Senate Fiscal Agency
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BILL ANALYSIS

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Senate Bills 590 through 593 (as introduced 9-27-17)
Sponsor: Senator Jim Stamas (S.B. 590 & 591)
Senator Mike Shirkey (S.B. 592 & 593)
Committee: Finance

Date Completed: 10-3-17

CONTENT

Senate Bills 590, 591, and 592 would amend the Charter Township Act, the General Law Village Act, and the Home Rule Village Act, respectively, to revise the computation of a township's or village's net indebtedness, which may not exceed 10% of the assessed value of all real and personal property in the township or village. Under the bills, an amount equal to the assessed value equivalent of certain revenue could be added to the assessed value of real and personal property of a township or village. Specifically, the assessed value equivalent would be the sum of revenue sharing payments, reimbursement under the Local Community Stabilization Authority (LCSA) Act, and certain specific taxes, divided by the township's or village's millage rate.

Senate Bill 593 would amend the Home Rule City Act, which also limits a city's net indebtedness to 10% of the assessed value of all real and personal property in the city, and currently allows the assessed value equivalent of certain revenue to be added to the assessed value of the property. The bill would include reimbursement under the LCSA Act in the computation of assessed value equivalent.

Each of the bills would take effect 90 days after it was enacted.

Senate Bills 590, 591, and 592

The Charter Township Act authorizes the incorporation of charter townships, and prescribes their powers and functions. A township may borrow money and issue bonds on the credit of the township for the purpose of constructing or otherwise acquiring a public improvement that the township is authorized to construct or otherwise acquire by law. The net indebtedness of the township incurred for all public purposes may not exceed 10% of the assessed value of all real and personal property in the township.

The General Law Village Act provides for the government of certain villages, and defines their powers and duties, including the levy and collection of taxes, borrowing money, and issuing bonds. The amount of indebtedness incurred by the issue of bonds or otherwise, including existing indebtedness, must not exceed 10% of the assessed value of the real and personal property within the village subject to taxation as shown by its last assessment roll.

The Home Rule Village Act provides for the incorporation of villages, the revision of their charters, and the levy and collection of taxes, borrowing of money, and issuance of bonds. A home rule village is prohibited from incurring indebtedness by the issue of bonds, or otherwise, in a sum that, including existing indebtedness, exceeds 10% of the assessed value of the real and personal property within the village subject to taxation, as shown by its last assessment roll.

Under each Act, in the computation of net indebtedness, revenue bonds, bonds issued in anticipation of the collection of special assessments, bonds issued for water supply, sewerage, drainage, and similar purposes, and various other types of bonds are deducted.

Under Senate Bills 590, 591, and 592, in computing the indebtedness or net indebtedness of a charter township, general law village, or home rule village, respectively, there could be added to the assessed value of real and personal property in the township or village for a fiscal year an amount equal to the assessed value equivalent of certain township or village revenue as determined under the bills. The assessed value equivalent would have to be calculated by dividing the sum of the following amounts by the township's or village's millage rate for the fiscal year:

-- The amount paid or the estimated amount required to be paid by the State to the township or village during the township's or village's fiscal year for its use under the State Revenue Sharing Act, and the amount of any eligible reimbursement to the township or village under the Local Community Stabilization Authority Act, except any amount distributed under Section 17(4)(c) of the Act in excess of the township's qualified loss, which amounts the Department of Treasury would have to certify on request.
-- The amount levied by the township or village for its own use during its fiscal year from the specific tax levied under the plant rehabilitation and industrial development Act.
-- The amount levied by the township or village for its own use during its fiscal year from the specific tax levied under the Commercial Redevelopment Act.

