

REVISE LOCAL COMMUNITY STABILIZATION AUTHORITY DISBURSEMENTS

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House Bill 5908 proposed Committee substitute (H-1)
Sponsor: Rep. Rob VerHeulen
Committee: Appropriations
Complete to 5-8-18

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

SUMMARY:

House Bill 5908 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.

Under the Act, after the LCSA makes Tier 1 payments, until calendar year 2019, it must distribute the remaining balance 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 equal to a municipality's qualified loss and 2) Tier 3—the portion that exceeds a municipality's qualified loss.

Under the Act, beginning in calendar year 2019, after the Tier 1 payments have been made, 5% of the remaining balance must be distributed to municipalities based on their share of eligible personal property loss as determined using a modified acquisition cost definition of eligible personal property. Each subsequent year, the share of the remaining balance distributed based on the modified acquisition cost will be increased by an additional 5

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>

percentage points until it reaches 100%. Over time this distribution would replace both the current Tier 2 and Tier 3 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 5908 would not change Tier 1 payments.

Under the bill, beginning in calendar year 2019, after the Tier 1 payment, an amount equal to 100% of the total qualified loss rather than of the remaining balance would be distributed as follows:

- In 2019, an amount equal to 5% of the total qualified loss to municipalities based on their share of eligible personal property loss using the modified acquisition cost definition. Each subsequent year, the percentage amount distributed based on the modified acquisition cost definition would be increased by an additional 5 percentage points until it reaches 100%.
- The remaining balance distributed to municipalities based on the municipality’s qualified loss in proportion to the total qualified loss.

Effectively over time, a municipality’s entire qualified loss (excluding those reimbursed under Tier 1), or current Tier 2 payments, would be reimbursed through the modified acquisition cost formula.

HB 5908 then 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 their qualified loss. Beginning for calendar year 2018, any remaining balance in the local community stabilization share fund would be distributed as follows:

- \$12.0 million to municipalities for fire protection grants.
- The LCSA would distribute the remaining amount as follows in Table 1.

Table 1: HB 5908 - Tier 3 Payments after Fire Protection Grants

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 to each unit based on population and qualified loss as follows in Table 2.

Table 2: HB 5908 Tier 3 Payments to Individual units within each Municipality Type

Calendar Year	Percent Distributed by Population	Percent Distributed by Qualified Loss
2018	10%	90%
2019	20%	80%
2020	30%	70%
2021	40%	60%
2022, 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.

These payments would be made by May 20 of the year following the year the millage is levied. The payment for fire protection grants would be made by November 30 of each year.

Finally, the bill would change the LSCA payment date to counties for the county allocated millage from September 20 of the year the millage is levied to October 20 of the year the millage is levied.

MCL 123.1345 and 123.1357

FISCAL IMPACT:

House Bill 5908 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 losses reimbursed under Tier 1). However, that will begin to change in 2019 as a larger share of the balance each year is distributed based on the modified acquisition cost definition.

Under the bill the modified acquisition cost formula would apply only to an amount equal to the remaining qualified loss after Tier 1 payments rather than the entire remaining LSCA fund balance. However, there is no data with which to estimate the effect this change would have.

House Bill 5908 would change the distribution of payments after all qualified losses are reimbursed to do the following:

- First, allocate an amount equal to \$12.0 million to municipalities for Fire Protection Grants.
- Second, 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).
- Third, distribute funds among individual units of each municipality type so that the formula would depend on both population and qualified losses, with the population factor increasing by 10 percentage points each year. Therefore, after 5 years both population and qualified losses 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 tax year 2017 payments. A detailed unit-by-unit comparison based on actual tax year 2017 payments is available on the HFA web site:

http://www.house.mi.gov/hfa/PDF/Alpha/ppt_redistribution_tables_050718.pdf

Calculations should not be interpreted as estimates of future payments, but rather a comparison of what the changes would have been if the provisions of House Bill 5908 had been in effect for the tax year 2017 distributions.

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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.