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BILL ANALYSIS

Senate Fiscal Agency

Lansing, Michigan 48909

(517) 373-5383

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PUBLIC ACT 420 of 1988**Senate Bill 909 (as enrolled)****Sponsor: Senator Rudy Nichols****Senate Committee: Finance****House Committee: Taxation****Date Completed: 12-28-88*****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.

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

- Define "captured assessed value" as the amount in any one year by which the current assessed value of the development area, including the assessed value of property for which specific local taxes are paid in lieu of property taxes, exceeds the initial assessed value.
- Require the State Tax Commission to prescribe the method for calculating captured assessed value.
- Define "specific local tax" as a tax levied under the Plant Rehabilitation and Industrial Development Act, Commercial Redevelopment Act, Public Act 189 of 1953 (taxation of lessees or users of tax exempt property), and Technology Park Development Act.
- Specify that the initial assessed value and current assessed value of property subject to a specific local tax would be the quotient of the specific tax paid divided by the ad valorem millage rate.
- 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. For purposes of definition, taxes levied by a county for operating purposes would include only millage allocated for county or charter county purposes under the Property Tax Limitation Act.
- Require TIFA to report annually to the State Tax Commission the status of the tax increment financing plan.
- Allow the State Tax Commission to institute proceedings to compel enforcement of the bill and to promulgate rules to implement the bill.

The bill would take effect beginning with taxes levied in 1989.

(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

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.

OVER

S.B. 909 (12-28-88)

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.

Legislative Analyst: L. Burghardt

Fiscal Analyst: N. Khouri

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.