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BILL ANALYSIS

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Senate Bill 978 (Substitute S-1 as reported)
Sponsor: Senator Cameron S. Brown
Committee: Finance

Date Completed: 10-26-04

RATIONALE

Under the State Education Tax (SET) Act, local governments collecting the SET retain \$2.50 per parcel to help defray collection costs if no property taxes other than the SET and village taxes are being collected during the summer. Public Act 357 of 2004, however, shifts the collection of most county property taxes to a summer levy, and charges the unit responsible for collecting the State education tax with collecting the county taxes under the summer levy. As a result, Public Act 357 essentially renders all local units ineligible for the \$2.50 per parcel reimbursement. The per parcel payment was offered when SET collection was moved to the summer, in order to encourage local governments that levied no other summer taxes to collect the tax. Some people believe that those governmental units that collect no taxes other than the SET, the shifted county taxes, and village taxes should continue to receive \$2.50 per parcel as reimbursement for collecting the SET.

CONTENT

The bill would amend the SET Act to require cities and villages to collect the tax and retain \$2.50 per parcel, if they levy no property tax during the summer other than the SET or village taxes (as currently provided) or, beginning in the summer of 2005, that portion of the number of mills allocated to a county by a county tax allocation board or authorized for a county through a separate tax limitation vote, if that portion of the number of mills allocated or authorized were not levied before the summer of 2005.

MCL 211.905b

BACKGROUND

The SET Act was enacted in 1993 as part of a school finance reform package. The Act imposes a tax of six mills on all nonexempt real and personal property subject to the general property tax. Originally, the SET was collected at the same time as other taxes levied by a school district were collected. Depending on where they lived, some taxpayers paid the SET in their winter tax levy; some paid in the summer tax levy; and others paid three mills in winter and three in summer. Public Act 244 of 2002 amended the SET Act to require the collection of the tax in the summer of 2003 and each summer thereafter in order to speed up revenue collection during a budget shortfall. Public Act 244 also provided for local governments collecting no other summer levies to receive \$2.50 for each parcel upon which the SET was collected, to give them an incentive to collect the tax. Cities and townships are required to collect the SET unless, before November 1, 2002, they adopted a resolution opting out of collecting the tax. If a city or township opted out, the county must collect the tax unless, before February 1, 2003, it passed a resolution declining to do so. If a county opted out, the State Treasurer must collect the SET, and it is subject to a 1% administration fee. Cities, townships, and counties that opted out may pass a resolution rescinding the earlier decision.

Public Act 108 of 2004 changed the process for local units to obtain the \$2.50 per parcel allowed under the SET Act. Previously, local units remitted all SET revenue to the State, and eligible local units received \$2.50 per parcel subject to appropriation. After no funds were appropriated for fiscal year 2003-04, Public Act 108 allowed eligible

local units to retain the \$2.50 per parcel, before remitting revenue to the State.

This analysis is preliminary and will be revised as new information becomes available.

Fiscal Analyst: David Zin

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

Since Public Act 357 of 2004 shifts the collection of most county property taxes from December to the summer, local governments that retained \$2.50 per parcel for collecting the SET will lose those funds, because local units are eligible for the money only if the SET and village taxes are the sole taxes they collect over the summer. The per-parcel payment was initially instituted to provide an incentive for local governments to use their resources to collect the SET at a time when they were not collecting their own taxes. While Public Act 357 now requires those local governments to collect additional taxes during the summer, those taxes go to the county, leaving cities and townships with neither revenue from the collection nor the \$2.50 per parcel fee. By allowing local governments to retain the fee when collecting county property taxes as well as the SET and village taxes, the bill would continue to defray local governments' collection costs.

Legislative Analyst: J.P. Finet

FISCAL IMPACT

The fiscal impact of the bill depends on what base is used for comparison.

Compared with the law before Public Act 357 (described above), or with State and local revenue during FY 2003-04, the bill would no fiscal impact on the State or local units.

However, because the tax shift in Public Act 357 essentially made all local units ineligible for the \$2.50 per parcel, the bill would prevent the State from realizing a \$4.2 million increase in School Aid Fund revenue as a result of that Act. Compared with current law, given the operation of Public Act 357, the bill would reduce School Aid Fund revenue by \$4.2 million.

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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.