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BILL



ANALYSIS

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Senate Bills 322 and 323 (as enacted)
Sponsor: Senator Dave Hildenbrand (S.B. 322)
Senator John Proos (S.B. 323)

Senate Committee: Finance
House Committee: Tax Policy

Date Completed: 7-23-12

PUBLIC ACTS 184 & 185 of 2012

RATIONALE

Property taxes in Michigan are collected once or twice a year, in July or December or both, depending on the local units that are levying and collecting the taxes. Typically, a local tax collecting unit collects taxes for other taxing authorities; a city, for example, may collect taxes for the county and school districts. The due date of city and village taxes depends on local charters, although most cities collect their property taxes in a summer levy. As a result of legislation enacted in 2004, the collection of county property taxes was shifted from December to the summer levy. School taxes are levied in December, unless a school board elects to make all or half of the taxes due in July. Evidently, it is not uncommon for winter tax bills to represent a small fraction of the taxes levied on property, and the amount of some taxpayers' winter bills can be very low. The City of Grand Rapids, for example, reportedly had almost 60,000 tax bills under \$100, including more than 560 under \$1, in December 2010. In order to save local units' resources, it was suggested that local taxing authorities should have the option of accelerating the collection of their winter tax levy to the summer for small tax bills.

An unrelated issue involves a county's revenue sharing reserve fund, which counties were required to establish as part of the 2004 legislation that shifted county property taxes to the summer levy. Each county was required to deposit into its fund an amount equal to the county's 2004 December property tax levy. In the case of Midland County, after that amount was determined, the county had to make a

sizeable property tax refund as a result of a property tax appeal. The appeal and refund covered a number of tax years, including 2004, which effectively reduced the amount of the county's property tax levy for that year. It was suggested, therefore, that the balance in Midland County's revenue sharing reserve fund should reflect the amount the county would have had to deposit after the refund.

CONTENT

Senate Bill 322 amended the General Property Tax Act to allow mills previously billed as part of a winter tax levy to be collected as a summer tax levy, if the aggregate amount of revenue from all individual millages that would be collected in the winter totals \$100 or less per individual tax bill, and if the summer collection receives the necessary approvals. The bill also requires the establishment of an "other levies reserve fund" for the deposit of accelerated millage that is collected in the summer, and requires money in the fund to be distributed to the local taxing authorities.

In addition, the bill requires a county's 2012 revenue sharing reserve fund balance to be reduced by an amount equal to the amount the county had to refund for the 2004 tax year as a result of a court judgment.

Senate Bill 323 amended the Act to require authorization of a tax levy, and

the apportionment of taxes and indebtedness to the State, by July 1 for a county or local tax collecting unit that approves the accelerated collection of millage previously billed as part of a winter tax levy.

The bills were tie-barred and took effect on June 20, 2012.

Senate Bill 322

Acceleration of Millage Collection

Under the bill, notwithstanding any other statutory or charter provision to the contrary, beginning in 2013 and each subsequent year, a millage levied by any taxing authority within a local tax collecting unit that had been previously billed and collected as part of the winter property tax levy in a preceding tax year, may be collected as a summer property tax levy if all of the conditions described below are satisfied.

The aggregate amount of the revenue from the levy and collection of all individual millages that would be levied and collected in the winter tax bill must total \$100 or less per individual tax bill, excluding any property tax administration fee. A millage may be accelerated and collected earlier only for those tax bills totaling \$100 or less for all individual millages, and that millage may be levied and collected as a winter property tax levy for all other tax bills totaling more than \$100 for all individual millages. Any additional millage approved to be levied by any taxing authority after collection of the summer property tax levy must be collected as part of a winter property tax levy.

A resolution authorizing the summer collection must be approved by all of the following:

- The county board of commissioners.
- The legislative body of the local tax collecting unit.
- The county tax allocation board, if any.

Within 60 days after the resolutions are approved, the local tax collecting unit must give notice of the accelerated collection to all owners of property on the tax roll.

