

Legislative Analysis



REVISE CALCULATION FOR MUNICIPALITY DEBT LIMIT

Phone: (517) 373-8080
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Senate Bills 590 and 591 as reported w/o amendment

Sponsor: Sen. Jim Stamas

(Enacted as Public Acts 86 and 87 of 2018)

Analysis available at
<http://www.legislature.mi.gov>

Senate Bills 592 and 593 as reported w/o amendment

Sponsor: Sen. Mike Shirkey

(Enacted as Public Acts 88 and 89 of 2018)

House Committee: Local Government

Senate Committee: Finance

Complete to 3-6-18

BRIEF SUMMARY: Senate Bills 590, 591, 592, and 593 would amend the Charter Township Act, the General Law Village Act, the Home Rule Village Act, and the Home Rule City Act to revise the formula used in calculating the respective local unit's debt limitations. The bills would place nearly identical provisions within each act to allow a municipality to add certain amounts to the municipality's total assessed value of all real and personal property.

FISCAL IMPACT: The provisions of the bills are permissive and would have no direct fiscal impact on local government revenues or costs. Rather, the alternative calculation of net indebtedness would authorize local units of government to implement a higher debt limit than would be permitted under current law. The debt limit effects would vary by local unit. The decision to pursue additional debt would continue to reside with the local unit of government. (See *Fiscal Information*, below, for further discussion.)

THE APPARENT PROBLEM:

In 2014, Michigan voters approved an amendment to the state's use tax, which initiated a sequence of public acts that changed the state's taxation of personal property. Upon approval, the personal property tax on eligible manufacturing personal property was phased out, and taxpayers with personal property below a certain value were exempt from the tax. As a result, the taxable value of certain personal property is being removed from the assessment rolls. This impact, however, has not been addressed in the calculation of a municipality's debt limit, which is a function of the assessed value of real and personal property in the municipality. Legislation has been introduced to allow municipalities to add back in an amount related to the personal property tax reform, defined in statute, to offset this impact on the debt limit calculation.

THE CONTENT OF THE BILLS:

Senate Bill 590 would amend the Charter Township Act, the act that that authorizes the incorporation of charter townships and provides for their powers and functions. [A township with population of 2,000 or more can incorporate as a charter township.]

Currently under the act, the net indebtedness of the township incurred for all public purposes cannot exceed 10% of the assessed value of all real and personal property in the township. Various types of bonds are deducted in computing “net indebtedness,” including revenue bonds and bonds issued in anticipation of the collection of special assessments.

Under the bill, in computing net indebtedness, a specific amount could be added to the assessed value of real and personal property in a township for a fiscal year. The amount would be calculated by adding up the following amounts and dividing the sum by the township’s millage rate for a fiscal year:

- (1) The amount paid or the estimated amount required to be paid by the state to the township during the township’s fiscal year for the township’s use under the Glenn Steil State Revenue Sharing Act of 1971, and the amount of any eligible reimbursement to the township under the Local Community Stabilization Authority Act, except any amount distributed under Section 17(4)(c) of that act, in excess of the township’s qualified loss. The Department of Treasury would have to certify these amounts upon request.
- (2) The amount levied by the township for its own use during the township’s fiscal year from the specific tax levied under the Plant Rehabilitation and Industrial Development Districts Act.
- (3) The amount levied by the township for its own use during the township’s fiscal year from the specific tax levied under the Commercial Redevelopment Act.

[The Local Community Stabilization Authority Act creates and governs the Local Community Stabilization Authority, which levies the local community stabilization share of the use tax. Under Section 17(4), the authority must distribute local community stabilization share revenues in a specified order of priority. Under Section 17(4)(c), any amount remaining after the first two tiers of payments is distributed in proportion to a municipality’s qualified loss in relation to the total qualified loss. ***Qualified loss*** is defined as a specific loss amount that is not distributed to the municipality in a first- or second-tier payment.]

MCL 42.14a

Senate Bills 591 and 592 would amend, respectively, the General Law Village Act, the act that provides for the government of certain villages and defines their powers and duties, and the Home Rule Village Act, the act that provides for the incorporation of villages and for revising and amending their charters. Under these acts, the debt limit for general law

villages and home rule villages is 10% of the assessed value of the real and personal property subject to taxation as shown by the last assessment roll of the village.

The bills would insert language identical to that found in SB 590, except replacing the word “township” with the word “village.”

MCL 69.22 (SB 591)

MCL 78.26 (SB 592)

Senate Bill 593 would amend the Home Rule City Act to add one amount to the calculation of the total assessed value. Under the act, the debt limit for a city is the greater of (a) 10% of the assessed value of all real and personal property in the city or (b) 15% of the assessed value of all property if that portion of the total amount of indebtedness incurred which exceeds 10% is or has been used solely for the construction or renovation of hospitals.

Currently under the act, the amounts described in (2) and (3) and a portion of (1), above, can be included in the calculation of total assessed value of real and personal property for a city. The bill would add to the calculation:

- (1) The amount of any eligible reimbursement to the city under the Local Community Stabilization Authority Act, except any amount distributed under section 17(4)(c) in excess of the city’s qualified loss.

MCL 117.4a

HOUSE COMMITTEE ACTION:

The House Committee on Local Government reported the Senate-passed versions of the bills without amendment.

FISCAL INFORMATION:

The inclusion of the assessed value equivalent of reimbursement payments up to 100% of the qualified loss from the Local Community Stabilization Authority in the calculation of net indebtedness for cities, villages, and townships would provide a replacement for the assessed value declines due to personal property tax reform. The qualified loss payments to cities, villages, and townships totaled \$92.2 million in FY 2016-17 and would vary annually.

The inclusion of the assessed value equivalent of revenue sharing payments and certain specific taxes in the calculation of net indebtedness for charter townships and general and home rule villages, as summarized above, would provide these local units with the same net indebtedness calculation inputs already provided to home rule cities.

ARGUMENTS:

For:

The personal property tax changes enacted in 2014 were complex, and any complex legislative package is bound to have unintended consequences. These bills are a simple fix to one such unintended consequence. They do not change any amount of existing debt, but simply provide cities, villages, and townships with flexibility in their debt calculations. Even if no local unit is approaching its debt limit, the revised calculation could increase a potential debt limit, allowing a unit to achieve lower borrowing costs.

Against:

No arguments were offered in opposition to the bills.

POSITIONS:

A representative of the Michigan Municipal League testified in support of the bills.
(2-21-18)

A representative of the Michigan Townships Association indicated support for the bills.
(2-21-18)

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■ This analysis was prepared by nonpartisan House Fiscal Agency staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.