

Legislative Analysis



STATE EDUCATION TAX: ALLOW LOCAL UNITS TO RETAIN \$2.50 PER PARCEL

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House Bill 5545 (Substitute H-1)
Sponsor: Rep. John Moolenaar
Committee: Local Government and Urban Policy
First Analysis (3-10-04)

BRIEF SUMMARY: The bill would allow certain local units of government to retain \$2.50 per parcel from collections of the State Education Tax. This would apply to local units that otherwise would not levy summer taxes and to counties collecting the SET on behalf of such local units.

FISCAL IMPACT: The bill would reduce the state portion of the SET revenue, all of which is earmarked to the School Aid Fund, by an estimated \$4.2 million.

THE APPARENT PROBLEM:

On March 14, 1994, the State Education Tax Act went into effect, following the adoption of Public Act 331 a year earlier. The State Education Tax was an integral part of Proposal A, the revision to the state's K-12 school financing system. The state education tax is a six-mill levy on all property not exempt by law from *ad valorem* property taxes. From 1994 to 2002, the tax was collected and distributed by the local tax collecting unit at the same time as other taxes levied by the local school district for school operating purposes, generally in each December.

In 2002, as the state budget situation in Michigan worsened, then-Governor Engler recommended that the state education tax be collected as a summer tax in August, beginning in 2003, to provide an early infusion of revenue for the School Aid Fund, in order to ensure that school per capita foundation grants would not be shortchanged. To ease the financial burden that came of the sudden tax collection shift, the state education tax was levied at five mills, instead of the usual six mills, for the year 2003 only.

The shift to summer collection of the state education tax required many local units of government to collect taxes during August for the first time. Accustomed to collecting their taxes once a year in December, they now faced the prospect of twice-a-year collections, in both December and August. This created a hardship on many township officials, especially township treasurers to whom most of the responsibility for the tax collection fell, because township treasurers are generally part-time employees who are not well compensated for their work.

To assist township governments with the financial obligation that accompanied the new August tax collection, the Department of Treasury offered to reimburse township boards \$2.50 for each parcel within their jurisdiction on which they levied and collected the

education tax. And if township officials did not elect to collect the tax, then under the law it would be collected by the county treasurer, and the county would then be reimbursed in the amount of \$2.50 per parcel. After negotiations fostered by the Michigan Townships Association, 800 of Michigan's 900 townships agreed to collect the summer education tax, and county treasurers now collect the tax in the 100 townships where officials declined to do so.

The current reimbursement process for the summer tax collection is cumbersome, so legislation has been introduced to allow local units of government to withhold the \$2.50 per parcel before they submit the tax collections to the state. In that event, a paper audit trail is necessary, so the proposed legislation has been amended to require county treasurers, as well as local treasurers in cities and townships, to tally the number of parcels billed, the number of parcels collected, and the total amount retained by the local treasurer.

THE CONTENT OF THE BILL:

House Bill 5545 would amend the State Education Tax Act to allow a city or township that levies the SET, but which otherwise would not levy summer taxes, to retain \$2.50 for each parcel of property on which the tax is billed before transmitting the tax proceeds to the state treasurer. A county that collects the tax on behalf of such a city or township also could retain \$2.50 per parcel on which the tax is billed.

Currently, the act says the state is to transmit \$2.50 for each parcel of property on which the SET is collected to local units of government that otherwise would not levy summer taxes or to the county that collects the tax on behalf of such local governments.

The bill also requires that not later than June 1 of each year, the county treasurer deliver to the state treasurer a statement of the total amount of the SET levy of the prior year not returned delinquent that was collected by the county treasurer, and the amount that was remitted to the county treasurer by each city or township trustee. The county treasurer would also have to provide a statement for the county and for each city or township, of the number of parcels from which the state education tax was collected, the number of parcels for which the state education was billed, and the total amount retained by the county treasurer and by the city or township treasurer.

MCL 211.905b

ARGUMENTS:

For:

The current reimbursement process is a cumbersome one. This legislation would streamline that process, allowing local units of governments that collect the tax to withhold the \$2.50 per parcel reimbursement from the education tax revenue they submit to the state treasury. Further, the bill as it was amended in committee would require local treasurers to report once each year to the state treasurer the number of parcels billed, the

number collected, and the amount of the tax retained at the local level. This reporting requirement ensures a paper audit trail, necessary to address a concern about this tax collection process raised by the Office of the Auditor General in his recently published audit of the Local Government Division at the Department of Treasury.

Against:

The revenue collected from the State Education Tax is earmarked to the State School Aid Fund, and if local officials were to withhold the \$2.50 per parcel collection reimbursement before remitting the taxes they collected, it would 'cost' the School Aid Fund an estimated \$4.2 million. In order to reduce this loss, the per-parcel reimbursement for the tax collectors should be reduced to a lower amount, or the amount should be made up from a General Fund appropriation to the School Aid Fund.

POSITIONS:

The Department of Treasury supports the concept of the bill, as amended. (3-9-04)

The Michigan Townships Association supports the bill. (3-9-04)

The Michigan Association of Counties supports the bill. (3-9-04)

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■ 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.