Senate Fiscal Agency
P. O. Box 30036
Lansing, Michigan 48909-7536

BILL ANALYSIS

Telephone: (517) 373-5383
Fax: (517) 373-1986
TDD: (517) 373-0543

Senate Bill 1111 (Substitute S-2 as discharged)
Senate Bill 1112 (Substitute S-1 as discharged)
Sponsor: Senator Michael Switalski
Committee: Finance

CONTENT

Senate Bill (SB) 1111 (S-2) would amend the Glenn Steil State Revenue Sharing Act to alter the distribution of revenue sharing payments to counties in fiscal year (FY) 2004-05 and later years. Senate Bill 1112 (S-1) would amend the General Property Tax Act to enact the Governor's FY 2004-05 revised recommendation to shift the collection date for property taxes allocated to a county.

Local units receive a portion of sales tax revenue collected by the State. A portion of the revenue is distributed according to constitutional requirements and the rest is distributed according to statute. Counties do not receive revenue sharing payments under the constitutional provisions. Statutory revenue sharing payments are subject to appropriation. Beginning in 2002, changes have been made in the statutory distribution of payments to accompany reductions in the appropriation for revenue sharing.

Senate Bill 1111 (S-2) would implement the Governor's FY 2004-05 revised recommendation to alter the distribution of revenue sharing payments to counties. Under the recommendation, beginning in FY 2004-05 each county would receive the amount by which the amount calculated under Section 44a(13) of the General Property Tax Act exceeded the balance in a revenue sharing reserve fund that would be created under Section 44a of that Act. Both the revenue sharing reserve fund and the amount referred to in Section 44a(13) are described in SB 1112 (S-1), although the bills are not tie-barred.

Currently, counties levy property taxes in December of each year and the bills are generally due in February. Under SB 1112 (S-1), property taxes would be shifted to a summer levy over a period of three years and the treasurer who collects the State education tax would collect the levy. In 2005 one-third of the allocated mills would be levied as a summer levy, and the remaining two-thirds would be levied on the winter bill. In 2006, two-thirds of the allocated mills would be imposed as a summer property tax levy and the remaining one-third would be levied on the winter bill. Beginning with the summer of 2007, all allocated mills would be imposed as a summer property tax levy.

Senate Bill 1112 (S-1) also would require counties to establish a restricted fund known as the revenue sharing reserve fund. Withdrawals and expenditures from the fund would be regulated by the bill and generally would be limited to replacing revenue sharing payments and meeting cash flow needs. Under the bill, a county would not be allowed to spend from the fund more than the county received in revenue sharing payments during FY 2003-04, as adjusted for inflation. The bill includes special provisions for counties with fiscal years ending September 30 and for borrowing needed to meet cash flow needs.

Under SB 1112 (S-1), deposits into the revenue sharing reserve fund would be made from property taxes collected during the 2004, 2005, and 2006 December levies. The total of all three deposits would equal the amount of the December 2004 property tax levy. The bill initially would require one-third of the December 2004 levy to be deposited into the fund, while an identical amount would be deposited from each of the two remaining winter tax levies.

MCL 141.911 (S.B. 1111)
211.44a (S.B. 1112)

FISCAL IMPACT

Compared with FY 2003-04, SB 1111 (S-2) would reduce State expenditures by $182.1 million in FY 2004-05. The amount by which State expenditures would be reduced in future years would depend upon how quickly different counties depleted their revenue sharing reserve funds.

The bill, however, would change the distribution of payments for counties. Under current law, counties receive payments based on a combination of the amount appropriated for statutory revenue sharing payments, the county's population, and the amount collected during 1976 from property taxes on business inventories. Since 2002, the distribution has been modified somewhat, as all payments to local units have been reduced by a specific percentage amount. Under SB 1111 (S-2) and SB 1112 (S-1), the revenue received by counties would be based on the counties' FY 2003-04 payments and adjusted for inflation. (To the extent that many counties have not experienced any increases in the last few years and have rarely experienced any significant increases, the change also would represent an increase in county revenue.) Payments from the State would cover any difference between that amount and the balance in a county's revenue sharing reserve fund. It is expected that counties would begin exhausting their reserve funds in 2008.

The shift in the collection date under SB 1112 (S-1) would minimally increase tax revenue for counties. Currently, county FY 2004-05 revenue will be based on taxable values determined on December 31, 2003. Under the bill, two-thirds of the FY 2004-05 revenue would be based on those taxable values, while one-third (the summer levy) would be based on the December 31, 2004, taxable values. Similarly, counties would experience an identical boost in each of the following two years, as more and more mills were shifted to a summer levy.

Under current law, counties generally receive property tax revenue early in the fiscal year, while under SB 1112 (S-1), property taxes generally would be collected later in the fiscal year. However, the bill also would allow counties to use funds in the revenue sharing reserve fund to meet cash flow needs during and after the transition period to the new collection date. Once the reserve fund was exhausted, counties likely would need to make some financial adjustments to accommodate the new timing of cash flow for county revenue.

Furthermore, unlike current revenue sharing payments, which are split into bimonthly installments beginning in October of each State fiscal year, under the bills counties would be able to withdraw and/or spend the full amount allowed for the entire year at any time during the year.

The bills would have no impact on State revenue. While the shift in the collection date for county property taxes would create changes in revenue for county fiscal years, tax rates would not be changed under the bills. The bills would have no effect on homestead property tax credits because the calendar year property tax liability for taxpayers would remain unchanged.

Date Completed: 9-8-04 Fiscal Analyst: David Zin

S0304\s1111sa