



Senate Fiscal Agency
P. O. Box 30036
Lansing, Michigan 48909-7536

BILL ANALYSIS



Telephone: (517) 373-5383
Fax: (517) 373-1986

Senate Bill 970 (Substitute S-1 as reported)
House Bill 5688 (Substitute H-1 as reported by the Committee of the Whole)
House Bill 5705 (Substitute H-1 as reported by the Committee of the Whole)
Sponsor: Senator Bert Johnson (S.B. 970)
Representative Maureen Stapleton (H.B. 5688)
Representative John Walsh (H.B. 5705)
Senate Committee: Government Operations
House Committee: Local, Intergovernmental, and Regional Affairs (H.B. 5688 & 5705)

CONTENT

Senate Bill 970 (S-1) would amend the City Income Tax Act to do the following:

- For a city with a population over 600,000 (Detroit), specify a maximum tax rate of 2.5% on residential individuals and 1.25% on nonresident individuals (the rates that applied until July 1, 2012, when the maximum rate on residents was reduced to 2.4% and the nonresident rate was reduced to 1.2%).
- Discontinue a requirement that Detroit's maximum tax rate be reduced each July 1 by 0.1 until it is 2.0% on resident individuals; and delete provisions allowing the city to apply to the State Administrative Board for certification that the rate not be reduced if specified conditions exist.
- Require the city each year to deposit the revenue collected from 0.2% of the rate levied on residents and 0.1% of the rate levied on nonresidents into the budget for the city's police department, and use it exclusively to retain or hire police officers.
- Require this transfer and use to continue until all bonds, obligations, or other evidence of indebtedness issued by a lighting authority (incorporated under the Municipal Lighting Authority Act) had been fully paid and revenue was no longer being pledged to the lighting authority from taxes levied under the City Utility Users Tax Act.

House Bill 5688 (H-1) would create the "Municipal Lighting Authority Act" to do the following:

- Allow one or more cities, villages, or townships to adopt articles of incorporation by a majority vote of their governing bodies and incorporate an authority for the purpose of acquiring, owning, improving, constructing, operating, or maintaining a lighting system and providing lighting services.
- Provide that a lighting authority would be a public municipal corporation.
- Prohibit an authority from paying net proceeds or profits to its constituent local governments, but permit it to pay them for services provided.
- Require an authority to be governed by a board consisting of five or eight members appointed as provided in the Act (described below).
- Provide that an authority board would be subject to the Open Meetings Act and the Freedom of Information Act.
- Require an authority board to implement a best value supply chain and procurement practice, and report annually to the governing body of each constituent local government.
- Require a board, by March 15 after it was created and then every two years, to prepare a plan for the next three years and submit it to the governing bodies of its constituent local governments.

