

State and Federal Affairs Update



MARQUETTE
2014 CONVENTION



Looking Ahead

- Issues to cover:
 - The demise of EVIP
 - Personal Property Tax
 - Public Act 54 of 2011
 - Detroit Bankruptcy
 - Transportation Funding
 - Annual Certification to MDOT
 - TIF Capture Reform
 - Rental Inspections

EVIP is gone!

- The governor has signed the budget for next year eliminating EVIP.
- Special thanks to Senator Pappageorge!
- There is still a dashboard requirement, but the other two categories have been eliminated.
- The budget also eliminated the CGAP grant program as of October 1, 2014.

Revenue Sharing Funding

- Revenue sharing includes an increase of \$13 million.
- Of that amount, \$7.2 million (or 3 percent) will be distributed through the existing revenue sharing formula for cities, villages and townships who are currently eligible for statutory revenue sharing.
- An additional \$5.8 million of one-time funding is included and distributed to cities, villages and townships. The payment will be distributed by providing the greater of a 3 percent increase over the Fiscal Year 2013-14 revenue sharing payment or per capita of \$2.65 for a local unit with a population of 7,500 or more. Communities with a population of less than 7,500 will receive a 3 percent increase over a FY2013-14 payment.
- The budget also includes an additional \$8 million to help financially distressed cities, villages and townships. The funding will be distributed by the Department of Treasury in a grant program.
- Constitutional revenue sharing is also up by 2.4 percent.

Personal Property Tax Reform



- In March the legislature passed updated PPT bills that intend to fully* reimburse PPT revenue loss.
- How? Through the state levying an essential services assessment for police, fire, ambulance and jails and use of a portion of the currently collected statewide use tax.
- In August voters overwhelmingly approved a Headlee vote to direct portion of the use tax for PPT reimbursement.

Small Taxpayer Exemption

- Applies where total true cash value (“TCV”) of eligible personal property located within a local tax collecting unit that is owned by, leased to, or in the possession of an owner or related entity on December 31 of the preceding year is less than \$80,000.
 - Looks at all personal property used by a business within a city or township.
 - Owner pays taxes, but eligibility is determined by possession or control.
- Requires an annual affidavit due on February 10.



EXEMPT

Other Personal Property Tax Exemptions

- Begin in 2016.
- Applies to eligible manufacturing personal property initially placed in service after December 31, 2012.
- Applies to eligible manufacturing personal property that has been in service for at least 10 years.
- If you had abatements as of December 31, 2012, the reimbursement will not include those amounts.



*Caveats

- Reimburses PPT as of December 31, 2012.
- If a community has abatements on that date that expire after that date those are not reimbursed.
- If a community has growth subsequent to December 31, 2012, there will not be reimbursement. Only communities who have a loss will receive reimbursement.



Tax Appeals Legislation

- Senate Committee has passed SBs 1038-1040, legislation to change tax appeals process.
- Bypasses local boards of review.
- Includes 3 year look backs for property tax appeals.
- Does this package have a future?



Cunningham fix

- Earlier this year MI Supremes held in *People v. Cunningham* that court costs must be enumerated in statute.
- HB 5785 clarifies “reasonable” court costs.
- Includes 36 month sunset.
- What’s next for court funding reform?



Public Act 54 of 2011

- One of the, if not the, most significant reform of PA 54 was to prohibit retroactive pay increases after a contract has expired.
- HB 5097 has been signed by the Governor. It would exempt police and fire from PA 54 so they can have retroactive pay increases after a contract expires.
- PA 54 exemption was a priority for the Governor.

