



# CITY COUNCIL REPORT & COMMUNICATION

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Date: July 21, 2014

To: Brian Kischnick, City Manager

From: Tom Darling, Director of Financial Services  
Nino Licari, City Assessor

Subject: Ballot Proposal 14-1, August 5, 2014

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## Background

Proposal 14-1 is an August 5, 2014 ballot issue that states in pertinent part: "***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.***" (emphasis added)

## What is it for?

This ballot proposal would fund the reimbursement of lost taxes to units of government that would otherwise forgo this revenue because of the exemption of certain (not all) classes of personal property, starting in 2016.

## What personal property is going to be exempted?

Qualified Industrial personal property and some commercial personal property that is necessary for a manufacturing process will start to become exempt in the 2016 Assessment Year.

Already exempt for the 2014 year is any industrial or commercial personal property in the control of an entity, where the Market Value totals \$80,000 or less (the commonly called 'small parcel' exemption).

## What personal property is NOT going to be exempted?

The vast majority of commercial personal property will not be exempt from taxation. Also, no utility personal property will be exempted.

## How will the exemptions be phased in?

For the 2016 Assessment Year, all qualified industrial personal property and qualified commercial personal property purchased from January 1, 2013 forward will be exempt from taxation.

Additionally, any qualified personal property purchased in 2005 and before will also become exempt.

In 2017, any qualified personal property purchased in 2006 would become exempt.



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## **How will the exemptions be phased in? (continued)**

In 2018, the qualified personal property purchased in 2007 would become exempt. This process would continue each succeeding year, by exempting the next year's qualified personal property until 2023. At this point all qualified industrial and necessary to a manufacturing process commercial personal property would then be exempt.

## **Is there a reimbursement for the Small Parcel Exemption?**

The small parcel exemption can be reimbursed if the 2014 industrial and commercial personal property roll was less than the total 2013 personal property roll of these same classes.

Troy's 2014 personal property roll shows an increase of approximately \$10,000,000. This is after a \$17,000,000 loss in taxable value from the small parcel exemptions. Effectively, Troy saw \$27,000,000 in new personal property between 2013 and 2014.

Since the City had a net increase in the industrial and commercial personal property roll, there is no reimbursement for the small parcel exemption for 2014.

This same calculation will be made again next year.

## **How will the reimbursement work for Proposal 14-1?**

The current interpretation of the reimbursement for exempted personal property that will commence with the 2016 assessment year is that the 2016 industrial and commercial personal property roll will be compared to the 2013 industrial and commercial personal roll. The difference in these 2 values should represent the loss of taxable value due to the new exemption, and includes the small parcel exemption.

The loss in taxable value will be adjusted based on any new personal property taxable value that occurs in the non-exempt industrial and commercial personal property.

## **Are there other revenue protections in the legislation?**

There are reimbursement clauses to protect debt levies, in both the unit's budget and budgets for LDFA's, DDA's and other TIF's.

There are also reimbursements for 'essential services', defined as police, fire and ambulance service.



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## **What happens if the revenue projections fall short of the actual loss in revenue?**

The State of Michigan has set the percentage of qualified industrial and commercial personal property for each unit of government against the statewide total.

If the revenue projections fall short of the actual loss in revenue to the local unit, then the reimbursement will be based on that units percentage of total industrial personal property applied against the actual revenue generated.

## **What happens if Ballot Proposal 14-1 fails to pass?**

If Ballot Proposal 14-1 fails to pass, there will no exemption of qualified industrial or integrated personal property. Additionally, the small parcel exemption will be repealed, and those parcels will go back on the Assessment Roll.

All of the existing legislation is contingent on the Ballot Proposal passing. All of the existing legislation would be repealed if the Proposal does not pass.

## **Where does the reimbursement revenue come from?**

The proposed reimbursement revenue would come from a rededication of the 6% State Use Tax. This is similar to the sales tax, but is applied to out of state purchases brought into Michigan.

## **Cautions and caveats:**

These calculations are set in the law. However, they may be subject to change based on the actual revenues generated by the proposed changes in the use tax.

A vote of the electorate is necessitated because the creation of a new authority per the Headlee Amendment to the State Constitution that was enacted in 1978.

Certain reimbursements take precedence over others. In other words, school funding takes precedence over local funding. Debt funding takes precedence over 'essential services, etc.