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BILL ANALYSIS

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House Bill 6348 (Substitute S-1 as reported)
Sponsor: Representative Rob VerHeulen
House Committee: Appropriations
Senate Committee: Appropriations

CONTENT

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

-- Change the distribution of disbursements made by the Local Community Stabilization Authority (LCSA).
-- Move the earmark for Fire Protection Grants to Tier 1 and fully fund those grants.
-- Earmark $10.0 million for distribution to local health departments (primarily counties).

Under the bill, the dynamic formula would be phased in over 10 years instead of 18 years. Compared to current law, this acceleration in the phase-in would more rapidly reduce the amount of use tax revenue distributed according to qualified losses and increase the amount distributed according to acquisition costs.

Background

The LCSA was created in 2014 in order to reimburse local units of government for revenue lost due to reductions in the taxes levied on industrial and commercial personal property, under statutory amendments enacted in 2014. The Act authorizes the LCSA to levy a share of the State's 6% use tax and to distribute that revenue to municipalities according to the Act. The Act defines municipalities to include counties, cities, villages, townships, authorities other than an authority created under the Act, local and intermediate school districts, community college districts, libraries, and other local and governmental taxing units. The total amount of use tax the LCSA is authorized to levy for each year is determined by the Act.

Current Law

Reimbursements made to an individual local unit by the LCSA are determined by a multi-part formula that is scheduled to change over time (as described below). 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. Additional provisions, related to the exemption of personal property owned by certain small taxpayers, do not use current-year taxable values but are also computed relative to the taxable value in 2013.

Because the 2014 tax changes 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, beginning in 2021, the Act begins a 18-year phase-in of an

alternative distribution that does not rely on qualified loss. Instead, the new 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"), multiplied by the relevant millage rates and adjusted for the age of the property. As a result, the qualified loss portion of the formula effectively ensures that a local unit does not receive less revenue than received from personal property taxes in 2013, while the dynamic formula distributes revenue based on a proxy for the value of exempt property.

Certain qualified losses are reimbursed at 100% before the rest of the LCSA revenue is distributed. These are commonly referred to as "Tier 1" reimbursements. These include losses for various school district and ISD debt and operating mills, tax increment financing authorities, essential services (including ambulance, fire, police, jail, and pensions for those who provide essential services), and the small taxpayer exemption.

After the Tier 1 reimbursements are made, an amount equal to total qualified loss is distributed to all municipalities in proportion to the municipality's share of total qualified losses and/or the dynamic formula, based on the distribution year. Once those distributions are made, including certain corrections made to payments later during the year, current law earmarks $13.6 million to fund fire protection grants to municipalities with State facilities. Any remaining revenue to be distributed is then distributed to counties, townships, villages, cities, and community colleges, based on the share each local unit received of the funds distributed after Tier 1 reimbursements but before the Fire Protection Grant earmark.

MCL 123.1357 and 123.1358

FISCAL IMPACT

The bill would have no impact on State revenue as it would not revise the dollar amounts to be levied by the LCSA. However, because the bill would alter the distribution of the LCSA reimbursements, it would have a positive fiscal impact on some municipalities and a negative impact on others.

Because each local unit's LCSA distribution depends not only on that unit's millage rates and taxable values and/or acquisition costs of exempt property, but also on the taxable values, acquisition costs, and millage rates in all other local units statewide, it is not possible to forecast future year distributions under either the bill or current law.

Compared to current law, the bill would accelerate the shift in the distribution of revenue from being based on qualified losses (i.e. based on changes in taxable value since 2013), to a distribution based on the acquisition cost of exempt property.

Additionally, the bill would increase revenue to local units that received public health reimbursements and that contained State facilities. While these increases would reduce the distributions to all local units (including those receiving public health reimbursements and/or containing State facilities), because the reductions would be spread across so many local units and the total amount of reduction would be small relative to the total amount distributed, any individual reductions would be minimal.

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