CRC Memorandum

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Statewide Ballot Issues: Proposal 2014-1

Voter Approval of a New Statewide Local Tax to Reimburse Local Governments for PPT Reforms

In Brief

One of the long-standing goals of the state's business community has been the exemption of personal property from the property tax base. Advocates of a personal property tax (PPT) repeal have pointed to what they see as the heavy disincentives on investment that arise from Michigan's tax on commercial and industrial personal property. Because the tax is assessed on the taxable value of productive business assets such as business equipment and machinery, it is argued that the tax results in a decreased return on business investment, discouraging business expansions and the job creation that often comes with those expansions. Some have also argued that it is unfair to tax businesses both at the point of sale (through the sales tax) when new personal property is first purchased and then again on an annual basis through the personal property tax levy.

For state policymakers, efforts to enact PPT reforms have been hampered by the need to address a critical concern: the replacement of existing local government revenue generated by the tax. The PPT generates significant revenues for local governments, particularly those with a strong industrial and manufacturing base in their local economies. Crafting a solution to this revenue concern has been further complicated by the strained fiscal relationship between the state and local units of government.

Through two rounds of legislative decision-making in both 2012 and 2014, the state Legislature and Governor succeeded in enacting reforms that bring significant personal property tax relief to Michigan businesses. In an effort to allay concerns of local government officials regarding reimbursement for lost revenues, a compromise was reached among state policymakers, local government associations, and business representatives. As part of this agreement, Public Act 80 of 2014 redirects a portion of the state's current use tax to create a new local tax. The revenues of this new tax would be distributed to local governments as reimbursement for lost PPT revenues. Both the levying of the new tax and the reimbursement of revenues to local governments would be the responsibility of a new special authority created under Public Act 86 of 2014. The special authority is ostensibly considered a local government under authority contained in Article VII, Section 27 of the 1963 Michigan Constitution.

Public Act 80 requires a statewide vote of the electorate to approve the conversion of a portion of the state's use tax to this new local tax and includes the specific summary language to be used on the August ballot. While the legislature did not include any specific guidance as to why the statewide vote requirement was included, it is linked to requirements in Article IX, Section 31 of the Constitution, which requires voter approval for any new taxes levied by local units of government. Because the law creates a new local tax out of the state use tax, voter approval is required. This makes Proposal 2014-1 very unique when compared with prior statewide ballot questions as it derives not out of constitutional provisions related to state government, but out of constitutional provisions that relate to local governments.

On August 5, 2014, Michigan voters will be asked to approve the provisions of Public Act 80 that redirect part of the current state use tax to this new local tax. Because the remaining components of the PPT reform package were "tie-barred" to Public Act 80, the August vote effectively becomes a referendum on the entire package of reforms. If the ballot question is approved by voters, the personal property tax reforms will go forward, with local revenue

CITIZENS RESEARCH COUNCIL OF MICHIGAN
Daniel H. Krichbaum, President Eric W. Lupher, Research Director
MAIN OFFICE 38777 Six Mile Road, Suite 208 • Livonia, MI 48152-3974 • 734-542-8001 • Fax 734-542-8004
LANSING OFFICE 115 West Allegan, Suite 480 • Lansing, MI 48933-1738 • 517-485-9444
CRCMICH.ORG

PROPOSAL 2014-1

APPROVAL OR DISAPPROVAL OF AMENDATORY ACT TO REDUCE STATE USE TAX AND REPLACE WITH A LOCAL COMMUNITY STABILIZATION SHARE TO MODERNIZE THE TAX SYSTEM TO HELP SMALL BUSINESSES GROW AND CREATE JOBS

The amendatory act adopted by the Legislature would:

1. Reduce the state use tax and replace with a local community stabilization share of the tax for the purpose of modernizing the tax system to help small businesses grow and create jobs in Michigan.
2. Require Local Community Stabilization Authority to provide revenue to local governments dedicated for local purposes, including police safety, fire protection, and ambulance emergency services.
3. Increase portion of state use tax dedicated for aid to local school districts.
4. Prohibit Authority from increasing taxes.
5. Prohibit total use tax rate from exceeding existing constitutional 6% limitation.