- Require the plan to include a budget, among other items, and require the budget to provide that any money derived from the collection of rates and charges would be applied and used in the manner and priority set forth in the Act.
- Allow the governing bodies of the constituent local governments to vote to accept or reject the plan, and provide for the plan to be revised and resubmitted if it were rejected.
- Allow an authority, after initial service rates were established and contracts for construction, purchase of power, and related services were executed, to borrow money and issue revenue bonds and notes for the purpose of constructing, acquiring, improving, or extending a lighting system.
- Limit the aggregate principal amount of the bonds and notes at any time to 5% of the total State equalized valuation of the property assessed in the local governments comprising the authority.
- Provide that bonds issued under the Act could not mature more than 30 years from the date of the original issuance.
- Require bonds issued under the Act to be sold to the Michigan Finance Authority.
- Authorize an authority to enter into ancillary facilities (various types of financing or investment agreements) for specified purposes, as it determined necessary or appropriate.
- Allow an authority and any local government to enter into a contract providing for the construction, acquisition, improvement, or extension of a lighting system; and require a contract to provide for the rates and charges for each local government.
- Allow a local government to pledge its full faith and credit for the payment of the obligation and, if it did so, to include in its annual tax levy an amount sufficient to pay the portion of the obligation falling due before the following year's tax collection.
- Provide that the tax could be in addition to any tax that the local government otherwise could levy and could be imposed without limitation, if the local electors had approved the contract or an unlimited tax pledge in support of the contract.
- Allow the contract to provide for other funds to be raised and pledged by each contracting local government by the following methods: the levy of special assessments; the levy and collection of charges to users and beneficiaries of the services furnished by the lighting system; a pledge of revenue that the local government otherwise would receive under the City Utility Users Tax Act; the receipt of money from the imposition of taxes by the State, except as prohibited by the State Constitution; and the receipt of other funds that could be validly used for this purpose.
- Provide that, if an authority issued bonds to be paid from revenue from a contract, a local government could pledge revenue it would receive under the City Utility Users Tax Act to bonds of the authority issued pursuant to the contract, after it first entered into a trust agreement with the authority, the Michigan Finance Authority, and a trustee.
- Provide that a local government could not enter into a contract pledging utility users tax revenue that would result in outstanding bonds secured by the pledged revenue having an aggregate annual debt service that exceeded \$12.5 million in any one year taking into account any anticipated Federal credits.
- Provide that the property of an authority and its income and operations would be exempt from all taxes and special assessments of the State or a political subdivision.
- Provide that an authority could hold, manage, sell, exchange, or lease its property, but if the property came from a constituent local government, the authority could not dispose of it unless the other party to the transaction were the local government.

If an authority had only one local government (other than Detroit) as a member, the authority board would have to consist of three residents of the local government appointed by the chief executive officer and two residents appointed by the governing body of the local government.

If an authority had only one local government as a member, and that local government were Detroit, the board would have to consist of one member appointed by the Governor,

one member appointed by the Governor upon the recommendation of the Senate Majority Leader, one member appointed by the Governor upon the recommendation of the Speaker of the House, and five residents of Detroit appointed by the city's governing body.

If an authority had more than one local government as a member, the board would have to be appointed as provided in the authority's articles of incorporation.

House Bill 5705 (H-1) would amend the City Utility Users Tax Act (which authorizes Detroit to levy a tax of up to 5% on the amount paid for certain utility services and requires the revenue to be used to hire or retain police officers) to do the following:

- Require the city, if it formed a lighting authority, to pay \$12.5 million annually to that authority from the proceeds of the utility users tax.
- Provide that, if the lighting authority issued bonds pursuant to a contract with the city and pledged revenue from the city utility users tax, the revenue would have to be deposited and used as provided in the Act.

All of the bills are tie-barred to each other.

MCL 141.503 (S.B. 970)
141.1152 et al. (H.B. 5705)

Legislative Analyst: Suzanne Lowe

FISCAL IMPACT

Senate Bill 970 (S-1) would increase local income tax revenue in the City of Detroit and restrict the distribution of that revenue. The city's income tax rate was identical to that specified in the bill until July 1, 2012, when the rate was reduced by 0.1 percentage point as required by the Act. The bill would reinstate the rate that had been in effect before July 1, and prevent future reductions. The bill also would require a portion of the revenue generated by the tax to be deposited into the police department budget for the retention or hiring of police officers, rather than being left in the general fund for appropriation to the police department or other departments and expenditures.

The bill would have no impact on State revenue or expenditures.

House Bills 5688 (H-1) and 5705 (H-1) would increase both local unit revenue and expenditures by an unknown amount depending upon the number of communities that created or joined a lighting authority, the operational decisions of the authorities, and the terms of any bonds and/or revenue pledges related to the authorities. House Bill 5705 (H-1) would reduce city utility users tax revenue to the City of Detroit police department budget by approximately \$12.5 million per year and direct it to a lighting authority. House Bill 5688 (H-1) would limit the aggregate annual debt service on any bonds issued by an authority to \$12.5 million. The debt service limit would apply to all lighting authorities, not just an authority associated with the City of Detroit.

The bills would have no impact on State revenue or expenditure.

Date Completed: 8-7-12

Fiscal Analyst: David Zin

Floor\sb970

This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.