Legislative Analysis

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REVISE LOCAL COMMUNITY STABILIZATION AUTHORITY DISBURSEMENTS

House Bill 6348 as Introduced
Sponsor: Rep. Rob VerHeulen
Committee: Appropriations
Complete to 10-2-18

SUMMARY:

House Bill 6348 would amend the Local Community Stabilization Authority Act (the Act) to revise the disbursements made by the Local Community Stabilization Authority (LCSA). The LCSA was created in 2014 as part of changes to Michigan's taxation of commercial and industrial personal property.[1] The Act authorizes the LCSA to levy a share of the state 6% use tax and reimburse municipalities for losses of personal property tax (PPT) revenue from the legislative tax changes.

Current Distribution

The Act determines the amount of use tax the LCSA levies. From the amount it levies, the LCSA makes the following required reimbursements, equal to 100% of the loss related to the statutory PPT tax changes—often referred to as Tier 1 payments:

- A school district's or ISD's debt loss.
- A school district's levy for sinking fund and recreation mills.
- An ISD's levy for vocational and special education.
- A school district's or ISD's operating loss not reimbursed by the School Aid Fund.
- A city's, village's, township's, authority's or county's levy for essential services (ambulance, fire, police, jail, and pensions for those that provide the essential services).
- A tax increment finance authority's loss.
- A municipality's small taxpayer exemption loss.

Beginning with calendar year 2018, after the LCSA makes Tier 1 payments and adjusts for any prior year under or over payments, $13.6 million shall be distributed to municipalities with state facilities as fire protection grants under 1977 PA 289, MCL 141.951 to 141.956.

After the above distributions, the remaining balance is to be distributed to municipalities in an amount determined by the municipality's qualified loss in proportion to the total qualified loss. These allocations are often referred to in two parts: 1) Tier 2–the portion up to 100% of total qualified losses and 2) Tier 3–the portion in excess of 100% of total qualified losses.

Beginning in calendar year 2021, after the Tier 1 payments, prior year adjustments, and fire protection grant distributions have been made, Tier 2 payments are to be disbursed such that

[1] See House Fiscal Agency analysis of the original ballot proposal here: http://www.legislature.mi.gov/documents/2013-2014/billanalysis/House/pdf/2013-HLA-0821-7957BF98.pdf

15% of the total qualified loss shall be distributed to municipalities based on their respective shares of eligible personal property loss as determined using a modified acquisition cost definition of eligible personal property. Any remaining portion up to 100% of total qualified loss is to be distributed to municipalities based on each municipality's qualified loss in proportion to the total qualified loss. It should be noted that this methodology does not guarantee that any given municipality will necessarily be reimbursed for 100% of its qualified loss since its share of total acquisition costs may not be the same as its share of total qualified losses.

Each subsequent year, the amount distributed based on the modified acquisition cost will be increased by an additional 5 percentage points until it reaches 100% of the total qualified loss. At that point, all Tier 2 payments (i.e., reimbursements up to 100% of the total qualified loss) will be based on the modified acquisition cost of eligible personal property.

Any balance remaining in the LCSA fund after 100% of total qualified losses have been made under Tier 2 will be distributed based on each municipality's share of its Tier 2 payments as a proportion of all Tier 2 payments.

For purposes of the LCSA, "municipality" includes counties, cities, villages, townships, authorities, school districts, intermediate school districts, community college districts, libraries, and other local taxing units.

"Qualified loss" is defined as a municipality's personal property exemption loss, multiplied by the appropriate millage rates, that is not already reimbursed.

"Total qualified loss" is the total amount of qualified losses of all municipalities.

Proposed Distribution

House Bill 6348 would not change Tier 1 payments, prior year adjustments, fire protection grants, or the phase-in of the distribution determined by the modified acquisition cost beginning in 2021.

HB 6348 proposes a change to the distribution of funds that remain after the Tier 1 and Tier 2 payments, often referred to as Tier 3 payments, or payments to municipalities that exceed 100% of total qualified losses. Beginning for calendar year 2018, any remaining balance in the local community stabilization share fund after municipalities have been reimbursed for 100% of their total qualified losses would be distributed as follows:

Table 1: HB 6348 - Tier 3 Payments

Unit	Share of Remaining Balance
Counties	30%
Cities	48%
Villages	2%
Townships	5%
Community Colleges	15%

Among each of the 5 municipality types, the bill would distribute funds based on each municipality's population and share of total Tier 2 payments as follows in Table 2.

Table 2: HB 6348 Tier 3 Payments to Individual Units within each Municipality Type

Calendar Year	Percent Distributed by Population	Percent Distributed by Tier 2 Payment Share
2018	0%	100%
2019	10%	90%
2020	20%	80%
2021	30%	70%
2022	40%	60%
2023, and each calendar year thereafter	50%	50%

For the categories of population and qualified loss, the calculation for each unit would be relative to the totals for all units of that type. The calculation for community colleges would use "fiscal year equated students" instead of population.

For the calculations regarding counties, cities, villages, and townships, population would be determined in the same manner as in the Glenn Steil State Revenue Sharing Act. For the calculation regarding community colleges, fiscal year equated students would be determined by the Department of Education as reported in the state community college database.

MCL 123.1357

FISCAL IMPACT:

House Bill 6348 would not revise the dollar amounts of the 6% use tax that is levied by the LCSA, and thus, would have no impact on state revenues. The bill would, however, alter the distribution of a portion of the LCSA's reimbursements to certain municipalities.

Under current law, the balance remaining in the LCSA fund, after the Tier 1 and Tier 2 distribution, is distributed to eligible municipalities in the same percentage as their qualified losses relative to total qualified losses (excluding qualified losses reimbursed under Tier 1). However, that will begin to change in 2021 as a larger share of the balance each year is distributed based on the modified acquisition cost definition.

House Bill 6348 would change the distribution of payments after 100% of total qualified losses are reimbursed to do the following:

- First, beginning in 2018, fix the proportion of the remaining balance received by each municipality type, based on their approximate share of Tier 3 payments for the last two years (see Table 1 above).
- Second, beginning in 2019, distribute funds among individual units of each municipality type so that the formula would depend on both population and share of total Tier 2 payments, with the population factor increasing by 10 percentage points each year. Therefore, after 5 years both population and share of total Tier 2 payments

would be equally weighted when determining the distribution to eligible municipalities (see Table 2 above).

Although it is not possible to project what the differences resulting from the bill would be relative to future distributions under current law because of the many property tax variables involved, HFA can estimate what the revised Tier 3 distribution would be based on actual 2017 payments.

A detailed unit-by-unit comparison for community colleges, counties, cities, villages, and townships based on actual 2017 payments is available here:
http://www.legislature.mi.gov/documents/2017-2018/billanalysis/House/pdf/2017-HLA-6348-DB7BD739.pdf

Calculations should not be interpreted as estimates of future payments, but rather a comparison of what the changes would have been relative to the actual 2017 payments if the provisions of House Bill 6348 had been in effect for the actual 2017 distributions.

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