Should this law be approved?

reimbursement implemented as prescribed in the 2014 legislation. If the measure fails, all provisions of the personal property tax reforms will be repealed effective for tax year 2015, meaning that all businesses would once again be subject to any relevant tax levies on personal property.

Local Community Stabilization Share Tax

To finance the reimbursement to local units of government for lost PPT revenues, Public Act 80 of 2014 calls for the state's current use tax to be split into two distinct new taxes: (1) a local community stabilization share tax to be levied by a newly created Local Community Stabilization Authority; and (2) a state share tax which would continue to be levied by the state, with revenues used for state purposes. The local share tax is defined as a local tax, not a state tax, with revenue credited to the new authority. It is important to note, however, that Public Act 80 does not alter the total 6 percent rate charged under the use tax. The combined state share and local community stabilization share of the use tax will not exceed the 6 percent rate of the current use tax.

The tax rate of the local community stabilization share would be calculated annually by the Michigan Department of Treasury to equal the rate necessary to generate specific revenue targets contained in the legislation. These targets are based on estimates of the amounts needed to reimburse local governments for PPT revenue losses. This local share component will be levied at a rate sufficient to generate $96.1 million in FY2016 and $380.6 million in FY2017, with revenue growing over time and eventually reaching $572.6 million in FY2028. After FY2028, the revenue target would be adjusted by an annual 1 percent growth factor. The state share tax rate would then be the current 6 percent use tax rate minus the calculated local community stabilization share rate.

As background, the state's current 6 percent use tax rate was generated in two stages. A base rate of 4 percent took effect in 1960 when both the sales and use taxes were raised from the 3 percent rates that had existed since the taxes were first established in 1937. As part of the Proposal A school finance reforms in 1994, an additional use tax rate of 2 percent was established. The revenue generated from the 4 percent base rate is deposited in the General Fund, while the revenue from the additional 2 percent rate is constitutionally dedicated to the School Aid Fund.

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The disposition of the new local share and state share taxes are linked to this historical rate structure. The use tax's additional 2 percent allocation to the School Aid Fund approved by voters as part of Proposal A would be unaffected by the PPT-related changes. All of the funds redirected to the local community stabilization share tax would come out of revenues generated from the 4 percent base use tax rate that currently accrue to the General Fund. The General Fund would continue to receive state share tax revenue generated from the remaining tax at the 4 percent rate after deducting the effective local share rate.

Because the reforms don't alter the overall use tax rate, they will largely be invisible to taxpayers. However, the conversion of a portion of the state use tax to a local tax creates the need to comply with certain constitutional provisions (popularly referred to as the "Headlee Amendment") added in 1978 and designed to the limit a local government's ability to levy additional taxes without a popular vote. Section 31 of Article IX of the Michigan Constitution begins:

> Units of Local Government are hereby prohibited from levying any tax not authorized by law or charter when this section is ratified or from increasing the rate of an existing tax above that rate authorized by law or charter when this section is ratified, without the approval of a majority of the qualified electors of that unit of Local Government voting thereon…

While the local community stabilization share tax is a component of the existing use tax, the use tax is a state tax. As noted, the local share component would become a new local tax. The use tax was already "authorized by law" in 1978 when the Headlee Amendment was ratified, but the new local share tax clearly was not. The local community stabilization share tax is essentially a new local tax, therefore voter approval is required under Article XI, Section 31. And since the local unit of government in this instance encompasses the entire state, a statewide vote is needed to authorize this tax.

Local Community Stabilization Authority

Another important element of the plan to reimburse local governments is the creation of a new Local Community Stabilization Authority (LCSA). The authority is established in Public Act 86 of 2014 and is considered a local unit of government, with the act specifically declaring that the authority is "not an agency or instrumentality of state government". The LCSA is established under authority granted in Article VII, Section 27 of the Michigan Constitution, which reads in part:

> …the legislature may establish in metropolitan areas additional forms of government or authorities with powers, duties and jurisdictions as the legislature shall provide.

