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BILL ANALYSIS

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House Bill 5176 (as passed by the House)
Sponsor: Representative Jeff Farrington
House Committee: Tax Policy
Senate Committee: Finance

Date Completed: 3-22-16

CONTENT

The bill would amend the Local Community Stabilization Authority Act to do the following:

-- **Revise the calculation used to determine a city's reimbursement in 2014 and 2015 for losses of operating millage due to personal property tax exemptions.**
-- **Revise the calculation used to determine reimbursement beginning in 2016 to a municipality that provides essential services.**
-- **Delete a provision under which a municipality may not receive any reimbursement under the Act if it has increased its millage rate without voter approval to replace debt loss that otherwise would be reimbursed under the Act.**
-- **Require a municipality's reimbursement for fiscal years 2014-15 and 2015-16 to be reduced if the municipality did not adjust its debt millage rate to reflect reimbursement for the small taxpayer exemption loss.**
-- **Require a municipality to use its local community stabilization share revenue distribution beginning in 2016 for debt millage to pay debt.**

The bill also would repeal Section 20 of the Act, which requires a municipality to use local community stabilization share revenue first to replace property taxes used for the payment of principal and interest of essential services obligations incurred before 2013 pledging the municipality's taxing power that are lost due to personal property tax exemptions.

The Act was among a package of the legislation enacted in 2014 as a result of voter approval of a ballot proposal. Among other things, the legislation created tax exemptions for eligible industrial and commercial personal property, provided for a local share of the 6.0% use tax ("local community stabilization share revenue"), and created the Local Community Stabilization Authority (LCSA) to distribute the local share revenue to municipalities for revenue lost due to the personal property tax exemptions.

The Act requires the Department of Treasury, beginning in August 2016, to determine annually the amount of revenue a municipality lost due to the personal property tax exemptions; requires the Department to make other calculations for 2014 and 2015 for different types of municipalities; requires the Legislature to make appropriations to the LCSA for fiscal year (FY) 2014-15 and FY 2015-16 in the amount of municipalities' debt loss; requires the LCSA to distribute those appropriations; and requires the Authority to distribute specified amounts of local community stabilization share revenue to municipalities according to the Department's calculations beginning in 2014.

The Act requires the LCSA, for 2014 and 2015, to distribute local community stabilization share revenue to each city in an amount determined according to various calculations set forth in the Act, in order to reimburse cities for operating mill losses in those years.

For each municipality that is a city, the Act required the Department to do the following by September 15, 2015:

a) Calculate the city's small taxpayer exemption loss.
b) Multiply the amount calculated under a) by millage rates calculated under the Act for 2014.
c) Multiply the amount calculated under a) by the millage rates calculated for 2015.
d) Add the amounts calculated under b) and c).
e) Subtract from the amount calculated under d) the sum of the municipality's debt loss for 2014 and 2015.
f) Subtract from the amount calculated under e) the amount of any tax increment small taxpayer loss for captured taxes levied by the municipality in 2014 and 2015.

The bill, instead, would require the Department to do the following by January 20, 2016, for a municipality that is a city:

a) Calculate the municipality's 2014 and 2015 small taxpayer exemption loss.
b) Multiply the 2014 small taxpayer exemption loss if greater than zero by the millage rates calculated under the Act for 2014, excluding debt millage.
c) Multiply the 2015 small taxpayer exemption loss if greater than zero by the millage rates calculated under the Act for 2015, excluding debt millage.
d) Add the amounts calculated under b) and c).
e) Calculate the sum of the municipality's debt loss for 2014 and 2015 reimbursed under Section 17(1)(a) for millages used to calculate the amounts under b) and c).
f) Calculate the amount of any tax increment small taxpayer loss for captured taxes levied by the municipality in 2014 and 2015 for millages used to calculate the amounts under b) and c).

Also, in the provisions requiring the distribution of revenue for 2014 and 2015 to reimburse operating mill losses, the bill would reflect the changes in the formula (basing reimbursement on operating mills and subtracting debt millage).

(For 2014, "small taxpayer exemption loss" means the 2013 taxable value of commercial personal property and industrial personal property minus the 2014 taxable value of that property. For 2015 and subsequent years, the term means the greater of the amount calculated for 2014 and the 2013 taxable value of commercial personal property and industrial personal property minus the 2015 taxable value of that property. For each year, the calculation must be modified for municipality boundary changes to the extent they affect the property taxes levied by the municipality.)

For a municipality that is not a school district, intermediate school district (ISD), or tax increment finance authority (TIFA), "debt loss" refers to the amount of ad valorem property taxes and any specific tax levied for the payment of principal and interest of obligations either approved by the voters before January 1, 2013, or incurred before that date, pledging the taxing power of the municipality, that are lost as a result of the exemption of industrial and commercial personal property from the property tax.

"Tax increment small taxpayer loss" means the amount of revenue lost by a municipality that is a tax increment finance authority due to the exemption provided by Section 9o of the General Property Tax Act. That section allows an exemption for an owner's eligible personal property whose combined true cash value is less than $80,000 in a local tax collecting unit.)

Under Section 17(1)(a) of the LCSA Act, the Legislature is required to appropriate funds for FY 2014-15 and FY 2015-16 to the LCSA in an amount equal to all debt loss for municipalities that are not school districts, ISDs, or TIFAs; an amount equal to all school debt loss for municipalities that are local school districts or ISDs; and an amount equal to all tax increment small taxpayer loss for municipalities that are TIFAs.)

The annual calculations that the Department must make beginning in 2016 include a determination for each municipality that is a county, township, village, city, or authority that provides essential services (ambulance, fire, and police services, jail operations, and the funding of pensions for personnel providing those services). In the formula for making this determination, the bill would require the subtraction of the 2015 small taxpayer exemption loss (which is subject to a separate reimbursement under the Act).

Section 17(4) of the Act requires the LSCA to distribute local community stabilization share revenue to each municipality, beginning for 2016, according to a particular order of priority. Section 17(8) requires specified amounts of local community stabilization share revenue to be distributed each calendar year from 2014 through 2028; and requires the distribution in future years to be increased by a personal property growth factor.

From the amount received under Section 17, the Act requires a municipality to first replace debt loss or school debt loss, as applicable. A municipality may not receive a distribution under the Act if it has increased its millage rate without voter approval to replace debt loss or school debt loss that otherwise would be reimbursed under the Act. The bill would delete these provisions.

Under the bill, if a municipality did not adjust its debt millage rate to reflect reimbursement for the small taxpayer exemption loss under Section 17(1)(a), that reimbursement would have to be reduced by the excess debt taxes levied.

The bill would require a municipality to use the amount received under Section 17(4) for debt millage to pay debt. If a payment under Section 17(4) for debt millage were not used to pay debt, the amount not used would have to be deducted from a subsequent payment under that section.

MCL 123.1354 et al. Legislative Analyst: Suzanne Lowe

FISCAL IMPACT

The bill would have no impact on the total revenue received by the Local Community Stabilization Authority; therefore, the bill would have no impact on State revenue or expenditures. However, by altering the calculation that determines the amounts individual local units receive as payments from the Authority, the bill could change the distribution of revenue received by local units. As a result, some local units could receive greater or lesser payments than under current law.

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.