Detroit Bankruptcy

- The state will appropriate \$194.8 million dollars that will go toward the city's pension system
- Creates an oversight commission that will have approval over the city's major financial decisions
- Requires the city to establish the position of chief financial officer
- Allow the City to choose between defined contribution plans and defined contribution for new hires but caps the city contribution at 7 percent of base pay

Detroit Bankruptcy

- Prohibits the City of Detroit from opting out under PA 152 of 2011
- Limits travel pay for retirement system board members
- The bills very narrowly define eligibility for these provisions as a city over 600,000 that is in bankruptcy
- The Senate did not take up a bill that would prohibit new mileages for the Detroit Institute of Art



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Transportation Funding (House)

- The speaker's plan results in a 10 bill package.
- Potential issues with the package include:
 - It does not represent a comprehensive solution
 - Provide no additional money to public transit development
 - Spends additional general fund money that could have a long-term negative impact on municipal budgets
- The Speaker's plan is passed out of the House and significant changes are made by the Senate.



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Transportation Funding (Senate)

- Gas Taxes
 - The cents per gallon tax on gasoline and diesel will be eliminated and replaced with a 6% tax on the wholesale price of fuel
 - The tax on the wholesale price will gradually increase over 4 years to 15.5%
 - When fully implemented the new tax on gas will increase transportation funding by \$1.5 billion annually
- Sales Tax Paid at the Pump
 - Permanently dedicate all available revenue from the existing 6% sales tax collected on gas and diesel to roads (Preserve all money currently dedicated to schools and locals)

Transportation Funding (Senate)

- Registration Fees
 - End the 3 years 10% roll back
 - Dedicate registration late payment fees to road funding
 - Apply newly purchased vehicle value immediately upon transferring plate
- Overweight Truck Fees and Fines
 - Increase fees for overweight truck permits
 - Double fines for overweight trucks
- Total New Annual Revenue
 - Approximately \$2 Billion

Transportation Funding (Senate)

- Competitive Bidding
 - Would require all construction and preservation projects (excluding routine maintenance) over \$100,000 be awarded by competitive bidding unless some other method is in the public interest
- Road Warranties
 - A local road agency, where possible, would have to secure warranties for projects that exceed \$1 million
 - List all warranties that were secured in your Act 51 Report and provide the following information
 - The type of project
 - The cost or estimated cost of the project
 - The expected life span of the project

The Politics

- There is a clear recognition by the majority of legislators that additional funding is needed for roads.
- Lack of agreement on how to raise that additional funding and how much funding is needed.
- The House Republicans prefer using existing revenue and are not excited about a large gas tax increase.
- The Senate Republicans are split between new gas tax, increasing sales tax, and no taxes.
- Senate and House Democrats want to protect prevailing wage, the current electoral college system, and provide tax relief for the working poor by reinstating the cuts made to the Homestead Property Tax Credit.

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Next Steps



- A workgroup has been formed that included six Senators (Richardville, Meekhof, Kowall, Whitmer, Warren, Johnson)
- They have met four times to discuss potential solutions for transportation funding.
- Issues to be discussed include:
 - Act 51 funding
 - Truck Weights
 - Efficiencies
- Lame Duck?

Annual Certification to MDOT

- The Governor signed SB 882 that repeals a portion of the MDOT Annual Certification of Employee-Related Conditions
- Repeals the requirement to create a dashboard listing
 - current fiscal year budget
 - the number of active transportation employees of the local road agency by job classification and wage rate
 - information on financial performance
 - the name and contact information for the governing body of the local road agency
 - a copy of the certification of compliance with PA 152
- Continues to require that cities and villages certify to the MDOT that they are in compliance with PA 152
- Requires that you inform MDOT if you have opted out of PA 152

TIF Capture Reform

- Rep. Eileen Kowall held workgroups last year to explore reform of TIF capture.
 - More opportunity for Opt Out of tax capture of all taxing jurisdictions
 - Increase in transparency for TIF districts
- A new workgroup pulled together by Speaker's office to take a broader look at TIF in general.
 - Result is draft legislation expected to be introduced this week with legislative goal of passing it out of House entirely by the time they leave in October.
- House Republican Caucus and Governor's office all interested in pursuing some restructuring and reform before the end of the year.

