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BILL ANALYSIS

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House Bill 5086 (Substitute S-2 as reported by the Committee of the Whole)
Sponsor: Representative David C. Maturen
House Committee: Tax Policy
Senate Committee: Finance

CONTENT

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

-- Modify various calculations found in the Act, including the calculation of a qualified school debt millage rate.
-- Modify the distribution of local community stabilization share revenue payments to delay, from 2019 to 2021, the implementation of the dynamic formula (described below), and the manner in which the dynamic formula will be phased in.
-- Require municipalities to allocate reimbursements in the same manner as the taxes that were lost due to previously enacted personal property tax exemptions.
-- Modify deadlines the Department of Treasury, city and township assessors, municipalities, and other entities must meet to report information or perform certain calculations, and create new reporting requirements.
-- Provide for procedures to reimburse underpayments and collect overpayments made to municipalities under the Act.
-- Require the Department to make distribution calculations and commercial and industrial personal property taxable values available on the internet.

The Act provides for the levy of the local community stabilization share tax and the distribution of that revenue to municipalities. The local community stabilization share tax is the local share of the total use tax levied under State law.

MCL 123.1345 et al. Legislative Analyst: Drew Krogulecki

FISCAL IMPACT

The bill would have no fiscal impact on the State, and it would have varying fiscal impacts on local governments. It would have no impact on the total revenue received by the Local Community Stabilization Authority (LCSA); therefore, the bill would have no impact on State revenue or expenditures. Any additional reporting or administration requirements would be covered by existing appropriations.

Reimbursements made to an individual local unit by the LCSA are determined by a multi-part formula that is scheduled to change over time (under current law). Most of the current revenue distribution made to municipalities is based on the unit's qualified loss. The qualified loss is basically the taxable value of commercial and industrial personal property in the current year minus the taxable value of commercial and industrial personal property in 2013, multiplied by the appropriate millage rate.

Because tax changes enacted in 2014 exempted only some industrial and commercial personal property from taxation, over time fewer municipalities will experience a qualified loss as the taxable value of nonexempt personal property surpasses the taxable value of all personal property in 2013. As a result, in 2019, the Act begins to phase in an alternative distribution that does not rely on qualified loss. Instead, this formula relies on the distribution throughout the State of the acquisition cost of exempt property that is subject to the Essential Services Assessment (sometimes referred to as the "dynamic formula").

The bill would make some changes in the distribution of LCSA revenue, although it would largely keep the percentage distributed by qualified loss and the percentage distributed by the dynamic formula the same. However, the bill would tie every part of the calculation to the total statewide qualified loss. For reasons discussed above, at some point in the future there will no longer be any qualified losses. The bill does not indicate how LCSA revenue would be distributed at that point.

Because of the changes to the distribution formula, some municipalities would receive larger payments under the bill while others would receive smaller payments, since the total amount of payments would remain the same. Municipalities also would be affected by the restrictions on how LCSA reimbursements could be spent, as there are no restrictions under current law. Finally, the bill would establish new procedures to handle overpayments and underpayments to municipalities. This would be a change from the current adjustment process, so it could lead to a change in the distribution of funds.

Date Completed: 6-7-18 Fiscal Analyst: Ryan Bergan