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TAX INCREMENT FINANCE; SCHOOL TAXES

House Bill 4629 as enrolled
Second Analysis (7-10-89)

Sponsor: Rep. Bill Martin
First House Committee: Taxation
Second House Committee: Urban Affairs
Senate Committee: Finance

THE APPARENT PROBLEM:

Michigan communities may implement tax increment financing plans under three different public acts: Public Act 197 of 1975, the downtown development authority act; Public Act 450 of 1980, the Tax Increment Finance Authority Act; and Public Act 281 of 1986, the Local Development Financing Act. In 1988, the downtown development act and the Tax Increment Finance Authority Act were amended to make the acts more consistent with each other in the way tax increment financing (TIF) plans are set up. The downtown development authority (DDA) act, in particular, had provisions inconsistent with the other acts, and reportedly allowed some governments using the plan to "capture" certain tax increments which the state ultimately paid for. Some tax increment finance plans, for example, would exclude all millage except in-formula school district millage. Since the cost of capturing taxes of an in-formula district is borne by the state school aid fund, while the capture of other taxes is borne by the affected local governmental unit, the entire plan was then subsidized by the state. Last year's legislation redefined "initial" and "captured" assessed value, and rewrote other parts of the act, in order to stop reported abuses. Public Act 425 of 1988 consequently reduces the amount by which the state subsidizes TIF plans by a significant amount, which puts a burden on municipalities to make up the difference. (Calhoun County, which is represented in Battle Creek's TIF plans, reportedly could lose up to $800,000 from the imposed limitations under the act.) A request has been made that the limitations put on the capture of school millages be phased-in over a three year period to help municipalities better adjust to the 1988 changes, and to exclude counties from the limitation altogether, since, unlike cities, they have no voice in the establishment of the plans.

THE CONTENT OF THE BILL:

Under the 1988 amendments to the downtown development authority act, the percentage of school operating taxes that may be "captured" and used by a tax increment financing plan may not be greater than the percentage of city, county, township or village operating taxes captured and used by the plan. The bill would specify that the limitation would not apply to the portion of captured assessed value shared with a county under an agreement entered into before 1989. In addition, tax increment revenue used to pay bonds issued by a municipality, as specified under the portion of the act dealing with tax increment bonds, would be considered to be used by the tax increment financing plan rather than shared with the municipality. Under the bill, if a portion of captured assessed value was shared with a municipality (that is, a city, township, or village) in 1988, the bill would provide for a phase-in of the limitation for tax years 1989 through 1991. The allowable amount of captured assessed value that could be shared with a municipality would be the greater of either: the current limit imposed under the act, or 100 percent of the amount shared in 1988, for tax year 1989; either the current limit or 2/3 of the 1988 amount, for tax year 1990; and for tax year 1991, either the current limit or 1/3 of the 1988 amount.

MCL 125.1664

FISCAL IMPLICATIONS:

According to the Department of Treasury, the bill would have no direct fiscal impact. If, after the bill were enacted, TIF plans capture less in property taxes, then there would be no fiscal impact. If, on the other hand, existing plans use the same amount over a longer period of time, there would be a delay in savings to the state from the 1988 act. (6-20-89)

ARGUMENTS:

For:

The bill would help municipalities better adjust to the loss they would assume under Public Act 425 of 1988 by phasing in the limitations instituted under that act over a three-year period. Before 1988 the state was subsidizing a disproportionate share of TIF plans for municipalities. Further, the bill recognizes the fact that counties tend to lose more than they gain under TIF plans and would make the act's limitation for counties apply in a more equitable fashion.