



Senate Fiscal Agency
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BILL**ANALYSIS**

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Senate Bill 579 (Substitute S-2 as passed by the Senate)
Senate Bill 619 (Substitute S-1 as passed by the Senate)
Senate Bill 620 (Substitute S-1 as passed by the Senate)
Senate Bill 621 (Substitute S-1 as passed by the Senate)
Senate Bill 622 (Substitute S-1 as passed by the Senate)
Senate Bill 623 (Substitute S-1 as passed by the Senate)
Senate Bill 624 (Substitute S-1 as passed by the Senate)
Sponsor: Senator Dave Robertson (S.B. 579 & 622)
Senator Jack Brandenburg (S.B. 619 & 620)
Senator Peter MacGregor (S.B. 621)
Senator Rick Jones (S.B. 623 & 624)

Committee: Finance

Date Completed: 3-24-16

RATIONALE

On average, libraries supposedly receive about 77% of their funding through special millage rates approved by the local community. It has been reported, however, that tax increment revenue authorities have been depleting library resources through the capture of tax increment revenue. Under a number of statutes, various types of authorities may capture tax revenue attributable to increases in property value within an area or district ("tax increment revenue"), and use that money for specific purposes. Many statutes that permit tax capture authorities have provisions allowing the governing body of a tax jurisdiction levying ad valorem property taxes that would otherwise be subject to capture, to opt-out of new tax captures under certain circumstances. Libraries, therefore, are generally able to opt-out of new tax capture plans created by authorities. However, libraries still are subject to captures under statutes that do not have opt-out provisions. In addition, it is reported that libraries sometimes have trouble opting-out of captures altogether, even if the law regulating the tax capture allows the libraries to do so.

To address these issues, it has been suggested that libraries be excluded from tax captures, including those under statutes that do not have provisions allowing libraries to opt-out, and be allowed to opt-in to tax captures if their boards or commissions consider it appropriate.

CONTENT

The bills would amend various statutes to do the following:

- **Exclude from "tax increment revenues" ad valorem property taxes and specific local taxes attributable to those property taxes levied for a separate millage for public library purposes approved by the electors after December 31, 2015, except as provided below.**
- **Specify that millage that was levied by a library board or commission for public library purposes before January 1, 2016, would be exempt from the capture of tax increment revenue if obligations of the authority capturing the revenue were paid, unless the library board or commission allowed the capture.**
- **Allow a library board or commission to exempt all or a portion of its taxes from capture, if it levied millage for public library purposes before January 1, 2016, and an authority modified its tax increment finance plan.**

- **Specify that a library board or commission could allow all or a portion of its taxes to be captured, with respect to a millage for public library purposes approved by the voters after December 31, 2015.**
- **Require any action of a library board or commission to have the concurrence of the chief executive officer of the city that created the library to be effective, if the library were created by a city under Act that authorizes cities, incorporated villages, and townships to establish and maintain free public libraries.**
- **Include in two of the laws exclusions from tax increment revenue that the other statutes currently provide for.**

Senate Bill 579 (S-2) would amend the Brownfield Redevelopment Financing Act. Senate Bill 619 (S-1) would amend the Tax Increment Finance Authority Act. Senate Bill 620 (S-1) would amend the downtown development authority Act. Senate Bill 621 (S-1) would amend the Corridor Improvement Authority Act. Senate Bill 622 (S-1) would amend the Water Resource Improvement Tax Increment Finance Authority Act. Senate Bill 623 (S-1) would amend the Local Development Financing Act. Senate Bill 624 (S-1) would amend the Historical Neighborhood Tax Increment Finance Authority Act.

Each of those Acts provides for the creation of an authority that may capture tax revenue.

Under the bills, if a library board or commission levied a separate millage for public library purposes that was levied before January 1, 2016, and all obligations of the authority were paid or defeased, then the levy would be exempt from capture under the respective Act, unless the library board or commission allowed all or a portion of its taxes levied to be included as tax increment revenue and subject to capture under the terms of a written agreement between the library board or commission and the authority. The written agreement would have to be filed with the clerk of the municipality.

If a library board or commission levied a separate millage for public library purposes that was levied before January 1, 2016, and the authority altered or amended the boundaries of the authority district, or included additional activities or extended the duration of the existing finance plan, then the library board or commission could, within 60 days after a public hearing was held, exempt all or a portion of its taxes from capture by adopting a resolution to that effect and filing a copy with the clerk of the municipality that created the authority.

For ad valorem property taxes or specific local taxes attributable to those ad valorem property taxes levied for a separate millage for public library purposes approved by the electors after December 31, 2015, a library board or commission could allow all or a portion of its taxes levied to be included as tax increment revenue and subject to capture under the terms of a written agreement between the library board or commission and the authority. The written agreement would have to be filed with the clerk of the municipality.