Although defined as a local unit of government established under this constitutional authority, the LCSA will be quite distinct when compared to what an average citizen might consider a local unit of government. Its boundaries will be the same as those of the state as a whole – essentially making the LCSA a statewide local unit of government. As with other local governments, the LCSA will have a governing body made up of a five-member authority council. However, council members will be appointed by the governor, rather than popularly elected by voters within its jurisdiction. The LCSA will have taxing authority. However, while most local taxes are expressed as a percentage or millage readily understandable to a taxpayer, the LCSA's local community stabilization share tax rate, as noted above, is determined through a calculation by the Michigan Department of Treasury in accordance with statutory guidelines. Finally, the LCSA will exist to fulfill two specific purposes: (1) to administer the distribution of local community stabilization share tax revenues to local governments; and (2) to exercise the powers and duties of the former Metropolitan Extension Telecommunications Right-of-Way Oversight Authority, which was established in 2002 to streamline the permitting processes involved with acquiring rights-of-way to facilitate expanded telecommunications services. This latter function was transferred to the LCSA as part of the PPT legislation.

Despite how it is defined in the legislation, the LCSA may look to an average citizen more like a component of state government that will receive a dedicated portion of state use tax revenues for distribution to local units of government. The unusual nature of both the LCSA and the local community stabilization

share tax seems to be driven by the need to assure local government officials that promised state reimbursement for PPT losses will actually be realized. Through the creation of a local tax with proceeds distributed by a unique statewide local authority, the legislation provides some limited protections for those concerned that revenues dedicated for reimbursement will be diverted for other purposes by future legislative action. For instance, revenues from the local share tax would be deposited directly with the LCSA, not with the state. Further, the revenues would not be subject to the annual state appropriations process because they are local revenues accruing to and distributed by a local authority. This arrangement does not, however, prevent a future legislature from making changes directly to the authorizing statutes to accomplish this goal, so these protections are not fail-safe.

Background on the Personal Property Tax

Michigan's local governments are highly dependent upon property taxes as a source of revenue to finance local public services. For tax year 2012, local units of government generated just over $10.9 billion in revenue from levies authorized under the state's General Property Tax Act.[1] Property tax millages are levied on the taxable value[2] of both real property (e.g. land, buildings) and personal property (e.g. equipment, furniture, other movable fixtures), and both real and personal property are further categorized in accordance with their use as agricultural, residential, commercial, industrial, or utility property. These designations impact their tax treatment in some instances. Personal property that sits on agricultural and residential real property is completely exempt from taxation, while industrial personal property is exempt from the State Education Tax and from up to 18 mills of local school operating millages. Commercial personal property is exempt from up to 12 mills of local school operating millages.

Department of Treasury reports suggest that the aggregate statewide taxable value of all commercial and industrial personal property exceeded $22 billion in tax year 2013, representing about 7 percent of the total taxable value of all real and personal property statewide.[3] While this represents only a small share of the total property tax base, levies on commercial and industrial personal property still result in significant revenues. A 2011 Senate Fiscal Agency memo

Historical Changes to the Property Tax Base

The PPT reforms enacted in 2012 and 2014 represent a significant new exemption of personal property from the property tax base. However, this is not the first example of changes made in state law that have significantly redefined this tax base. Nor is it the first time the state has created new taxes to offset the local impact of related revenue losses.

In 1939, the state exempted intangible property (e.g. stocks, bonds) from the property tax base, and at the same time created the Michigan Intangibles Tax as a specific tax levied by the state. Two-thirds of the revenue from the tax in its original form was dedicated to municipalities on a per-capita basis to offset property tax revenue losses.[a] Then in 1975, the state exempted inventory property from the property tax base as part of legislation creating the state's Single Business Tax. In this case, a portion of SBT revenues were dedicated to local revenue sharing with distribution based in part on the calculated loss to each local unit from this new inventory exemption.

In both cases, these initial "hold harmless" provisions were diminished over time. Eventually, both allocations were rolled into the state's statutory revenue sharing program, with allocations based on sales tax collections. Budget challenges through the first decade of the new millennium led to significant reductions in statutory revenue sharing below the sales tax-based formula allocations. In FY2012, the program was replaced by a new Economic Vitality Incentive Program, which provides revenue sharing payments to a qualified subset of municipalities at levels significantly below the amounts prescribed under the prior statutory formulas. These revenue sharing reductions have strained the fiscal relationship between local units of government and the state, and these tensions have contributed to the difficulties in reaching agreement on reimbursement for these latest efforts at PPT reform.

