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House Bill 4553 (as passed by the House)
House Bill 4554 (Substitute H-1 as passed by the House)
Sponsor: Representative John Fitzgerald (H.B. 4553)
Representative Denise Mentzer (H.B. 4554)
House Committee: Tax Policy
Senate Committee: Committee of the Whole

Date Completed: 10-11-23

CONTENT

House Bill 4553 would amend the Michigan Trust Fund Act to create the "Local Government Reimbursement Fund" and provide for the disposition of money from the Fund.

House Bill 4554 (H-1) would amend the Use Tax Act to specify that, on or before October 1, 2023, and each October 1 after that, from the money received and collected under the Act for the State share, \$75.0 million would have to be deposited annually into the Local Government Reimbursement Fund.

House Bill 4553 and House Bill 4554 are tie-barred. Each bill is also tie-barred to Senate Bill 331 which would amend the General Property Tax Act to continue the exemption on eligible personal property with a combined true cash value below \$80,000 and create an exemption on eligible personal property valued at greater than \$80,000 and less than \$180,000 for an owner that met certain conditions. Senate Bill 331 would increase, from 1.0% to 1.25% the interest rate payable on an additional or supplemental tax bill resulting from the rescission of an exemption on eligible personal property.

House Bill 4553 is described in greater detail below.

House Bill 4553

The bill would create the Local Government Reimbursement Fund in the State Treasury. The State Treasurer would have to deposit money and assets received under Section 21(7) of the Use Tax Act (see House Bill 4554), or from any other source in the Fund. The State Treasurer would have to direct the investment of money in the Fund and credit to it interest and earnings from its investments. Money in the Fund at the close of the fiscal year would remain in the Fund and would not lapse to the General Fund. The Department of Treasury would be the administrator of the Local Government Reimbursement Fund for audits.

The Department would have to spend money from the Fund, upon appropriation, only for the purpose of compensating municipalities. On or before May 31, 2024, and on or before each subsequent May 31, the Department would have to compensate municipalities for the revenue lost during the immediately preceding fiscal year because of exemptions claimed under Section 9o(2)(b) of the General Property Tax Act, as determined by the Department. If the money in the Fund were insufficient to fully compensate all municipalities that lost revenue, payments from the Fund would have to be prorated on an equal basis among those municipalities.

(Senate Bill 331, generally described above, would add property tax exemption under Section 9o(2)(b).)

"Municipality" would mean that term as defined in Section 5 of the Local Community Stabilization Authority Act: the term includes counties, cities, villages, townships, local authorities, local school districts, intermediate school districts, community college districts, libraries, tax increment finance authorities, and other local and intergovernmental taxing units.

MCL 12.252 et al. (H.B. 4553)
205.111 (H.B. 4554)

Legislative Analyst: Eleni Lionas

PREVIOUS LEGISLATION

(This section does not provide a comprehensive account of previous legislative efforts on this subject matter.)

Senate Bill 311, House Bill 4553, and House Bill 4554 are reintroductions of Senate Bills 1060, 1061, and 1062, respectively, of the 2021-2022 Legislative Session. The Senate package passed the Senate and was discharged from the House Committee on Tax policy but received no further action.

FISCAL IMPACT

Beginning fiscal year (FY) 2023-24, the bills would reduce State General Fund revenue by \$75.0 million per year, increase revenue to the Local Government Reimbursement Fund by the same amount, and increase local unit revenue by any amount appropriated from the Local Government Reimbursement Fund. The bill would also change the distribution of payments made by the Local Community Stabilization Authority (LCSA) to local units, with the most notable changes being that through 2031 (when the LCSA distribution formulas finish phasing into a distribution based on the acquisition cost of eligible personal property) that some local units could be reimbursed twice for certain property tax losses while other local units would receive lower payments than under current law.

The bills contain language that make it difficult to determine how the changes would be implemented. For example, House Bill 4553 indicates expenditures from the Local Government Reimbursement Fund would be subject to appropriation and if the Fund balance were insufficient to compensate all municipalities, the payments would be prorated; however, the appropriation could be less than the Fund balance and the bill would not authorize the Department of Treasury to prorate the payments under that circumstance. Essentially, the bill only requires proration based on the sufficiency of the Fund balance, not on the sufficiency of the appropriation. As a result, aggregate reimbursements calculated under the bill could exceed the amount appropriated. Similarly, although Section 9o of the General Property Tax Act would require local tax collecting units to submit information to Treasury necessary to compute payments, House Bill 4553 indicates payments would have to be made to individual municipalities rather than local tax collecting units. Neither bill indicates how the Department or local units would calculate lost revenue.

Because the bills would not alter the calculation formulas administered by the LCSA for calculating payments for personal property tax exemptions, the bills would create situations in which some local units effectively would be reimbursed twice for revenue losses attributable to Section 9o(2)(b) while other local units would lose revenue that they otherwise would receive from the LCSA. Payments from the LCSA are calculated based on a variety of factors, including each local unit's total taxable value relative to either 2013 and/or 2015. The formulas also calculate payments relative to certain statewide totals. The exemption in 9o(2)(b) would lower the taxable values in some local units, and those local units are already

receiving greater payments from the LCSA as a result of the exemption, partially or entirely duplicating the reimbursements the local units would receive under House Bill 4553. For local units without exempt property under 9o(2)(b), because the LCSA payments are made relative to statewide total, those units would have a smaller relative loss and would receive less in LCSA payments relative to current law. These skews in payments to local units would continue until the LCSA finishes phasing in a new distribution formula in 2031.

Because payments under House Bill 4553 would be subject to appropriation, the possibility exists that an appropriation could be less than either total reimbursement claims, the \$75.0 million earmark under House Bill 4554, and/or the balance in the Fund. The bill does not address a situation in which required reimbursements are less than \$75.0 million and presumably the excess would remain in the Local Government Reimbursement Fund indefinitely; however, though a balance in the Fund would not automatically lapse to the General Fund, a balance could be transferred to the General Fund or other funds under a legislative transfer.

Fiscal Analyst: David Zin
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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.