



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



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

Senate Bills 821 through 830 (as introduced 2-25-14)

Sponsor: Senator Jack Brandenburg (S.B. 821)
Senator Dave Hildenbrand (S.B. 822)
Senator John Proos (S.B. 823)
Senator John Pappageorge (S.B. 824)
Senator Dave Robertson (S.B. 825)
Senator Mark C. Jansen (S.B. 826)
Senator Steven Bieda (S.B. 827)
Senator Jim Ananich (S.B. 828)
Senator Rebekah Warren (S.B. 829)
Senator Mike Nofs (S.B. 830)

Committee: Finance

Date Completed: 2-26-14

CONTENT

The bills would amend, enact, and replace various statutes to revise legislation that was enacted in 2012 to create tax exemptions for eligible industrial and commercial personal property, and provide mechanisms to replace a portion of the revenue lost by local units of government. Like the enacted legislation, many of the proposed bills would require voter approval of an August 2014 ballot question in order to take effect.

The proposed changes include the following:

- **Raising the annual increases in the amount a local use tax may generate between fiscal year (FY) 2016-15 and FY 2022-23, and extending the years in which the amounts increase to FY 2027-28.**
- **Revising the distribution of local use tax revenue to local units of government.**
- **Levying a State essential services assessment on eligible personal property subject to an exemption.**
- **Levying an alternative State essential services assessment at 50% of the State essential services assessment on eligible personal property exempt from that assessment.**
- **Eliminating a local assessment on industrial and commercial real property for essential services.**

Tables 1 and 2 below outline the legislation enacted in 2012. Table 3 indicates the 2012 legislation that would be amended or replaced by the proposed bills. A brief description of each of the bills follows the tables.

Senate Bill 822, which would amend the Use Tax Act, would have to be submitted to the voters at an election held on the August regular election date in 2014. If approved by a majority of the electors voting on it, the bill would take effect on January 1, 2015. Senate Bills 821, 824, 829, and 830 would not take effect unless the voters approved Senate Bill 822.

Table 1

Personal Property Tax Exemptions Enacted in 2012

Bill	Public Act	Statute Amended	Subject
1069	401	General Property Tax Act – Sec. 9m	Exemption of qualified new personal property
1070	402	General Property Tax Act – Sec. 9o	Exemption for owners of property worth <\$40,000 in a local unit
1071	403	General Property Tax Act – Sec. 9n	Exemption of property subject to taxation for 10 years or more
1065	397	P.A. 198 of 1974	Continuation of current exemptions until new exemption applies
1066	398	Technology Park Development Act	
1067	399	General Property Tax Act	
1068	400	Enterprise Zone Act	

Table 2

Revenue Loss Reimbursement Enacted in 2012

Bill	Public Act	Statute Amended or Created	Subject
6024	406	Local Unit of Government Essential Services Special Assessment Act	Allow special assessment by local unit for essential services
6025	407	Michigan Metropolitan Areas Metropolitan Authority Act	Create the MAMA to levy & distribute local use tax authorized by P.A. 408
6026	408	Use Tax Act	Authorize local use tax & reduce State use tax; place question on August 2014 statewide ballot
6022	404	Metropolitan Extension Telecommunications Rights-of-Way Oversight Act	Transfer duties of METRO Authority to the MAMA

Table 3

2012 Legislation Affected by Proposed Bills

2012 Act	Bill	Change
407	821	Replace Michigan Metropolitan Areas Authority (MAMA) Act with Local Community Stabilization Authority (LCSA) Act
408	822	Increase amounts generated by local use tax & extend years of increase
399	823	Require voter approval of PA 408 or SB 822 for continuation of an exemption
401	823	Exclude utility personal property from eligibility for an exemption
404	824	Transfer duties of METRO Authority to LCSA instead of MAMA
408	825	Require submission of PA 408 to voters unless SB 822 is enacted
401	826	Repeal Sec. 9m of General Property Tax Act (GPTA) if neither PA 408 nor SB 822 is approved by voters
402	827	Repeal Sec. 9o of GPTA if neither PA 408 nor SB 822 is approved by voters
403	828	Repeal Sec. 9n of GPTA if neither PA 408 nor SB 822 is approved by voters
407	829	Repeal Local Unit of Government Essential Services Special Assessment Act; enact State Essential Services Assessment Act
NA	830	Enact Alternative State Essential Services Assessment Act

Senate Bill 821

The bill would repeal the Michigan Metropolitan Areas Metropolitan Authority Act and enact the "Local Community Stabilization Authority Act" to do the following:

- Replace the Metropolitan Areas Metropolitan Authority with the Local Community Stabilization Authority (LCSA).
- Authorize the LCSA to levy the "local community stabilization share" (the local use tax provided for in Senate Bill 822), which would replace the metropolitan areas component tax (the local use tax provided for in Public Act 408 of 2012).
- Require the LCSA to distribute the local community stabilization share to municipalities for the losses described in the bill, according to prescribed calculations.
- Establish reporting requirements for cities and villages, school districts, municipalities that are not school districts, and tax increment finance authorities.
- Retain requirements that the Legislature appropriate, in fiscal year (FY) 2013-14 and FY 2014-15, amounts equal to debt loss or school debt loss, and that the Authority distribute the appropriated funds.