If a library were created under Section 1 or 10a of Public Act 164 of 1877, then any action of the library board or commission under the provisions of each Act that the bills would amend would require the concurrence of the chief executive officer of the city that created the library to be effective. (Section 1 of Public Act 164 of 1877 allows a city council to establish and maintain a public library and includes provisions regarding a millage levy to fund the library. Section 10a allows voters to petition a city for a tax to establish a public library and includes provisions regarding the establishment of the library if the levy is approved by the electors.)

In addition, most of the Acts that the bills would amend specify that tax increment revenue does not include ad valorem property taxes levied under either the Zoological Authorities Act or the Art Institute Authorities Act, or specific local taxes attributable to those ad valorem property taxes. Senate Bills 622 (S-1) and 624 (S-1) would include those provisions in the Water Resource Improvement Tax Increment Finance Authority Act and the Historical Neighborhood Tax Increment Finance Authority Act, respectively.

MCL 125.2652 & 125.2654 (S.B. 579)
125.1801 & 125.1803 (S.B. 619)

125.1651 & 125.1653 (S.B. 620)
125.2873 & 125.2888 (S.B. 621)
125.1773 & 125.1785 (S.B. 622)
125.2152 & 125.2154 (S.B. 623)
125.2843 & 125.2857 (S.B. 624)

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

Libraries give individuals access to many different resources, such as books, magazines, and the internet; help people apply for jobs or file their taxes online if they do not have the ability to do so themselves; and contribute to educating the local community, especially young children. A Library of Michigan 2014-2015 statistical survey reported that 57,755 children's programs (serving 1,549,603 individuals under the age of 14) and 125,092 total programs (serving 3,163,731 individuals) were conducted during the year, as reported by 385 Michigan libraries. The same survey reported that 49,911,802 individuals visited a Michigan library for any purpose during the 2014-2015 time frame.

A library is able to provide these unique services to local communities because of the special millage rates approved by the local community. The bills are necessary to ensure that adequate funds for these important services continue, and provide transparency for the voters who decided to provide tax dollars to a library.

According to Committee testimony, 116 tax captures take over \$3.0 million each year from 49 Michigan libraries. While 49 libraries represent only 13% of the libraries operating in Michigan, the \$3.0 million taken is more than the entire electronic resource budget for all Michigan libraries. Sometimes, a substantial percentage of funds can be redirected from a single library to a different project. For example, it is reported that a tax increment financing authority (TIFA) in Litchfield captures 47% of the library's operating budget.

Taxpayer money is not being used for the purposes determined by the voters when they approved a millage for a library. Money that would otherwise go to the library is being diverted to TIFAs that will use the money for different projects. While TIFA projects are generally beneficial to the entire community, taxpayer money is still being used in a way that was not agreed upon by the taxpayers or fully disclosed to them. The bills, therefore, would make it clear that revenue captured for libraries is exclusive to libraries, providing both appropriate funding and transparency.

Response: Library authorities should know that TIFAs will take from library resources. This deficit should be accounted for whenever a millage is created or adjusted to support a library. Furthermore, this situation, though complex, could be described to a taxpayer so there would be transparency; he or she could have a better understanding of where money is going and why.

Opposing Argument

The problems pertaining to tax captures should not be resolved in the manner proposed by the bills. The bills would approach TIFA conflicts one section at a time as legislation did previously by providing exemptions for specific institutions. The current situation creates an opportunity to discuss TIFAs broadly. While the bills would attempt to provide the necessary transparency for taxpayers regarding libraries and allow library authorities to decide how taxpayer dollars are spent, it would be more beneficial to discuss overarching changes to the current system to solve these problems, along with others that arise with TIFAs.

Legislative Analyst: Drew Krogulecki

FISCAL IMPACT

The bills would not change total local revenue; however, in some cases, the bills would redistribute local property tax revenue from authorities that use tax increment financing to public libraries that

levy a separate millage for public library purposes. In general, public libraries that levy a separate millage approved by voters would have the opportunity for increased revenue, and a brownfield redevelopment authority, tax increment finance authority, downtown development authority, corridor improvement authority, water resource improvement tax increment finance authority, local development finance authority, or historical neighborhood tax increment finance authority would receive less revenue under the bills. The amount of revenue shifted from an authority to a public library would depend on when a separate library millage was approved by the voters, decisions of public library boards and commissions with regard to allowing tax capture under some circumstances, local millage rates, and local property values.

Senate Bills 622 (S-1) and 624 (S-1) also would exclude millage levied under the Zoological Authorities Act and the Art Institution Authorities Act from capture under the Water Resources Improvement Tax Increment Authority Act and the Historical Neighborhood Tax Increment Finance Authority Act. This change previously was made for the other types of authorities using tax increment financing.

Fiscal Analyst: Elizabeth Pratt