TIF Capture Reform

- TIF Draft 1
 - Combined TIF act: Municipal Development Act (minus Brownfield Act and Nonprofit Railway Act)
 - TIF dollars can be used for infrastructure activities only. No operational costs or marketing costs.
 - Caps amount of land area that can be under TIF to 50% of land in muni and 35% of true cash value of both real and personal property of the muni.
 - Increased transparency
 - Require reports be put on websites
 - Require reports sent to all taxing jurisdictions
 - PPT reimbursement suspension if don't comply

TIF Capture Reform

- TIF Draft 1 provisions cont'
 - Institution of Gain Sharing
 - Share back tax increment revenues of 25% by 2035, phased in at 1.25% per year beginning in 2015 for current authorities and after 5 years for new authorities.
 - No opt outs or resetting of baselines



TIF Capture Reform

- Switching of Gears to Introduced Version
 - HB 5658 (Rep. Eileen Kowall)
 - Deals ONLY with DDAs
 - Adds in additional transparency requirements
 - Adds “teeth” for compliance with the act
 - If receive a letter from State Tax Commission of non-compliance cannot capture TIF above what is needed for bonds/obligations.
 - Substitute adopted in second committee hearing
 - adds in element of gain sharing: 1.25% accumulated yearly 5 years after TIF plan adopted.
 - Still no opt outs

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TIF Capture Reform

- House Commerce Committee has held two committee hearings on this – testimony only
- Chair, Rep. Frank Foster, has committed to working with the bill sponsor on the issue throughout October/November with the hopes of taking a vote after the election.
- Current version lacks support.

Rental Inspections

- SB 313 voted out of the Senate with significant changes
 - Registration fee and inspection fee caps have been removed and the ability to charge for re-inspections has been restored
 - The timeline for inspection has been returned to what is in current law (no longer than 4 years but may go longer if community chooses for good actors)
 - Only allows for re-registration when additional dwelling units are constructed and when the property is sold or transferred



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Rental Inspections

- Would allow the municipality to require the landlord to seek the permission of the lessee for the inspection and notify the inspector of the response
- Payment of the inspection is due after the inspection is completed except in cases of new construction or where the property has been transferred to a new owner
- While this version is improved from the introduced version, concerns still remain and we will be working in the House to address those concerns.

Federal Budget and Marketplace Fairness

- Congress recently passed, and the President signed, a short-term Continuing Resolution (CR) to fund the federal government through December 11, 2014.
- The CR essentially funds government programs at the same level as the 2013-14 FY budget.
- The most notable component of the budget is a one sentence extension of the Internet Tax Freedom Act, a law which prohibits taxation of internet access. This extension also expires on December 11th.
- This is relevant because the current strategy to pass the Marketplace Fairness Act, which is a bill that allows for the collection of sales taxes from internet retailers that the League supports, is to attach it to the passage of the ITFA extension.



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Federal Transportation Issues

The background of the slide is a photograph of the United States Capitol building in Washington, D.C. The building is white with a prominent dome and classical architectural features like columns and arches. The sky is a clear, bright blue. The text is overlaid on the left side of the image.

- Congress also passed a temporary spending bill to prevent the insolvency of the Federal Highway Trust Fund. The bill also continued authorization of MAP-21 through May 2015. The bill inserted \$11 Billion from a variety of sources.
- Two new bills HR 4726 and S 2891 create the Innovation in Surface Transportation Act. This new Act would give local communities more direct access to federal funds that flow through to the states. It would set up a competitive grant program for multimodal transportation projects that are focused around addressing economic development and placemaking within the community/region. The initiative is being spurred by Transportation for America.

Legislative Team

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THE LEAGUE'S LEGISLATIVE BLOG 

- State:
 - Samantha Harkins, Director, State Affairs
 - Municipal Finance, Labor, Energy & Tech
 - Nikki Brown, Legislative Associate
 - Economic Development and Land Use, Municipal Services
 - John LaMacchia, Legislative Associate
 - Transportation & Infrastructure
 - Derek Tisler, Legislative Assistant
- Federal:
 - Summer Minnick, Director, Policy Initiatives and Federal Affairs



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