Legislative Analysis

Mitchell Bean, Director
Phone: (517) 373-8080
http://www.house.mi.gov/hfa

STATE CONVENTION FACILITY DEVELOPMENT ACT

House Bill 5545 as introduced
Sponsor: Rep. Dave Hildenbrand
Committee: Tax Policy

First Analysis (5-24-06)

BRIEF SUMMARY: The bill would amend the State Convention Facility Development Act to increase the population of counties in which a hotel-motel tax is collected from 600,000 to 750,000.

FISCAL IMPACT: The bill would have no fiscal impact on the state or local units of government.

THE APPARENT PROBLEM:

In November 2001, the Kent County Board of Commissioners extended the county's hotel-motel tax levied under Public Act 263 of 1974 until 2032, to finance the debt of a 30-year bond proposal to pay approximately $90 million of the $220 million cost for the DeVos Place Convention Center in Grand Rapids. The remaining cost for the convention center is paid for by the City of Grand Rapids, the state, the Grand Rapids-Kent County Convention Arena Authority, and private donors.

Public Act 263 permits counties with a population of under 600,000 (according to the last decennial census) that include a city with a population of at least 40,000 to levy a hotel-motel tax of up to five percent with revenue generally used by counties to finance the construction and maintenance of convention facilities and the promotion of tourism. For counties with a population greater than 600,000, the state imposes a hotel-motel tax under the State Convention Facility Development Act (Public Act 106 of 1985), with revenue primarily used to make debt service payments for Cobo Hall in Detroit.

As of the 2000 census, the population of Kent County was 574,335, and it is expected that the county's population in the 2010 census will exceed 600,000. Last session, the legislature and the governor enacted Public Act 118 of 2004 (HB 5241) to amend P.A. 263 to specify that if a county meets the populations requires of the act on the date it enacts an ordinance levying the tax, the county may continue to levy, assess, and collect the tax. Without this amendment, the hotel-motel tax in Kent County would have been imposed under the State Convention Facility Development Act, rather than P.A. 263, with revenue from the tax used for purposes other than paying off bonds for DeVos Place. Unless the population threshold contained in the State Convention Facility Development Act is also amended, hotel in Kent County would be subject to taxation under that act <u>and</u> P.A. 263.

THE CONTENT OF THE BILL:

The State Convention Facility Development Act imposes an accommodations (hotel-motel) excise tax of 1.5 percent to 6 percent per room – depending on the number of rooms and where the hotel is located – in counties with a population of at least 600,000 as of the last decennial census (i.e. Wayne, Oakland, and Macomb counties). House Bill 5545 would increase the population threshold to 750,000.

MCL 207.623

BACKGROUND INFORMATION:

Public Act 263 of 1974

Revenue from the tax is to be deposited into a special fund used by the county (or other authority organized under state law) to pay for, among other things, the acquisition, construction, improvement, enlargement, repair, or maintenance of convention and entertainment facilities, including the payment of the principal and interest on bonds issued to finance such facilities, or for the promotion and encouragement of tourism and convention business in the county.

State Convention Facility Development Act

Revenue from the tax, along with revenue from the four percent excise tax on spirits under the Liquor Control Code, is deposited into the Convention Facility Development Fund and disbursed to local governments to acquire, construct, improve, enlarge, renew, replace, or lease a convention facility, or to refinance those activities. The fund is first used to make payments to the City of Detroit for debt service payments for Cobo Hall, based on hotel-motel tax collections in Wayne County and contiguous (i.e. Oakland and Macomb) counties and also the liquor tax collections, up to the amount pledged by the city for the payment of bonds and to maintain a fully funded debt reserve.

Any amount remaining in the fund at the end of the fiscal year is transferred to the General Fund and used for the following purposes (in order of priority):

- An amount equal to the increase in hotel-motel tax revenue over the prior year is paid to the City of Detroit to retire Cobo Hall bonds early.
- An amount equal to that portion of the four percent liquor tax collected in the 80 "outstate" counties is paid to those counties based on a proportionate share of each county's liquor tax collections.
- Any remaining amount is then distributed to all 83 counties, based on a proportionate share of each county's liquor tax collections. (In Wayne County, sales in Detroit are excluded for purposes of this calculation.)

ARGUMENTS:

For:

The bill is a companion measure to Public Act 118 of 2004. Kent County imposes a hotel-motel tax under Public Act 263 of 1974 to pay off bonds for the construction of the DeVos Place convention center. Public Act 118 amended Public Act 263 to enable the county to continue to levy the tax, even after it no longer meets population limits set in the act. This change was made to ensure the county can continue to levy the tax. House Bill 5545 is necessary to avoid a situation where hotels in the county would be subject to taxes under both acts. Subjecting these businesses to "double taxation" would be patently unfair, considering that Kent County would be the only county where both taxes were imposed and the fact that county wouldn't receive most of the revenue from the tax under State Convention Facility Development Act. It appears that the revenue from that tax would be distributed to all 83 counties in the state.

POSITIONS:

The Department of Treasury supports the bill. (5-23-06)

Kent County supports the bill. (5-23-06)

Legislative Analyst: Mark Wolf
Fiscal Analyst: Rebecca Ross