

Legislative Analysis



LOCAL GOVERNMENT REIMBURSEMENT FUND

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House Bill 4553 as reported from committee
Sponsor: Rep. John Fitzgerald

Analysis available at
<http://www.legislature.mi.gov>

House Bill 4554 (H-1) as reported from committee
Sponsor: Rep. Denise Mentzer

Committee: Tax Policy
Revised 10-3-23

(Enacted as Public Acts 174 and 175 of 2023)

SUMMARY:

House Bills 4553 and 4554 would amend different acts to create the Local Government Reimbursement Fund and provide for the deposit of use tax revenue in the fund. The fund would be used to reimburse municipalities for changes to the small business personal property tax exemption proposed by Senate Bill 331.¹

House Bill 4553 would amend the Michigan Trust Fund Act to create the Local Government Reimbursement Fund in the state treasury. The state treasurer would deposit money and assets received under the amendments to the Use Tax Act proposed by House Bill 4554 or from any other source. The investment of the fund would be directed by the state treasurer, and interest and earnings from those investments would be credited to the fund. Money would not lapse to the general fund at the close of the fiscal year.

The Department of Treasury would expend money from the fund, upon appropriation, only to compensate *municipalities* on or before May 31 annually, beginning in 2024, for revenue lost during the immediately preceding property tax year as a result of exemptions claimed under changes to the General Property Tax Act proposed by Senate Bill 331. If the money in the fund were insufficient to fully compensate all municipalities for the lost revenue, the payments would be prorated among the municipalities.

Municipalities would include, but not be limited to, 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 and proposed MCL 12.253a

House Bill 4554 would amend the Use Tax Act to require \$75.0 million in use tax revenue to be deposited into the Local Government Reimbursement Fund each fiscal year beginning with the fiscal year ending September 30, 2024.

MCL 205.111

The bills are tie-barred to each other and to Senate Bill 331, which means that none of them can take effect unless all three are enacted.

¹ <http://legislature.mi.gov/doc.aspx?2023-SB-0331>

BACKGROUND:

Taken with Senate Bill 331, the bills are identical to Senate Bills 1060, 1061, and 1062 of the 2021-22 legislative session.² Those bills were passed by the Senate but did not advance further.

According to committee testimony, 2021 PA 150 (HB 5351), which increased the ceiling to be eligible for the small business personal property tax exemption from \$80,000 to \$180,000 beginning December 31, 2022, was enacted with the understanding that the state would reimburse local governments for the revenue losses that resulted. The bills would provide a mechanism and the funding for this reimbursement.

The House Tax Policy Committee referred House Bill 4554 with an H-1 substitute that makes no substantive changes but updates the section of law being amended to include changes made to that section by a recent amendatory act (2023 PA 21).³ Without this conflict substitute, the bill would overwrite Public Act 21 and undo the changes it made.

FISCAL IMPACT:

As written, the bills would reduce use tax revenue accruing to the general fund by \$75.0 million and transfer that amount to the Local Government Reimbursement Fund, which will be used to reimburse local governments for losses resulting from increasing the small taxpayer exemption threshold from \$80,000 of true cash value to \$180,000.

POSITIONS:

Representatives of the following entities testified in support of the bills (9-13-23):

- Department of Treasury
- Michigan Townships Association

The following entities indicated support for the bills (9-13-23):

- City of Ann Arbor
- Southeast Michigan Council of Governments (SEMCOG)
- Michigan Municipal League
- National Federation of Independent Businesses
- Michigan Association of Counties

Legislative Analyst: Alex Stegbauer
Fiscal Analysts: Ben Gielczyk
Jim Stansell

■ This analysis was prepared by nonpartisan House Fiscal Agency staff for use by House members in their deliberations and does not constitute an official statement of legislative intent.

² <http://legislature.mi.gov/doc.aspx?2022-SB-1061>

³ <http://legislature.mi.gov/doc.aspx?2023-HB-4253>