If the voters did not approve Senate Bill 822 at the August 2014 election, the appropriations would still be required.

(Please see the Fiscal Impact statement below for an explanation of the proposed distribution of the local community stabilization share to municipalities.)

Senate Bill 822

The Use Tax Act levies a tax on a person purchasing nonexempt personal property or services. The rate of the tax is 6% of the purchase price. Public Act 408 of 2012 amended the Act (subject to voter approval in the August 2014 election) to provide that the use tax consists of the "state component tax" and a local use tax, called the "metropolitan areas component tax". The local use tax may generate a specified amount of revenue annually, which determines the rate of the local use tax; the rate of the State component tax is determined by subtracting the local rate from 6%.

The bill would amend the provisions enacted by Public Act 408 of 2012 to do the following:

- Replace the metropolitan areas component tax with the "local community stabilization share tax", and replace the "state component tax" with the "state share tax".
- Retain a requirement that the local use tax rate be based on the amount of revenue that it may generate each year, but raise the scheduled annual increases between FY 2015-16 and FY 2022-23, and extend annual increases to FY 2027-28, as shown in [Table 4](#).

Under Public Act 408, for FY 2023-24 and each subsequent fiscal year, the local use tax rate is to be the rate sufficient to generate the amount distributed in the preceding year adjusted by an industrial and commercial personal property growth factor, as calculated by the Department of Treasury. The bill would retain this requirement for the rate beginning in FY 2028-29.

Table 4

Community Stabilization Share Tax Revenue

Fiscal year	Current	Proposed
2015-16	\$41.7 million	\$96.1 million
2016-17	\$257.5 million	\$380.6 million
2017-18	\$277.1 million	\$410.5 million
2018-19	\$293.8 million	\$437.7 million
2019-20	\$311.3 million	\$465.9 million
2020-21	\$326.8 million	\$491.5 million
2021-22	\$345.2 million	\$521.3 million
2022-23	\$362.4 million	\$548.0 million
2023-24		\$561.7 million
2024-25		\$569.8 million
2025-26		\$571.4 million
2026-27		\$572.2 million
2027-28		\$572.6 million

If approved by the voters at the August 2014 election, the bill would take effect on January 1, 2015.

Senate Bill 823

Section 9f of the General Property Tax Act (GPTA) allows an exemption, pursuant to a local resolution, for new personal property that is owned or leased by an eligible business in an eligible local assessing district. Under Section 9f(8), if the property is eligible manufacturing personal property and was exempt on December 31, 2012, it is to remain exempt until it otherwise would be exempt under Section 9m, 9n, or 9o of the Act, unless Public Act 408 is not approved by the voters. Under the bill, the exemption would be discontinued if neither Public Act 408 nor Senate Bill 822 were approved by the voters.

Section 9m of the GPTA allows an exemption for qualified new personal property that is eligible manufacturing personal property. The property must be located on occupied real property that is predominantly used in industrial processing or direct integrated support. The Act specifies that personal property is used in industrial processing if it is not used to generate electricity for sale (and it meets other criteria). Under the bill, the property could not be used to generate, transmit, or distribute electricity for sale, and could not be utility personal property as described in Section 34c(3)(e) of the Act. The bill also provides that utility personal property described in that section would not be used in direct integrated support.

(Section 34c(3) describes classifications of assessable personal property, and subdivision (e) describes what utility personal property includes.)

Senate Bill 824

The bill would amend the Metropolitan Extension Telecommunications Rights-of-Way Oversight (METRO) Act to transfer the responsibilities of the METRO Authority to the proposed Local Community Stabilization Authority (instead of to the Metropolitan Areas Metropolitan Authority).

The bill also would authorize the LCSA to contract with the Department of Licensing and Regulatory Affairs for one or more employees of the Department to assist in exercising the powers, duties, functions, and responsibilities vested in the Authority under the Act.