[a] See Citizens Research Council, The Taxation of Intangible Personal Property in Michigan, Memo No. 192-3, March 1958 for a summary of the early history of the Michigan Intangibles Tax.

estimated that property taxes paid on commercial and industrial personal property totaled over $844 million, including $57 million generated by the State Education Tax for the benefit of the state's School Aid Fund and around $787 million resulting from local operating and debt millages levied by counties, municipalities, school districts, and community colleges.[4]

While revenues from the taxation of commercial and industrial personal property are significant on the whole for local governments, their level of significance varies dramatically across individual units of government. For about one-third of all municipalities in the state, the taxable value of commercial and industrial personal property within the unit represents 1 percent or less of the unit's total taxable value of all property. Other units, however, rely very heavily on the revenue generated from taxing these categories of personal property. **Table 1** lists the 30 municipalities in Michigan with the highest percentages of total taxable value attributable to commercial and industrial personal property. All of these top 30 communities derive at least 30 percent of their total taxable value from the presence of commercial and industrial personal property.

The list includes a diverse group of communities. Both townships and cities are represented, as are communities in both urban and rural areas of the state. The municipalities are also geographically dispersed, with the list including communities in Metro Detroit, Southwest Michigan, the Mid-Michigan counties, the Thumb region, and one community from the Northern Lower Peninsula. The one common thread among the communities, whether large or small, is that they have a relatively high manufacturing and industrial base within the local economy, often because one or more major employers are involved in manufacturing. Given the significance of commercial and industrial personal property within their property tax bases, these communities and others that are similarly situated – as well as the overlapping counties, community college districts, and school districts – would bear the brunt of the revenue losses that would come with any personal property tax repeal.

Table 1
Reliance on Commercial and Industrial Personal Property: Municipalities with Highest Share of Commercial and Industrial Personal Property as Percentage of Total Taxable Value of All Property

		2013 Taxable Value		
Local Unit Name	County	Commercial & Industrial Personal Property	All Property	Percent of All Property
City of Carson City	Montcalm	$55,494,863	$78,192,460	70.97%
Riverton Township	Mason	88,859,100	128,774,319	69.00
Gilford Township	Tuscola	91,721,350	139,286,782	65.85
North Star Township	Gratiot	60,679,800	97,955,446	61.95
Minden Township	Sanilac	43,933,100	71,330,288	61.59
Wheeler Township	Gratiot	93,227,500	164,448,906	56.69
Delaware Township	Sanilac	69,294,249	124,215,209	55.79
Bethany Township	Gratiot	74,338,200	139,664,201	53.23
Chandler Township	Huron	40,887,300	78,037,426	52.39
Emerson Township	Gratiot	36,902,000	72,081,394	51.19
Sigel Township	Huron	38,703,700	76,535,401	50.57
Hamilton Township	Gratiot	12,971,400	25,726,064	50.42
Covert Township	Van Buren	349,263,800	697,368,243	50.08
Bloomfield Township	Huron	26,460,600	57,300,952	46.18
City of Litchfield	Hillsdale	21,108,665	45,847,010	46.04
McKinley Township	Huron	24,369,400	53,103,689	45.89
Chandler Township	Charlevoix	8,778,989	20,390,496	43.05
City of Ecorse	Wayne	93,502,600	223,835,405	41.77
City of Holland	Allegan	184,200,600	446,484,508	41.26
Richland Township	Missaukee	32,986,800	83,225,154	39.64
City of River Rouge	Wayne	123,838,847	326,175,641	37.97
City of Whitehall	Muskegon	47,660,900	128,598,199	37.06
Wells Township	Delta	84,772,800	234,071,187	36.22
City of Three Rivers	Saint Joseph	76,083,900	211,080,050	36.05
City of Milan	Monroe	26,010,794	74,663,833	34.84
Oliver Township	Huron	33,752,900	98,578,749	34.24
Buena Vista Township	Saginaw	77,973,600	229,623,987	33.96
City of Harbor Beach	Huron	22,677,200	70,136,137	32.33
City of Midland	Midland	733,148,700	2,321,355,878	31.58
City of Fremont	Newaygo	51,541,100	165,926,244	31.06

Source: Department of Treasury, 2013 State of Michigan Taxable Value Detail Report

Overview of Personal Property Tax Exemptions

The key provisions regarding the actual phase-out of business personal property taxes were included in a legislative package enacted in 2012.[5] The legislation phases out taxation on all industrial personal property and a portion of commercial personal property over the 10-year period between 2014 and 2023. Personal property taxes owed by smaller personal property holders *who file for the exemption* are eliminated immediately under the package, while larger personal property holders with eligible property will see a gradual reduction in their tax liability.

