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BILL ANALYSIS



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Senate Bill 1031 (as introduced 5-29-18)
Sponsor: Senator John Proos
Committee: Finance

Date Completed: 6-5-18

CONTENT

The bill would amend the General Property Tax Act to exempt qualified utility personal property from the collection of taxes under the Act.

"Qualified utility personal property" would mean property that meets both of the following:

- Is the following utility personal property: electric transmission and distribution systems, substation equipment, spare parts, gas distribution systems, water transmission and distribution systems, gas storage equipment, and transmission lines of gas or oil transporting companies.
- Was initially installed in the State after December 31, 2017.

(The Act imposes a tax of 6% on the purchase price or sales price of nonexempt personal property.)

Proposed MCL 211.9p

Legislative Analyst: Drew Krogulecki

FISCAL IMPACT

The bill would reduce State and local property tax revenue, and if per-pupil funding guarantees were maintained, increase School Aid Fund expenditures. While the initial fiscal impact would depend on the rate at which new property would be installed as property ages and is replaced, the bill would eventually exempt all eligible utility personal property. The taxable value of utility personal property statewide increased 54.8% between 2010 and 2017, an increase of \$4.2 billion that brought the total taxable value of utility personal property to \$11.9 billion. To illustrate the eventual magnitude of the exemption, if the bill were to exempt all existing eligible utility personal property, the revenue reduction would total approximately \$652.8 million (\$76.6 million in State Education Tax revenue to the School Aid Fund, \$576.3 million to local units of government) and School Aid Fund expenditures would need to increase by approximately \$243.1 million in order to maintain per-pupil funding guarantees. Of the \$576.3 million in local unit losses, revenue to counties, cities, and villages would fall by \$189.1 million, local school operating revenue would decline by \$243.1 million, and the remaining revenue losses would be split across community colleges, intermediate school districts, and authorities. If the average life of eligible utility personal property were 10 years, and taxpayers replaced approximately one-10th of existing property each year, the bill's impact in the first year would be one-10th of the figures shown above, with the revenue reductions increasing each year for 10 years.

In 2017, the taxable value of utility personal property represented approximately 3.5% of total statewide taxable value but the share for individual local units varied significantly. As a result, the impact by individual local units would vary substantially, based on the amount of eligible utility personal property located in a local unit. For example, utility personal property represented 0.12% of total taxable value in the City of Harbor Springs, in Emmet County, but 65.2% of total taxable value in Stockbridge Township in Ingham County. Utility personal property represented more than 50% of a local unit's total taxable value in five townships, and between 25% and 50% of total taxable value in another 31 cities and townships. In contrast, utility personal property represented less than 1.0% of total taxable value in 70 cities and townships.

Personal property tax exemptions enacted in 2012 for certain commercial and industrial personal property were eventually tied to the creation of the Local Community Stabilization Authority, which provides reimbursements to local units for the revenue lost as a result of the exemptions. The bill would not reimburse local units for revenue lost as a result of the exemptions. Furthermore, because utility personal property and the property exempt under the 2012 exemptions are distributed differently, local unit losses under the bill would be distributed differently than losses (and reimbursements) associated with the exemptions adopted in 2012.

Fiscal Analyst: David Zin

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