specifies, however, that these provisions could not be considered to transfer any authority over the assessment of property.

A county treasurer or the State Treasurer collecting taxes under the bill would have to be bonded for tax collection in the same amount and in the same manner as a township treasurer would be for undertaking the duties prescribed by the bill.

If a county treasurer or the State Treasurer collected the SET, all payments from the State for collecting the tax in a summer levy, and all revenue generated by the administration fee, would have to be deposited in a restricted account designated as the "State Education Tax Collection Account". The county treasurer or the State Treasurer, as applicable, would have to direct the investment of the account, and credit to it interest and earnings from investments. Proceeds in the account could be used only for the cost of collecting the SET.

The SET collected by a city under the bill, on a date other than a date it collected city taxes, would be subject to the same fees and charges a city could impose under Section 44 of the General Property Tax Act, except that a city could impose the administration fee on the tax even if its administration fee were not imposed on taxes billed in December. The SET collected on or before September 14 of each year, by a city that collected school taxes on a date other than the date it collected city taxes, would be without interest, but the tax collected after September 14 would bear interest at the rate imposed by Section 59 of the General Property Tax Act on delinquent property tax levies that became a lien in the same year. (Section 59 provides for interest charges on delinquent taxes; in general, interest is charged at 1% per month on the unpaid amount.)

The SET collected by a city would become a lien against the property on which it was

assessed in the same manner and on the same date as city taxes or, if the city approved the collection of the SET on a date other than the date it collected the city taxes, on July 1. The SET that was collected with the city taxes would be subject to the same penalties, interest, and collection charges as city taxes and would have to be returned as delinquent to the county treasurer in the same manner and with the same interest, penalties, and fees as city taxes.

The SET collected by a township on or before September 14 each year would have to be collected without interest. The SET collected after September 14 would bear interest at the rate imposed by Section 59 of the General Property Tax Act, on delinquent property tax levies that became a lien in the same year. The SET collected by a township would be subject to the same fees and charges the township could impose under Section 44 of the General Property Tax Act, except that a township could impose the administration fee on the tax even if its administration fee were not imposed on taxes billed in December.

All interest and penalties that were imposed before the date the SET was returned as delinquent, other than the administration fee, would have to be transmitted to the State Treasurer for deposit into the State School Aid Fund. If imposed, the administration fee would be retained by the township or city, as applicable.

Beginning in 2003, if a school district or intermediate school district (ISD) collected taxes in the summer, under the Revised School Code, the school district or ISD would have to collect the SET in the summer and distribute the tax collected as provided in the SET Act.

### **Senate Bill 1166 (S-1)**

The bill provides that a local taxing unit that levied part or all of its 2002 property taxes in December, in a city or township, could not increase the proportion of its mills levied in the summer in that city or township in 2003.

If a county treasurer or the State Treasurer collected a summer property tax levy (as proposed in Senate Bill 1165 (S-2)), the county treasurer or the State Treasurer could

retain all administration fees collected in that summer property tax levy.

MCL 211.903 et al. (S.B. 1165)  
Proposed MCL 211.44d (S.B. 1166)

## **ARGUMENTS**

*(Please note: The arguments contained in this analysis originate from sources outside the Senate Fiscal Agency. The Senate Fiscal Agency neither supports nor opposes legislation.)*

### **Supporting Argument**

The State has remained steadfast in its commitment to education. Since the passage of Proposal A in 1994, the per pupil foundation grant has been increased, significantly, every year except one. Because of declining State revenues and widespread predictions of budget shortfalls, many had feared that the State would not be able to increase funding to public schools as it has in recent years, and that school districts would suffer as payments from the State remained stagnant or were reduced.

Senate Bill 1165 (S-2) would enable the State, during a time when tough decisions must be made about the State budget, to make a solid commitment to the State's school children and the education community. Moving collection of the SET forward to the summer of 2003 would result in a net increase to the State School Aid Fund of nearly \$500 million, thus ensuring full funding for the 2002-03 school year.

### **Opposing Argument**

Senate Bill 1165 (S-2) would cause two significant problems. First, taxpayers who have escrow accounts, or those who set aside money on their own, to pay property taxes could find that they did not have enough in their accounts to pay the full tax. This could be a burden for many taxpayers.

Second, while acceleration of the tax would increase funding for the first year, after that the proposal could cause the State cash flow problems. Under the bill, payment of the SET would be due each year by September 14, just two weeks before the end of the State's fiscal year; however, schools are paid monthly, beginning in October. The SET paid in September 2003 would be used for the FY 2002-03 school year. For the 2003-04 school year, the State must begin monthly payments

in October 2003, but would not collect the SET until September 2004. It is unclear how the State would obtain the money necessary to make these payments.

**Response:** The bill would reduce the SET by one mill for the 2003 tax year, thus saving money for taxpayers. In effect, while the SET would be collected sooner than usual, the tax would be less than is normally paid. Further, the accelerated payment would not be due until September 2003, well over a year from now. Mortgage companies and lending institutions that collect escrow payments for homeowners, and taxpayers with their own escrow accounts, would have ample time to plan for the accelerated payment.

As for the State's potential cash flow problem, that would be a small price to pay in order to maintain increases in school funding. If a cash flow problem occurred in the future, the State simply would have to deal with it. Further, as the economy improves, any potential cash flow problems should dissipate.

Legislative Analyst: George Towne

## **FISCAL IMPACT**

These bills would generate an estimated \$490 million in net new State education property tax revenue in FY 2002-03. The major components of the fiscal impact of these bills are summarized below.

Acceleration of the Collection of the State Education Property Tax. The State education property tax is collected for the State by local governments at the same time they collect their own property taxes, which are collected in the summer (bill issued in July) and/or in the winter (bill issued in December). Senate Bill 1165 (S-2) would provide for the collection of the State education property tax only in the summer by means of a July bill. Given that the State fiscal year runs from October through the following September, the State education property tax collected in any fiscal year equals the amount collected through the winter bill issued in December of the calendar year in which the fiscal year begins and the amount collected in the summer bill issued in July of the calendar year in which the fiscal year ends. Accelerating the collection of the State education property tax beginning in 2003 by collecting in the summer (July bill) the amount that will, under current law, be

collected in the winter (December bill), would result in an estimated \$760 million increase in the State education property tax collected in FY 2002-03.

Reduction in Tax Rate. These bills also would reduce the State education property tax rate from 6 mills to 5 mills during 2003 only. (A mill is equal to \$1 per \$1,000 of taxable value). This temporary tax rate reduction would reduce State education property tax revenue by an estimated \$266 million in FY 2002-03.

Payment to Local Governments. The State would be required to pay local governments that currently do not collect any property taxes in the summer, \$2 for every parcel of property from which they collected the State education property tax. This payment from the State would be intended to cover the new costs these local governments would incur in collecting the tax in the summer. There are approximately 914 local governments that currently do not collect any property taxes in the summer. This \$2 per parcel payment to local governments would cost the State an estimated \$4 million.

### Estimated Fiscal Impact of Senate Bills 1165 (S-2) and 1166 (S-1) (dollars in millions)

Proposed Change	FY 2002-03
Accelerating Tax Collection from December to July	\$760
Temporary Reduction in Tax Rate from 6 mills to 5 mills	(266)
\$2/Parcel Payment to Locals	(4)
Total	\$490

Fiscal Analyst: Jay Wortley

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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.