Exemption for Small Personal Property Holders

Businesses with total personal property, regardless of its designation as commercial or industrial, valued at $80,000 or less (i.e., $40,000 or less of taxable value) in a particular tax collecting unit (e.g. township, county, school district) may file to have their personal property tax liability to that particular unit for any commercial or industrial personal property eliminated effective beginning January 1, 2014 for the current 2014 tax year.

The structure of the exemption also creates a "cliff" effect for taxpayers. A business with relevant personal property valued at $79,999 in a specific tax collecting unit would have no personal property tax liability in that unit for this property. However, a business with personal property valued at $80,001 in the tax collecting unit would be responsible for paying all property tax levies on the personal property.

Finally, it should be noted that business taxpayers are required to file an annual affidavit with their local assessor in order to claim the small property holder exemption by February 10 of each year. They are also required to maintain books and records for four years after filing the affidavit.

Personal Property Used in Industrial Processing

Beyond the exemption for small personal property holders, liability for personal property taxes for businesses that exceed this threshold is phased out for all industrial personal property as well as for certain commercial personal property that is used predominantly in industrial processing or in "direct integrated support,"[6] which includes functions such as research and development, engineering, testing, or storage. Beginning in tax year 2016 and continuing thereafter, property taxes will not apply to:

- all new industrial personal property and eligible commercial personal property that was purchased and placed into service during or after 2013; and
- any industrial personal property and any eligible commercial personal property that has effectively been in service for the immediately preceding 10 years

Table 2 illustrates how the phased-in exemption will work. The personal property tied to industrial processing will become exempt over time based on the year it was first placed into service. In tax year 2016, all new personal property placed into service after December 31, 2012 will become exempt as will any eligible personal property placed into service before 2006. In tax year 2017, the exemption will be expanded to cover eligible personal property placed into service during 2006. Likewise in tax year 2018, property placed into service during 2007 will become exempt. This gradual phase-in will continue until all eligible property becomes exempt in tax year 2023.

Table 2
Exemptions for Existing Eligible Personal Property

Year placed in service	Tax year 2016	2017	2018	2019	2020	2021	2022	2023
2005	☒	☒	☒	☒	☒	☒	☒	☒
2006		☒	☒	☒	☒	☒	☒	☒
2007			☒	☒	☒	☒	☒	☒
2008					☒	☒	☒	☒
2009					☒	☒	☒	☒
2010						☒	☒	☒
2011							☒	☒
2012								☒
2013	☒	☒	☒	☒	☒	☒	☒	☒
Eligible personal property placed in service in 2014 and beyond is exempt								

☒ = exempt from personal property tax

Reimbursement to Local Governments for Lost Revenue

The success of this most recent effort to repeal elements of the personal property tax hinged not only on devising a plan to repeal the tax but also building support for a reimbursement plan that would aide communities (especially those most deeply impacted by the loss of PPT revenue) in overcoming the revenue challenges posed by the repeal. Original PPT reforms enacted in 2012 included only partial reimbursement for lost local government revenues. A second legislative package that was enacted in 2014 contained a revised reimbursement plan which is expected to provide full replacement revenues for local units of government.[7] As noted earlier, this reimbursement is financed by the new local community stabilization share tax carved out of the state's existing use tax. Revenues from the new local tax will be credited to the newly created Local Community Stabilization Authority (LCSA) for distribution to local units of government.