Other Levies Reserve Fund

If a resolution authorizing the summer collection of a tax previously billed as part of the winter property tax levy is approved, the treasurer responsible for collecting the summer property tax levy must establish a restricted fund known as the "other levies reserve fund" for any millage collected that was previously billed as part of the winter levy. The millage that is accelerated and collected earlier must be deposited into the fund. The treasurer must distribute to the local taxing authorities the revenue credited to the fund on December 1 of the tax year in which the December levy otherwise would have been due.

If the millage that is accelerated and collected earlier is less than it would have been if levied as part of the next winter property tax levy, the treasurer may issue a supplemental tax bill for the deficiency or, if approved by a resolution of the legislative body of the local unit that collected the summer levy, pay any deficiency from that local unit's general fund.

The treasurer collecting the summer property tax levy must account for interest earned on the other levies reserve fund, and interest must be transmitted to the various local tax collecting units in proportion to the revenue collected from a millage previously collected as part of the winter levy, after a deduction of reasonable expenses the treasurer incurs in administering the accounting and disbursement of funds, to the extent that those expenses are in addition to the expenses of accounting and disbursing other taxes.

Revenue Sharing Reserve Fund

Under the bill, a county's required 2012 revenue sharing reserve fund balance must be reduced by an amount equal to the amount of county allocated property tax the county had to refund for the 2004 tax year due to a single court judgment, if that refund was at least 70% of the county's 2011 allocable withdrawal from its reserve fund. The refund amount must include the interest the county paid on the 2004 property tax refund.

Senate Bill 323

The Act provides for a county board of commissioners to authorize the levy of a tax at the annual session in October. Under the bill, for a county or local tax collecting unit that approves the accelerated collection in a summer property tax levy of a millage that had been previously billed and collected in a preceding tax year as part of the winter property tax levy, the levy must be authorized before a special meeting held before the annual levy on July 1.

The Act requires the State Treasurer each year to prepare a statement showing the taxes to be raised for State purposes that year. The bill deleted a September 1 deadline on this requirement.

Before the October session of the county board of commissioners, the State Treasurer must prepare and send to the clerk of each county a statement of the amount of the taxes apportioned to that county. Under the bill, for a county or local tax collecting unit that approves the accelerated collection in summer of millage previously billed and collected in a preceding tax year as part of the winter property tax levy, the State Treasurer must do this before a special meeting held before the annual levy on July 1.

The State Treasurer also is required to set forth the amount of indebtedness of a county to the State remaining unpaid at the time the statement is made. That amount must be apportioned by the county board of commissioners and be levied as a portion of the county taxes for the year, unless the indebtedness is paid to the State by October 1. Under the bill, for a county or local tax collecting unit that approves the accelerated collection in summer of millage previously billed and collected in a preceding tax year as part of the winter levy, the indebtedness must be levied unless paid before the annual levy on July 1.

The Act requires a county board of commissioners each year to determine the amount of money to be raised for county purposes, and apportion the amount as well as the amount of the State tax and the county's indebtedness to the State among the townships in the county. Under the bill, this must be done either at a session held by October 31 (as previously required) or at a

special meeting held for a local tax collecting unit that approves the accelerated collection in summer of millage previously billed and collected in a preceding tax year as part of the winter levy.

MCL 211.44a (S.B. 322)
211. 34d et al. (S.B. 323)

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 bills give local units of government the option to use a single summer tax bill for a whole year's property tax collection when an individual's winter tax bill totals \$100 or less. According to the treasurer of Grand Rapids, the city had 59,979 tax bills under \$100 in December 2010, and this number was expected to grow due to reduced taxable values. Evidently, Grand Rapids could have saved more than \$46,000 in December 2010 if this legislation had been in place, and city residents could have saved more than \$13,000 in postage for mailing their payments. The treasurer also reported that the city paid 566 bills under \$1 from its own coffers, in order to avoid having to send them out. Mailing tax bills consumes many hours of staff time and results in printing and postage costs, as well as depository fees. In addition, tax bills for small amounts generate many phone calls and e-mails from residents, asking why they are receiving such small bills, which places further demands on staff.