Senate Bill 825

The bill would amend an enacting section of Public Act 408 of 2012 to require that the Act not be submitted to the voters at the August 2014 election if Senate Bill 822 were enacted and placed on the ballot, and require Public Act 408 to be submitted to the voters (as currently required) if Senate Bill 822 were not enacted.

Senate Bills 826, 827, and 828

The bills would amend enacting sections of Public Acts 401, 402, and 403 of 2012, respectively, to repeal Sections 9m, 9o, and 9n of the General Property Tax Act if neither Public Act 408 of 2012 nor Senate Bill 822 were approved by the voters at the August 2014 election.

(Sections 9m and 9n provide exemptions for industrial and commercial personal property that meets the definition of "eligible manufacturing personal property", beginning December 31, 2015. Section 9m applies to "qualified new personal property" and Section 9n applies to "qualified previously existing personal property".

Under Section 9o, an exemption may be claimed if the combined true cash value of all industrial and commercial personal property in a local tax collecting unit owned by, leased by, or in the possession of the owner or a related entity is less than \$80,000 on December 31 of the preceding year.)

Senate Bill 829

State Essential Services Assessment

The bill would enact the "State Essential Services Assessment Act" to do the following:

- Beginning January 1, 2016, levy the "state essential services assessment" on eligible personal property owned by, leased to, or in the possession of an eligible claimant (a person claiming an exemption for the property).
- Require revenue from the assessment to be credited to the General Fund.
- Require an exemption to be rescinded for an assessment year if an eligible claimant did not submit a completed statement and full payment of the assessment.
- Allow the Michigan Strategic Fund board to exempt eligible personal property from the assessment, if an eligible claimant had a plan to invest at least \$25.0 million in additional eligible personal property in the State.

The assessment amount would be calculated by multiplying the property's acquisition cost (as defined in the bill) by the following:

- 2.4 mills for property purchased by the eligible claimant in a year one to five years before the assessment year.
- 1.25 mills for property purchased by the eligible claimant in a year six to 10 years before the assessment year.
- 0.9 mill for property purchased by the eligible claimant in a year more than 10 years before the assessment year.

"Eligible personal property" would mean all of the following:

- Personal property exempt under Section 9m or 9n of the GPTA.
- Personal property exempt under Section 9f of the GPTA, if the exemption was approved after 2013.
- Personal property subject to an extended exemption under Section 9f(8) of the GPTA.
- Personal property subject to an extended industrial facilities exemption certificate under Section 11a of Public Act 198 of 1974.

(Regarding the last category, if a facility was subject to an industrial facilities exemption certificate on December 31, 2012, the portion of the facility that is eligible manufacturing personal property remains subject to the tax levied under Public Act 198 and exempt from the property tax until it would otherwise be exempt under Section 9m, 9n, or 9o.)

By September 15 in each assessment year, each eligible claimant would have to submit to the Department of Treasury a completed statement for calculation of the assessment and full payment of the assessment. If a claimant failed to do so, the Department or the State Tax Commission, as applicable, would have to rescind the exemption granted for the assessment year.

Exemption

The board of the Michigan Strategic Fund could adopt a resolution to exempt from the assessment all eligible personal property owned by, leased to, or in the possession of an eligible claimant designated in the resolution. The resolution could not be approved if the State Treasurer, or his or her designee to the board, voted against it. An exemption would continue in effect for a period specified in the resolution.

An eligible claimant, or a Next Michigan Development Corporation on behalf of an eligible claimant, could apply for an exemption to the assessment. After receiving an application, the Fund could enter into an agreement with an eligible claimant if the claimant agreed to make certain investments of eligible personal property in this State. An eligible claimant would have to present a business plan or demonstrate that a minimum of \$25.0 million would be invested in additional eligible personal property in the State during the period of the agreement. The Fund board would have to consider specified criteria to the extent reasonably applicable to the type of investment proposed, when approving an exemption.

The Fund board, or the Michigan Economic Development Corporation, could charge actual and reasonable fees for costs associated with administering the activities authorized under these provisions.

Repeal

The bill would repeal the Local Unit of Government Essential Services Special Assessment Act. (The Act authorizes a local unit of government, beginning January 1, 2016, to levy a special assessment on each parcel of industrial real property and commercial real property in the local unit, to defray the cost of essential services equipment, maintenance of the equipment, and the provision of essential services, i.e., ambulance, fire, and police services, and jail operations.)

Senate Bill 830

The bill would enact the "Alternative State Essential Services Assessment Act" to:

- Beginning January 1, 2016, impose the "alternative state essential services assessment" on eligible personal property exempt from the levy imposed by the State Essential Services Assessment Act.