Analyses of the 2014 legislation[8] suggest that PPT revenue collections statewide will decrease by around $127 million because of the new exemptions in FY2016, the first year of the phase-in of the more significant PPT exemptions for larger property holders.[9] As additional personal property becomes exempt under the phase-in schedule, these revenue losses are projected to climb. Estimated total revenue losses in FY2017 are $414 million and rise to $577 million in FY2023 and $603 million in FY2028. In terms of the reimbursement process, these losses can be grouped into two categories:

- Revenue losses from the State Education Tax and the local 18-mill school operating levies. These losses would be reimbursed through a deposit of revenue collected from the state share portion of the existing use tax into the state's School Aid Fund (SAF).
- Other PPT-related revenue losses from both debt and operating millages levied by local units of government. These include millages levied by counties, cities, villages, and townships as well entities such as special authorities, intermediate school districts, community college districts, and school districts that levy hold-harmless millages to finance school operations. Revenue losses in this group are reimbursed directly from the new local share tax administered by the Local Community Stabilization Share Authority.

The 2014 legislation includes a prioritization of the reimbursement to be administered by the LCSA to cover this second category of revenue losses. The legislation specifies that affected local units of government are to be first reimbursed for 100 percent of any revenue losses attributable to:

- School operating, debt, and sinking fund/recreation millages;
- Intermediate school district debt and operating millages;
- All losses to tax increment financing authorities (e.g. downtown development authorities and local development finance authorities);
- All losses attributable to the small personal property holder exemption;
- Losses associated with revenue used to finance "essential services" – defined as police, fire, and ambulance services as well as jail operations.[10]

After these losses are reimbursed, remaining local share tax revenues would be distributed by formula to cover all remaining lost revenues (e.g. those related to services not designated as essential, losses related to community college and library district millages). In FY2016, this reimbursement formula would be based on the actual revenue loss in these other areas in FY2016, so that a municipality bearing 0.01 percent of the total statewide revenue loss would receive 0.01 percent of the available local share tax revenue under the formula. Starting in FY2020, the methodology used in the formula would be modified so that, over time, loss estimates are increasingly derived from data on acquisition costs of exempted personal property.

Implications of the PPT Exemptions for the State Budget

While the 2014 legislative package largely ensures that local units of government will be reimbursed for their losses under the PPT reforms, the amount of state revenues needed to facilitate that reimbursement will have significant implications on the state's budget. State general fund/general purpose (GF/GP) revenue will decline for two reasons: (1) a portion of the GF/GP revenue currently generated by the state's use tax is redirected to the new local community stabilization share tax administered by the Local Community Stabilization Authority; and (2) additional GF/GP revenue is needed to make up for reduced State Education Tax and local school operating millage revenue that results from the PPT exemptions and that would otherwise impact the state's School Aid Fund.

State Essential Services Assessment

These losses are partially offset by GF/GP revenue generated by a new State Essential Services Assessment created under Public Acts 92 and 93 of 2014. This statewide tax is a millage that will be levied against the acquisition cost of most of the personal property being exempted from local taxation (and the State Education Tax) under the PPT reforms, with the exception of property exempted under the small property holder exemption. The tax will be administered by the state, with revenue credited to the state's General Fund to help mitigate a portion of the state's foregone General Fund revenue used for local reimbursement.

The tax rate is based on the number of years elapsed since the acquisition of the personal property and would be applied to the total acquisition cost of the personal property. Property will generally be assessed at the regular rate, which is 2.4 mills for newer personal property and declines as the property ages and eventually falls to 0.9 mills.[11] Thus, in the end, businesses not eligible for the small property holder exemption will see their local personal property tax payments replaced with a smaller payment to the state based on this new tax. However, certain property may be exempted from the regular rate by the Michigan Strategic Fund (MSF) board if a claimant presents a business plan demonstrating that a minimum of $25.0 million in additional personal property investment will be made within Michigan. The board, at its discretion, may assess these properties at the alternative rate, which is one-half the regular rate, or may fully exempt eligible property from any assessment. **Table 3** provides details on the relevant regular and alternative rates.

Table 3
State Essential Services Assessment Rate Structure

Acquisition year precedes assessment year by:	Regular Rate	Alternative Rate
1 to 5 years	2.4 mills	1.2 mills
6 to 10 years	1.25 mills	0.625 mills
More than 10 years	0.9 mills	0.45 mills

The new assessment is expected to generate $20.0 million in FY2016, with revenue growing to $73.1 million by FY2017 and eventually to $117.5 million by FY2028. However, the extent to which the MSF uses its exemption authority will affect the actual revenues realized from the new tax.

