



Romney Building, 10th Floor
Lansing, Michigan 48909
Phone: 517/373-6466

SPECIAL ASSESSMENTS LEVIED ON TAXABLE VALUE

**Senate Bills 428 and 432 (Substitutes H-1)
Senate Bills 429 and 430 (Substitutes H-2)
First Analysis (12-8-98)**

**Sponsor: Sen. Bill Bullard, Jr.
House Committee: Tax Policy
Senate Committee: Finance**

THE APPARENT PROBLEM:

The term "taxable value" is the term used in property tax statutes to implement the constitutional limit on how much property assessments can increase from one year to the next. That limit was added to the constitution with the passage of Proposal A on March 15, 1994, and says the assessment of a parcel of property cannot increase from one year to the next by more than five percent or the percentage increase in the consumer price index, whichever is less. So, property taxes are now based on the "taxable value" of property, which is lower than state equalized value (SEV) where market values are rising at a rate faster than the constitutional limit. The assessment cap, however, does not now apply to special assessments. Some special assessments, including those townships can use to provide police and fire services, are based on the value of the property benefitted (rather than, say, frontage), and some people argue that these ad valorem special assessments should be based on taxable value in recognition of the spirit of Proposal A.

THE CONTENT OF THE BILLS:

Each of the bills would provide that for 1999 and thereafter, ad valorem special assessments that are now levied on the state equalized value (SEV) of property be levied instead on the taxable value of property.

Senate Bill 428 would amend the Township and Village Public Improvement and Public Service Act (MCL 41.414). Limits on assessments that are now based on a percentage of assessed valuation would be based on a percentage of taxable value. The bill also specifies that if the levy of an ad valorem special assessment on taxable value is found to be invalid by a court of competent jurisdiction, the special

assessment would be collected on state equalized value.

Senate Bill 429 would amend the General Property Tax Act (MCL 211.44c).

Senate Bill 430 would amend Public Act 188 of 1954 (MCL 41.725 and 41.735b), which allows townships to make public improvements and levy special assessments to pay for them. Amounts that could be transferred from a township general fund to an improvement revolving fund would also be based on taxable value. The bill also specifies that if the levy of an ad valorem special assessment on taxable value is found invalid by a court of competent jurisdiction, the special assessment would be collected on state equalized value.

Senate Bill 432 would amend Public Act 33 of 1951 (MCL 41.801), which allows townships and some villages and cities to levy special assessments for police and fire services. Also under this bill, appropriations for equipment and housing that now are limited annually to 10 mills of assessed valuation would be limited to 10 mills of taxable value. The bill also would specify that if the levy of an ad valorem special assessment on taxable value is found invalid by a court of competent jurisdiction, the special assessment would be collected on state equalized value.

HOUSE COMMITTEE ACTION:

The House substitutes are different from the Senate-passed versions principally in making the bills effective for special assessments levied after December 31, 1998 rather than after December 31, 1996.

Senate Bills 428, 429, 430 and 432 (12-8-98)

FISCAL IMPLICATIONS:

The House Fiscal Agency and Senate Fiscal Agency have pointed out that levying special assessments on taxable value rather than state equalized value (SEV) would decrease special assessment collections and would require local units to adjust their special assessment millage rates upward to maintain current revenue levels. (HFA fiscal notes dated 10-14-98 and 11-5-98 and SFA floor analyses dated 5-21-97)

The Michigan Townships Association is neutral on the bills in their current form. (12-2-98)

ARGUMENTS:

For:

Ad valorem special assessments are similar in nature to property taxes in that they are levied on the basis of the value of property and not, like other special assessments, on some other factor relating to the benefit provided (e.g., frontage). It makes sense to base these assessments on taxable value rather than state equalized value. This is what Proposal A of 1994 required for property taxes in order to implement the cap on how fast property assessments can grow. These bills would, in essence, bring ad valorem special assessments into conformity with the assessment cap philosophy endorsed by the electorate in approving Proposal A. Advocates say this is what taxpayers expected when Proposal A was approved.

Against:

Some people complain that the use of taxable value will, over time, lead to significant inequity as property owners pay assessments not based on the value of their property but based on how long they have owned it (since the assessment cap is lifted when property is sold, resulting in the assessment being based once again on market value). Further, some people believe ad valorem special assessments are essentially property taxes and should be reclassified as such.

Response:

The issues raised above are complex issues best left for another time. It should be noted that the problem of tax inequity is built in to the assessment cap concept embodied in Proposal A; these bills simply treat ad valorem special assessments in the same way property taxes are treated.

POSITIONS:

The Department of Treasury supports the bills. (12-2-98)

The Michigan Assessor's Association supports the bills (12-2-98)

Analyst: C. Couch

■ 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.