- Provide for the alternative assessment to be 50% of the State essential services assessment.
- Require revenue from the alternative assessment to be credited to the General Fund.
- Require an exemption to be rescinded for an assessment year if an eligible claimant did not submit a completed statement and full payment of the assessment.

MCL 205.93 et al. (S.B. 822)
211.9f & 211.9m (S.B. 823)
484.3102 & 484.3103 (S.B. 824)

Legislative Analyst: Suzanne Lowe

FISCAL IMPACT

Senate Bill 821 would increase expenses to the Department of Treasury, the Local Community Stabilization Authority that would be created by the bill, and local units of government, by an unknown amount. The bill also would provide for the redistribution of revenue collected under Senate Bill 822, as well as other revenue appropriated during FY 2014-15 and FY 2015-16, to local units of government.

During FY 2014-15 and FY 2015-16, revenue distributed by the LCSA would equal either a local unit's debt loss or, in the case of a tax investment finance authority (TIFA), the small taxpayer loss. Beginning in FY 2015-16, revenue would be distributed to local units in a specified priority: 1) school debt loss, 2) losses to intermediate school districts, 3) school district losses not reimbursed by increased payments from the School Aid Fund, 4) losses associated with the provision of essential services, 5) debt loss and certain foregone increases in captured taxable value to TIFAs, and 6) all other reimbursements.

The last category of reimbursements would begin in FY 2015-16. Initially, reimbursements would be proportional to each local unit's share of total qualified losses. Beginning in FY 2017-18, 5% of the revenue would be distributed proportionally based on each local unit's share of industrial real property on which exempt personal property is located. The 5% portion would increase in 5% increments in each subsequent year. By FY 2036-37, all revenue in the last category of reimbursements would be distributed based on the local unit's share of industrial real property on which exempt eligible manufacturing personal property was located.

Based on estimates from the Michigan Department of Treasury, debt loss reimbursements under the bill are estimated to total \$19.3 million both in FY 2014-15 and in FY 2015-16.

Senate Bill 822 would increase local unit revenue and lower State revenue by an equal amount by directing a portion of revenue currently collected by the State to revenue that would be received by the LCSA. Based on estimates from the Department, the bill would increase local unit revenue (reduce State use tax revenue) by approximately \$76.9 million in FY 2015-16. The revenue increase (loss) would grow to \$380.6 million in FY 2016-17 and continue growing approximately \$30.0 million per year through FY 2023-24. By FY 2023-24, the increased local unit revenue (and decreased State revenue) would total approximately \$561.7 million. The revenue impact would continue to increase, but at a slower rate, finally stabilizing at 1.0% annual growth from an FY 2027-28 revenue impact of \$572.6 million.

The revenue increases to local units (and revenue losses to the State) under Senate Bill 822 are specified in statute. While one-third of the current 6% State use tax rate is directed to the School Aid Fund, with the remainder deposited into the General Fund, the bill would require that all of the reduced revenue to the State lower the revenue to the General Fund. The bill also would require any local school district operating or State Education Tax revenue lost as a result of Public Acts 401, 402, or 403 of 2012 be replaced from the State's share of use tax revenue that would otherwise be deposited into the General Fund. Those losses are

estimated to total \$19.9 million in FY 2014-15, and increase to \$30.9 million in FY 2015-16, and \$42.0 million in FY 2016-17. By FY 2027-28, local school operating and State Education Tax losses are estimated to total \$47.1 million. As a result, the total loss of General Fund revenue under the bill would increase from \$107.8 million in FY 2015-16 to \$422.6 million in FY 2016-17 and continue to rise, reaching \$619.7 million in FY 2027-28

Senate Bill 823 would have an indeterminate and likely minimal impact on State and local property tax revenue.

Senate Bill 824 would have no fiscal impact. The changes are substantively the same as those in PA 404 of 2012, except that the name of the authority would be altered.

Senate Bill 825 would have no fiscal impact independent of the other bills. The bill would eliminate the current ballot issue regarding to changes in the Use Tax Act adopted in Public Act 408 of 2012 if Senate Bill 822 were enacted, replacing it with a similar ballot issue.

Senate Bills 826, 827, and 828 also would have no fiscal impact independent of the other bills. The amended sections affect the circumstances under which certain sections of statute may be repealed. The changes would expand the circumstances to reflect the possibility of Senate Bill 822 being adopted. However, although Senate Bill 828 would amend the enacting section of PA 403 of 2012, there is an inconsistent reference on the section that would be repealed under certain circumstances. It is presumed to repeal section 211.9n.

