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BILL ANALYSIS

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House Bill 5246 (Substitute H-2 as passed by the House)
Sponsor: Representative Wayne Schmidt
House Committee: Commerce
Senate Committee: Economic Development

Date Completed: 6-13-12

CONTENT

The bill would amend the Local Development Financing Act to do the following:

-- **Allow the Michigan Economic Development Authority (MEDC) to designate an additional three certified technology parks (commonly referred to as "SmartZones") before March 31, 2013.**
-- **On January 1, 2014, eliminate the cap on the number of SmartZones created in Michigan.**
-- **Require the Michigan Strategic Fund to pay for revenue reimbursement of tax revenue lost to schools for incremental tax revenue increases, for SmartZones created on or after January 1, 2014.**
-- **Allow a SmartZone to capture school taxes for an additional five years, upon approval of the MEDC, if the local development financing authority (LDFA) agreed to additional reporting requirements and modified its tax increment financing (TIF) plan to include regional collaboration.**
-- **Allow the capture of school taxes for an additional 15 years under certain circumstances.**
-- **Extend the deadline by which a municipality that has created an LDFA may apply to the MEDC for designation of all or part of the LDFA district as a certified alternative energy park.**
-- **Allow a military installation that was operated by the U.S. Department of Defense (DOD) and closed after 1980 to be designated as a certified alternative energy park.**

Under the Act, a municipality may create an LDFA that can use tax increment financing to pay for public infrastructure improvements in a given area or district. The financing mechanism allows the capture of the incremental growth in property tax revenue due to increased value over a period of time. The Act also allows the designation of all or part of an LDFA district as a certified alternative energy park.

SmartZones

The Act authorizes the MEDC to designate up to 10 certified technology parks, plus an additional five before December 31, 2007, and an additional three before December 31, 2008. (According to the MEDC's website (MichiganAdvantage.org), there are currently 15 SmartZones in Michigan.) The bill would allow the MEDC to designate an additional three certified technology parks before March 31, 2013.

Under the bill, beginning January 1, 2014, there would be no limitation on the number of SmartZones created in Michigan. For any SmartZone created on or after that date, the requirement for revenue reimbursement of tax revenue lost for incremental tax revenue increases would have to be paid to local school districts, intermediate school districts, and the School Aid Fund from the Michigan Strategic Fund.

Duration of School Tax Capture

Under the Act, tax increment revenue includes ad valorem property taxes and specific local taxes attributable to the levy of the State pursuant to the State Education Tax Act, and local or intermediate school districts upon the captured assessed value of real and personal property in the development area in an amount equal to the amount necessary for certain purposes. Those purposes include funding or repaying an advance or obligation issued by or on behalf of an LDFA to fund the cost of public facilities related to or for the benefit of eligible property located within a SmartZone or certified alternative energy park. This cannot exceed 50% of the amount levied by the State and local and intermediate school districts for a period of up to 15 years, as determined by the State Treasurer, if the Treasurer determines that the capture is necessary to reduce unemployment, promote economic growth, and increase capital investment in the municipality.

Under the bill, upon approval of the State Treasurer and the president of the MEDC, a SmartZone could capture that tax revenue for an additional five years if the LDFA agreed to additional reporting requirements and modified its TIF plan to include regional collaboration as determined by the State Treasure and MEDC president.

In addition, upon approval of the State Treasurer and MEDC president, if a municipality that had created a SmartZone had entered into an agreement with another LDFA that did not contain a certified technology park to designate a distinct geographic area, as allowed under Section 12b of the Act, the LDFA that had created a certified technology park and the associated distinct geographic area could both capture school tax revenue for an additional 15 years, as determined by the State Treasurer and MEDC president.

(Section 12b allows a municipality that has an LDFA in which a certified technology park has been designated to enter into an agreement with another LDFA that does not contain a certified technology park to designate a distinct geographic area within the authority district as a certified technology park.)

Certified Alternative Energy Park

The Act allows a municipality that has created an LDFA to apply to the MEDC for designation of all or a portion of the LDFA district as a certified alternative energy park. An agreement designating a certified alternative energy park may not be made after December 31, 2011, but any agreement made on or before that date may be amended after it. The bill would change the deadline to December 31, 2012, and allow agreements entered into on or before that date to be amended after it.

The MEDC may designate a certified alternative energy park that it determines satisfies one or more of the criteria for designation. Under the bill, one of those criteria would be that the proposed certified alternative energy park included a military installation that was operated by the DOD and closed after 1980.

MCL 125.2152 et al. Legislative Analyst: Patrick Affholter

FISCAL IMPACT

The bill would reduce State and local unit revenue and increase State expenditures by an unknown amount depending upon the number of additional properties affected, the degree to which State Education Tax revenue was allowed to be captured, and the specific characteristics of any affected property. Some of the property that would be affected would be property that met the definition of "large, private corporate research and development center", a term not defined in the bill or statute, particularly in terms of what constitutes "large". State expenditures would be increased due to locally captured school operating mills, assuming that per-pupil funding guarantees were maintained.

While the bill would allow a capture plan to exclude taxes on personal property, it would not eliminate the tax liability on such property. The provisions would only allow the capture plan to not redirect the revenue to the authority.

The bill would eliminate any cap on the number of districts after January 1, 2014 and would require the Michigan Strategic Fund (MSF) to make any required reimbursements for lost revenue to local school districts, intermediate school districts, and the School Aid Fund. The reimbursement provisions would not affect revenue lost by other entities, such as local units of government. However, private-source funds within the MSF are generally regarded as not being subject to these requirements and the expenditure of public funds within the MSF is subject to appropriation. The statutory language cannot bind future legislatures to make an appropriation for such reimbursement and thus it is unknown to what extent any reimbursement would occur.

The Treasury Department estimates that during FY 2011-12, local units will receive $280.0 million less revenue than they otherwise would, due to various existing tax capture provisions (and affected property) similar to those in the bill. Affected local units include cities and counties, as well as other entities with the ability to levy property taxes, such as library and transportation authorities.

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