Net Revenues Decline

All told, net GF/GP revenue will be $107 million lower in FY2016 and almost $350 million lower in FY2017 as reimbursement needs increase with an expanded PPT exemption. The net revenue loss continues to grow over time, reaching $500 million by FY2025. **Table 4** outlines the projected impact of these reimbursement provisions on state GF/GP revenue for future fiscal years through FY2028.

The Snyder administration and state lawmakers have often linked the General Fund costs of the personal property tax reimbursement provisions with projected General Fund revenue gains forthcoming to the state with the expiration of an assortment of business tax credits, particularly certain credits tied to advanced battery manufacturing. In fact, language was added to the 2014 legislation specifying legislative intent that the negative GF/GP impacts related to the use tax redirection be offset by a combination of the State Essential Services Assessment and these expiring credits.[12] Indeed, the state will experience a revenue windfall from the expiring credits,

although it's not clear the revenue gains will be sufficient to cover net losses arising from the PPT reimbursement proposal. Nonetheless, the revenue windfall will help offset at least some of the negative impact on GF/GP revenue.

Still, the expiration of these credits is already part of current law and is factored into the state's most recent revenue forecasts. Barring further changes to the law, they will go forward regardless of the PPT repeal or the outcome of the vote on this ballot proposal. In this context, the relevant question to Michigan citizens in terms of evaluating the proposal's fiscal implications becomes simpler: Is the enacted personal property tax relief plan the best use of the revenue being invested to finance the local reimbursement component of the plan? Or alternatively, should the state use this revenue to boost spending within some other priority area(s) of the state budget; or to provide tax relief in some other form; or to implement some combination of all these things?

Table 4
Impact of Personal Property Tax Reforms on State General Fund/General Purpose Revenue (in millions)

	Loss - Redirected Use Tax	Loss - School Aid Fund	Gain - State ESA	Net GF/GP Impact
FY2016	($96.1)	($30.9)	$20.0	($107.0)
FY2017	(380.6)	(42.0)	73.1	(349.5)
FY2018	(410.5)	(42.4)	79.2	(373.7)
FY2019	(437.7)	(42.9)	85.1	(395.5)
FY2020	(465.9)	(43.3)	91.2	(418.0)
FY2021	(491.5)	(43.8)	96.8	(438.5)
FY2022	(521.3)	(44.2)	103.3	(462.2)
FY2023	(548.0)	(44.7)	109.6	(483.1)
FY2024	(561.7)	(45.2)	112.9	(494.0)
FY2025	(569.8)	(45.7)	115.1	(500.4)
FY2026	(571.4)	(46.1)	116.0	(501.5)
FY2027	(572.2)	(46.6)	116.8	(502.0)
FY2028	(572.6)	(47.1)	117.5	(502.2)

Source: House Fiscal Agency and Senate Fiscal Agency legislative analyses

Summary of Key Issues

State policymakers succeeded in 2012 in enacting legislation to eliminate a large portion of the personal property tax burden on Michigan businesses, particularly those involved in the manufacturing sector. They followed up that success with revised legislation in 2014 – part of a compromise reached with local government organizations – that would largely reimburse local units of government for their revenue losses under the new PPT exemptions. Given the fiscal tensions between the state and local units of government, the agreement relies on a unique and somewhat peculiar arrangement through which a new local (yet statewide) unit of government is given authority to levy a portion of the state's existing use tax as a new local tax. Given this construct, constitutional restrictions on new local taxes require approval by local voters – which in this unique case, is all of the Michigan electorate.

The package also comes at a price. The reimbursement provisions contained in the package are not cheap, and the State of Michigan will forego an increasing amount of its general fund/general purpose revenue in future years in order to hold local governments harmless from the PPT reforms. The net loss to GF/GP revenue rises to over $500 million by FY2025, and this foregone revenue also means foregone opportunities to use this revenue to meet other budget priorities.