Senate Bill 829 would increase State revenue by levying an assessment on exempt eligible manufacturing personal property. Under certain circumstances, property could be exempted from the assessment. The applicable tax rate would decline, based on how long the taxpayer had owned the property, and would be assessed based on the acquisition cost of the property. The applicable tax rate would decline from 2.4 mills during the first five years the taxpayer owned the property, to 1.25 mills for the next five years, and to 0.9 mills in all later years.

Senate Bill 830 would provide an alternative assessment for property exempt from the assessment levied under Senate Bill 829. The tax rates on affected property would be 50% of those levied under Senate Bill 829.

The assessments under Senate Bills 829 and 830 would not be levied until January 1, 2016, and would generate approximately \$20.0 million in FY 2015-16 and \$73.1 million in FY 2016-17. The revenue generated by the assessments would increase, reaching an estimated \$117.5 million in FY 2027-28. Revenue from the assessments would be directed to the General Fund.

Senate Bill 821, and Senate Bills 823 through 830, are, in effect, tie-barred to Senate Bill 822, which would place the question of the creating the local use tax before the voters in the August 2014 election. If Senate Bill 822 were not enacted and approved by the voters, the bills would have no impact.

The bills generally would amend provisions enacted in 2012, which were estimated to affect State and local unit revenue beginning in FY 2013-14. For example, the increases in local unit revenue and decreases in State revenue in Senate Bill 822 are substantively similar to provisions already enacted in 2012. As a result, the impact of the bills relative to current law is much less than the impact of the bills relative to historical revenue flows or absent the 2012 legislation. Compared to the 2012 legislation (which is current law, assuming approval of the ballot question in some cases), and based on estimates from the Department of Treasury, the bills would reduce State General Fund revenue by \$34.4 million in FY 2015-16 and \$44.9 million in FY 2016-17. The losses would increase in later years,

reaching \$76.1 million in FY 2022-23 and \$81.9 million in FY 2027-28. For local units, the bills would increase local unit revenue compared to the 2012 legislation, but leave local unit revenue relatively unchanged compared to revenue before the provisions of the 2012 public acts take effect. Compared to current law, the bills would provide local units with approximately \$19.3 million more revenue in FY 2014-15, \$45.1 million more in FY 2015-16, and \$21.1 million more in FY 2016-17. After FY 2016-17, the increase in revenue relative to current law would increase, reaching \$88.2 million in FY 2022-23 and \$111.0 million in FY 2027-28.

The attached table shows the fiscal impact of select aspects of the bills

Fiscal Analyst: David Zin

S1314\821sa

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.

Estimated Impact of Senate Bills 821 Through 830, As Introduced
(millions of dollars)

	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18	...	FY 2022-23	...	FY 2027-28
Revenue Loss from Exemptions (Current law)									
Total Local Unit Loss	\$0.0	(\$19.3)	(\$96.2)	(\$372.3)	(\$400.7)	...	(\$531.9)	...	(\$556.2)
SET/School Operating Loss	(\$9.9)	(\$19.9)	(\$30.9)	(\$42.0)	(\$42.4)	...	(\$44.7)	...	(\$47.1)
Total Loss	(\$9.9)	(\$39.2)	(\$127.1)	(\$414.3)	(\$443.1)	...	(\$576.6)	...	(\$603.3)
State Budget Impact									
Revenue Losses									
Local Unit Reimbursements	\$0.0	(\$19.3)	(\$115.4)	(\$380.6)	(\$410.5)	...	(\$548.0)	...	(\$572.6)
School Aid Fund Reimbursement	(\$9.9)	(\$19.9)	(\$30.9)	(\$42.0)	(\$42.4)	...	(\$44.7)	...	(\$47.1)
Total Losses	(\$9.9)	(\$39.2)	(\$146.3)	(\$422.6)	(\$452.9)	...	(\$592.7)	...	(\$619.7)
State Essential Services Assessment	\$0.0	\$0.0	\$20.0	\$73.1	\$79.2	...	\$109.6	...	\$117.5
Net State Impact (General Fund)	(\$9.9)	(\$39.2)	(\$126.3)	(\$349.5)	(\$373.7)	...	(\$483.1)	...	(\$502.2)
Addendum: Change from Current Law									
Local Unit Revenue	\$0.0	\$19.3	\$45.1	\$21.1	\$32.7	...	\$88.2	...	\$111.0
State Budget Impact	\$0.0	\$0.0	(\$34.4)	(\$49.9)	(\$54.2)	...	(\$76.1)	...	(\$81.9)

Source: Office of Revenue and Tax Analysis, Michigan Department of Treasury