Grand Rapids is not the only community that can benefit from this legislation. It is likely that many others throughout the State, such as Kent County, Ann Arbor, Flint, Lansing, and Sterling Heights, find the traditional system wasteful and will appreciate the opportunity to consolidate tax bills and accelerate collections. It also is likely that many residents will prefer to receive and pay only one tax bill in the summer, if their winter bill is for a very low amount.

Response: The legislation takes only a small step in the right direction. The \$100 ceiling will prevent many communities from accelerating collections because they still will have to go through the tax rolls—manually, in some cases—to determine which tax bills are eligible. In addition, continuing to send

some taxpayers a winter bill, while others receive one only in the summer, will be sure to generate confusion among residents and questions to local government officials.

The legislation also does not address situations in which a local unit collects taxes for other taxing authorities besides counties, such as district libraries and metropolitan authorities. The City of East Lansing, for example, collects taxes for itself, Ingham and Clinton Counties, the East Lansing, Lansing, Haslett, and Bath School Districts, Ingham Intermediate School District, Clinton County Regional Education Service Agency, Lansing Community College, and the Capital Area Transportation Authority. It is possible that the taxing authorities for which taxes are collected on a winter bill have different fiscal years, and many do not know in July the amount of millage that they will collect in December.

Although this legislation might be useful to Grand Rapids and a limited number of other communities, many or most local units will see no gain. A better approach would shift *all* property tax levies to a yearly collection. This would enable all local tax collecting units to reduce costs and save resources, and in turn would benefit residents throughout the State.

Supporting Argument

Senate Bill 322 addresses a situation involving a large property tax refund made by Midland County (and other tax collecting units) as a result of the overassessment of property owned by Midland Cogeneration Venture. As discussed above, this property tax appeal covered a number of years, including 2004—the year on which counties' revenue sharing reserve fund deposits were based. Since the amount Midland County had to deposit, just under \$16.5 million, reflected the county's property tax collection *before* the refund of \$1.2 million for the 2004 tax year, the required balance is actually higher than it would have been if the amount of the deposit had been determined after the refund. The bill allows the county to reduce its reserve fund balance by the amount of the refund, as long as that amount plus interest is at least 70% of the county's 2011 allowable withdrawal from the fund. (Withdrawals are limited to a county's fiscal year 2003-04 revenue sharing payments adjusted for inflation. In 2011, the amount of Midland

County's allowable withdrawal was \$1,919,060.)

Legislative Analyst: Suzanne Lowe

FISCAL IMPACT

The bills will change the timing of property tax collections in local units that choose to shift the collection date. If a local unit authorizes the shift, the bills allow the local unit to shift the collection of the winter levy to a summer levy only for taxpayers whose winter levy would otherwise be \$100 or less. The change will not affect the tax bills for all taxpayers, and the collection date will not be changed for individual taxpayers with a winter tax levy that exceeds \$100. It is unknown how many local units will elect to shift the collection date, or how many taxpayers will have individual tax bills with a winter levy of \$100 or less.

Senate Bill 322 also will reduce Midland County's revenue sharing reserve fund balance for 2012 by approximately \$1.4 million. As a result, Midland County will deplete its reserve fund more rapidly than absent the bill and the expected FY 2012-13 revenue sharing payment, at the fully funded level, will be greater. Because revenue sharing and incentive payments to counties are prorated based on the amount appropriated and the fully funded payment calculation, absent a supplemental to increase the appropriation in FY 2012-13, the bill will increase Midland County's FY 2012-13 payment by less than \$1.4 million and reduce payments to the other 60 counties (by the same amount, in aggregate) expected to receive payments during FY 2012-13.

The bills will have no fiscal impact on State government.

Fiscal Analyst: David Zin

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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.