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BILL ANALYSIS

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House Bill 4197 (Substitute H-2 as reported without amendment)
Sponsor: Representative Chris Ward
House Committee: Local Government and Urban Policy
Senate Committee: Commerce and Labor

Date Completed: 6-2-03

RATIONALE

Under the Local Development Financing Act, a municipality may establish a local development finance authority in order to finance public improvements in a designated area by "capturing" future increases in property tax revenues generated on property within the area. Local development finance authorities may use these tax increment financing arrangements to pay for site preparation and infrastructure, such as roads, bridges, sewer systems, and utility lines, in undeveloped or underdeveloped areas in order to promote economic development within those areas. The Act defines "municipality" as a city, village, or urban township. Urban townships generally are large townships and/or located in populous counties. Some people feel that some smaller townships also should be authorized to pursue economic development activities by creating a local development finance authority.

CONTENT

The bill would amend the Local Development Financing Act to expand the definition of "urban township". To qualify under the expanded definition, a township would have to meet all of the following requirements:

-- Have a population of at least 13,000.
-- Be located in a county that had a population of at least 150,000.
-- Have adopted a master zoning plan before February 1, 1987.

Currently, "urban township" means a township that meets one or more of the following:

-- Has a population of at least 20,000, or has a population of at least 10,000 and is located in a county that has a population of at least 400,000; adopted a master zoning plan before February 1, 1987; and provides sewer, water, and other public services to all or a part of the township.
-- Has a population under 20,000; is located in a county that has a population of at least 250,000 but less than 400,000, and that is located in a metropolitan statistical area; has within its boundaries a parcel of property under common ownership that is 800 acres or larger and is capable of being served by a railroad, and is located within three miles of a limited access highway; and established a local development finance authority before December 31, 1998.
-- Has a population under 20,000; has a State equalized valuation over $200 million for all real and personal property located in the township; adopted a master zoning plan before February 1, 1987; is a charter township under the Charter Township Act; has within its boundaries a combination of parcels under common ownership that is 800 acres or larger, is immediately adjacent to a limited access highway, is capable of being served by a railroad, and is immediately adjacent to an existing sewer line; and established a local development finance authority before March 1, 1999.

MCL 125.2152

BACKGROUND

Reportedly, 61 townships currently qualify as urban townships, and the following 15 townships would qualify under the bill:

-- Allendale, Grand Haven, Park, and Spring Lake Townships in Ottawa County.
-- Benton, Lincoln, and Niles Townships in Berrien County.
-- Brighton, Genoa, and Green Oak Townships in Livingston County.
-- Comstock and Oshtemo Townships in Kalamazoo County.
-- Leoni Township in Jackson County.

-- Muskegon Township in Muskegon County.
-- Scio Township in Washtenaw County.

ARGUMENTS

(Please note: The arguments contained in this analysis originate from sources outside the Senate Fiscal Agency. The Senate Fiscal Agency neither supports nor opposes legislation.)

Supporting Argument

The Local Development Financing Act provides eligible municipalities with economic development opportunities by allowing them to establish local development finance authorities, which capture incremental tax increases in order to prepare areas for industrial development. Some townships that do not qualify as urban townships under the Act, but that are growing rapidly and/or are adjacent to urban areas, have expressed an interest in establishing local development finance authorities. By expanding the Act's definition of "urban township" to include townships that have a population of at least 13,000 and are located in a county with a population of at least 150,000, the bill would accommodate these smaller, quickly growing townships in several medium-sized counties. In particular, two townships in Kalamazoo County that border the City of Kalamazoo could redevelop brownfield sites, and a township in Livingston County, one of the fastest growing counties in the nation, could address infrastructure needs that would attract businesses to the township and add to its economic and tax base.

Response: Using tax increment financing in smaller townships could promote urban sprawl by enticing businesses to build on previously undeveloped green space. In February, the Governor announced the formation of the bipartisan Michigan Land Use Leadership Council, which is charged with addressing the trends, causes, and consequences of unmanaged growth and development in Michigan. The Council is expected to issue a report in the summer of 2003. That report might include recommendations for pertinent legislation.

Opposing Argument

Townships have existing options to meet infrastructure needs that might attract business development. Townships may participate in tax increment financing projects if they establish so-called "425" agreements with other nearby local units of government. Public Act 425 of 1984 allows the intergovernmental conditional transfer of property by contract in order to accommodate development. Reportedly, about 200 communities throughout the State have entered into these agreements in order to redevelop brownfields or help expand a municipality's economic base.

Response: The bill would allow some growing townships to manage their own economic development efforts, without having to rely on the cooperation and participation of nearby cities. Townships apparently are often frustrated by cities' conditions when negotiating 425 agreements.

Legislative Analyst: Patrick Affholter

FISCAL IMPACT

The bill would have little to no effect on State and local revenues, primarily because a local development finance authority derives revenue from changes in property values. The magnitude of the effect would depend on how many of the affected communities would create local development finance authorities, whether the developments would affect property values in areas where increases in property values were not captured, and the value of any property included within an authority.

The School Aid Fund effectively holds school districts harmless for changes in property values. If a school district receives less property tax revenue because, for example, the State declares a type of property to be exempt from taxation, then expenditures from the School Aid Fund will increase to offset the revenue loss. Because an authority receives revenues from the changes in values, then assuming the development would not occur absent the bill, the bill would not result in increased expenditures from the School Aid Fund.

This estimate is preliminary and will be revised as new information becomes available.

Fiscal Analyst: David Zin

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