

Legislative Analysis



COUNTY TREASURERS: INTEREST RATE ON UNCOLLECTED TAXES

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House Bill 5074

Sponsor: Rep. Cindy Denby

Committee: Local Government

Complete to 11-13-13

A SUMMARY OF HOUSE BILL 5074 AS INTRODUCED 10-10-13

House Bill 5074 would amend the General Property Tax Act (MCL 211.87b) to change the monthly interest rate that a county treasurer can charge other taxable units in the county that have delinquent property taxes due. The current monthly rate of interest is 1 percent. Under the bill, the monthly rate of interest would be "up to" 1 percent.

BACKGROUND:

This bill is similar to House Bill 4150 introduced during the 2011-2012 legislation session. Under that bill, the monthly rate of interest for "chargebacks" would have dropped to 0.5 percent through December 31, 2016; then on January 1, 2017, the monthly rate of interest would have returned to 1 percent.

A recent report prepared by researchers at Michigan State University, entitled *A Review of Municipal Bond Issues in Michigan* (published 1-17-11), includes a brief description of Michigan's tax reversion process, including an explanation of what county treasurers call "charge-backs"—the protocol they follow when local units of government have borrowed from a county's delinquent tax revolving fund. Generally, as the report summarizes, "if summer and winter property taxes are not collected by March 1 of the following year that the tax is owed, local treasurers pass on notices of unpaid or delinquent taxes to county treasurers. In many counties, the county treasurer runs a delinquent tax revolving fund." Upon receiving the notices of unpaid taxes, "the county treasurer advances funds to those local governments that are owed taxes, making them financially whole at that time," with the understanding that local treasurers will pay back the advance, either after the taxes in arrears are paid by the property owners, or after the property is sold at a public auction, sometimes called a 'sheriff's sale.' Under state statute, county treasurers charge a monthly interest rate of 1 percent for advancing the money to make the local unit of government whole.

FISCAL IMPACT:

As written, the bill could potentially reduce county revenues by an unknown amount, and increase revenue to the state and other local units by that same amount. The magnitude of this shift in revenues depends on the number of counties that reduce the interest rate, the new interest rates, and the amount of delinquent taxes borrowed by local units within the county. However, these numbers cannot be known in advance, therefore an estimate

of the revenue shift cannot be made. To the extent the state realizes a revenue increase, the vast majority would accrue to the School Aid Fund.

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