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BILL ANALYSIS

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Senate Fiscal Agency

Lansing, Michigan 48909

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Senate Bill 909 (as passed by the Senate)

Sponsor: Senator Rudy Nichols

Committee: Finance

Mich. State Law Library

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**RATIONALE**

The Tax Increment Financing Authority (TIFA) Act allows a city to finance public improvements in tax increment financing districts by using the taxes generated on the "captured assessed value" of property in the district. The "captured assessed value" is the amount in any given year by which the current assessed value of the property exceeds the initial assessed value of the property at the time the tax increment financing plan for the district was approved. Since the constitutionality of the Act has been challenged in a lawsuit, the Act was amended in 1986 to limit application of its existing provisions to tax increment financing authorities created before January 1, 1987, and to establish new provisions under which any authorities created after that date are to operate. Although the 1986 amendments duplicate much of the language in the Act, there are some differences. For example, the definitions of captured and initial assessed values that apply to authorities created after January 1, 1987, specify that the value of property subject to taxes levied under the Technology Park Development Act is to be included in the calculations of an area's captured and initial assessed values: the definitions of these terms that apply to authorities created before January 1, 1987, however, do not mention property subject to the Technology Park Development Act. Some have argued that calculation of a district's captured and initial assessed values for the purpose of determining tax increment revenues should be consistent regardless of when a tax increment finance authority or district was established and have suggested that the TIFA definitions of "captured assessed value" and "initial assessed value" that apply to authorities established before January 1, 1987, be amended to include property subject to the Technology Park Development Act. Another provision that now applies to authorities created after January 1, 1987, and which some believe for consistency's sake should also apply to authorities created before that date, specifies the method for determining initial and captured assessed values. Also, for the sake of standardizing assessment computations, it has been suggested that a single agency be made responsible for determining captured assessed value.

In addition, some feel that the TIFA law should be amended to clarify when property is to be included in calculating an area's initial assessed value and which of the taxes levied by political subdivisions should be captured by a TIFA. They argue that there is no provision in current law to prohibit TIFAs from selectively adding and subtracting property from a TIFA plan in order to obtain the largest possible captured assessed value for the property in the plan. For example, if there were two parcels of land in a TIFA district, one worth \$5 million and one worth \$2 million, the initial assessed value for the district would be \$7 million. If, then, the value of the first property were to increase to \$10 million and the value of the second property decreased to \$1

million, the current assessed value of the district would be \$11 million and the captured assessed value would be \$4 million (current value of \$11 million - initial value of \$7 million). Because there is no statutory prohibition against such actions, the TIFA could decide to delete the second property from the TIFA plan and calculate the district's captured assessed value solely on the first property (current value of \$10 million - initial value of \$5 million = captured value of \$5 million), thus increasing the captured assessed value of the district and the amount of tax revenues the TIFA would receive on the increased value.

Finally, some contend that provision should be made to limit the amount of school taxes a TIFA may capture: there is nothing in current law that precludes a TIFA from capturing a school district's millage on the increased value of property in a TIFA plan and ignoring the city and county millage on the value of the property, knowing that the State will make up the difference between the amount of tax revenue the school district should get according to the school aid formula and the amount it actually receives.

**CONTENT**

The bill would amend the Tax Increment Finance Authority Act to

- Extend the definitions of "captured assessed value" and "initial assessed value" to include the assessed value of property for which a technology park facilities exemption certificate has been issued.
- Require the State Tax Commission to prescribe the method for calculating captured assessed value.
- Specify that for properties subject to taxes levied under the Plant Rehabilitation and Industrial Development Act, Commercial Redevelopment Act, Enterprise Zone Act, and Technology Park Development Act, the initial assessed value and current assessed value would be the quotient of the specific tax paid divided by the ad valorem millage rate. The deletion of property from a tax increment financing plan would not reduce the initial assessed value of the plan.
- Provide that the percentage of taxes levied for school operating purposes that was captured and used by the plan could not exceed the percentage of any other tax levied for operating purposes that was captured and used by the plan.

(Note: The amendments proposed by the bill would apply only to tax increment finance authorities established before January 1, 1987, since the section of the Act the bill would amend applies only to those authorities.)

MCL 125.1813

S.B. 909 (6-16-88)

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## ***FISCAL IMPACT***

Senate Bill 909 would result in an indeterminate decrease in general local property tax revenues and a corresponding increase in TIFA captured property taxes. State expenditure for school aid would increase for those in-formula districts which would lose the expanded TIFA property tax base.

## ***ARGUMENTS***

### ***Supporting Argument***

The bill is essentially a housekeeping bill that would make certain definitions, methods of calculation and other provisions consistent for all tax increment financing authorities regardless of when they were established. In addition, though, the bill would make it clear that TIFAs are not to capture only school millage on an area's increased value and expect the State to reimburse the school district for the lost tax revenue, and that property cannot be deleted from a TIFA plan, thereby increasing an area's captured assessed value.

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This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.