(The LCSA Act provides for the levy of the local community stabilization share tax and the distribution of that revenue to municipalities (including cities, villages, and townships). The local community stabilization share tax is the local share of the total use tax levied under State law. Section 17(4) of the Act specifies the order of priority for distribution of the local community stabilization share revenue. Under subsection (4)(c), the balance of the Local Community Stabilization Share Fund remaining after the prioritized distributions must be distributed to a municipality based on the ratio of its qualified loss to total qualified loss. "Qualified loss" refers to revenue lost due to certain personal property tax exemptions that is not reimbursed under the distribution requirement.)

Senate Bill 593

The Home Rule City Act provides for the incorporation of cities, the revision their charters, and the levy and collection of taxes, borrowing money, and issuance of bonds. A home rule city is prohibited from incurring a net indebtedness for all public purposes that exceeds anything greater than 10% of the assessed value of all the real and personal property in the city, or 15% of the assessed value of all the real and personal property in the city if the portion of the total amount of indebtedness incurred that exceeds 10% is or has been used solely for the construction or renovation of hospital facilities. In the computation of net indebtedness, various bonds and obligations must be excluded.

In computing the net indebtedness for the purposes described above, there may be added to the assessed value of real and personal property in a city for a fiscal year an amount equal to the assessed value equivalent of certain city revenue as determined under the Act. The assessed value equivalent must be calculated by dividing the sum of the following amounts by the city's millage rate for the fiscal year:

-- The amount levied by the city for its own use during its fiscal year from the specific tax levied under the plant rehabilitation and industrial development Act.
-- The amount levied by the city for its own use during its fiscal year from the specific tax levied under the Commercial Redevelopment Act.

The assessed value equivalent also must be calculated by dividing the sum of the above amounts and the amount paid or the estimated amount required to be paid by the State to the city during the city's fiscal year for its use under the State Revenue Sharing Act by the city's millage rate for the fiscal year, which amounts the Department of Treasury must certify upon request. The bill would add to the amounts listed above the amount of any eligible reimbursement to the city under the Local Community Stabilization Authority Act, except any amount distributed under Section 17(4)(c) of the Act in excess of the city's qualified loss.

MCL 42.14a (S.B. 590)
69.22 (S.B. 591)
78.26 (S.B. 592)
117.4a (S.B. 593)

Legislative Analyst: Drew Krogulecki

FISCAL IMPACT

The alternative calculation of net indebtedness included in the bills would not have any direct impact on the cost or revenue of eligible local governments. However, eligible local units that chose to use the proposed options in the calculation would have the opportunity to issue more debt than would be permitted under current law. The amount of the increase in the debt limit would vary by local government and the determination to issue additional debt and the amount of that debt would remain with each individual local unit.

Home rule cities, charter townships, and general law and home rule villages would be permitted to include the assessed value equivalent of payments of up to 100% of qualified loss (from eligible exemptions of personal property) from the Local Community Stabilization Authority. This would provide an approximate replacement in the net indebtedness calculation for the assessed value declines experienced by local governments due to personal property tax reform, which reduced the amount of small taxpayer personal property and eligible manufacturing personal property that are subject to property taxation. Local Community Stabilization Authority payments are established in statute and funded by the local share of the use tax. In FY 2016-17, the Local Community Stabilization Authority payments to all cities, villages, and townships for up to 100% of qualified loss totaled $92.2 million.

For charter townships and general and home rule villages, the bills also would allow the consideration of the assessed value equivalent of revenue sharing payments under the Glenn Steil State Revenue Sharing Act. Constitutional revenue sharing of 15% of revenue from the sales tax levied at a 4% rate is paid annually to each city, village, and township on a per capita basis pursuant to the constitutional requirement. Nonconstitutional revenue sharing payments to eligible cities, villages, and townships are determined each year as part of the State budget. In addition, local revenue collected from the specific taxes levied by plant rehabilitation and industrial development districts and under the Commercial Redevelopment Act could be converted to an assessed value and included in the calculation of net indebtedness. Home rule cities currently are authorized to include this revenue in the net indebtedness calculation.

Fiscal Analyst: Elizabeth Pratt

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