State voters in August will be asked, in a direct sense, to vote on the proposed redirection of the state's existing use tax revenue to help facilitate the reimbursement to local governments of lost PPT revenues. But again, the vote has much broader implications as a rejection of the ballot measure effectively repeals the entire set of reforms, essentially re-establishing the imposition of the personal property tax on businesses and canceling the need for the local reimbursement. Valid arguments have been advanced by supporters of the PPT repeal that the reforms will enhance business competitiveness and encourage additional private sector investment. Voters will need to weigh these arguments against their own judgments as to the potential value of other possible budget and tax reforms that could be achieved with the state GF/GP resources that will otherwise be invested to facilitate the PPT reforms.

Endnotes

[1] See the section on "General Property Tax" in Citizens Research Council, Outline of the Michigan Tax System, April 2014 for a fuller description of property taxation in Michigan.

[2] The "taxable value" of property is generally set at an amount equal to about 50% of the actual cash value of the property, although constitutional restrictions on the growth rate of the taxable value of real property cause the taxable value to drop below this level over time. See Citizens Research Council, The Growing Difference Between State Equalized Value and the Taxable Value in Michigan, Memo No. 1058, March 2001, for a discussion of this issue.

[3] Department of Treasury, 2013 State of Michigan Taxable Value Detail Report accessed at http://f65.mitreasury.msu.edu/Reports/ComparisonReport.aspx.

[4] Senate Fiscal Agency, Memo from Chief Economist David Zin on Personal Property Taxes (Revised), September 14, 2011.

[5] The PPT exemptions were established in Public Acts 401, 402, and 403 of 2012. A number of procedural and technical amendments to these acts were later implemented through Public Acts 153 and 154 of 2013.

[6] The full definition of the term "direct integrated support" is provided in section 9m(8)(b) of Public Act 154 of 2013.

[7] Public Act 80 of 2014 creates the local community stabilization share tax, while Public Act 86 of 2014 establishes the LCSA. Public Acts 92 and 93 establish a new State Essential Services Assessment. Public Acts 81, 87, 89, 90 and 91 made various technical amendments to the 2012 legislation.

[8] The House Fiscal Agency analysis: http://www.legislature.mi.gov/documents/2013-2014/billanalysis/House/pdf/2013-HLA-0821-A2688F4F.pdf. Senate Fiscal Agency analysis: http://www.legislature.mi.gov/documents/2013-2014/billanalysis/Senate/pdf/2013-SFA-0821-U.pdf

[9] The legislation provided for reimbursement of most losses incurred prior to FY2016 due to the small property holder exemption through direct legislative appropriations.

[10] While state law does require counties to elect sheriffs and provide certain police services, and the Home Rule Cities Act does require the provision of police protection, this definition of "essential services" is broader. It should be noted that the state has never before considered these particular local services essential.

[11] One mill of tax is equal to $1 of tax revenue generated for every $1,000 of the property's taxable value. So for property with a taxable value of $10,000, 2.4 mills would generate $24 in revenue.

[12] Enacting section 3 of Public Act 92 of 2014 reads in part: "…It is the intent of the legislature to offset the fiscal impact on the state general fund resulting from the reduction of the state use tax with new revenue generated by the assessment levied under this act and with new revenue resulting from the expiration of over $630,000,000.00 in expiring refundable tax credits that were awarded to individual businesses under tax laws enacted by past legislatures."

Note that this paper was edited from the version originally posted to the CRC website at 4 pm on July 2, 2014 (the same date it was posted to the website). The original version explained on page 6 of the paper that a business owning muliple parcels of land would owe personal property taxes to an overlapping jurisdiction even if the value of personal property located in each city or township qualified it for the exemption for small personal property holders if the aggregate taxable value of personal property in the larger jurisdiction exceeds the threhold amount.

A closer examination of Public Act 402 of 2012 finds that the statutory language provides in Section 9o(4)(b)(ii):

> The combined taxable value of all industrial personal property and commercial personal property owned by or under the control of the owner claiming an exemption under this section is less than $40,000.00 in that *local tax collecting unit*. [emphasis added by CRC]

A "local tax collecting unit" is commonly understood in statute to be the cities and townships that are responsible for receiving tax payments from property tax payers for remittance to the counties, school districts, intermediate school districts, community college districts, special authorities, and other overlapping entities for whom the properties represent part of their tax bases. Therefore, the initial understanding of the application of this provision was not correct.

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