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BILL ANALYSIS

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House Bill 5074 (as passed by the House)
Sponsor: Representative Will Snyder
House Committee: Local Government and Municipal Finance
Senate Committee: Economic and Community Development

Date Completed: 11-1-23

CONTENT

The bill would amend Part 4 (Local Development Finance Authorities) of the Recodified Tax Increment Financing Act to allow a local development finance authority (LDFA) to retroactively approve school tax revenue captures for a period of five years for certified technology parks.

Tax increment financing (TIF) is a tool in which all tax increment revenues (generally, property tax revenues) above the initial assessed value of eligible properties identified in a TIF plan are captured and reinvested for eligible purposes. Under the Act, "tax increment revenues" means the amount of ad valorem property taxes and specific local taxes attributable to the application of the levy of all taxing jurisdictions, such as a local or intermediate school district, upon the captured assessed value of eligible property.

Among other things, tax increment revenues may be used to fund or repay an advance or obligation issued by an LDFA to fund the cost of public facilities related to eligible property located within a *certified technology park*. To designate all or a portion of a district as a certified technology park, an LDFA must apply to the Michigan Economic Development Corporation (MEDC). The MEDC must consider the following criteria, among others, when reviewing the application:

-- A demonstration of significant support from an institution of higher education, a private research-based institute, or a large, private corporate research and development center located within the proximity of the proposed park.
-- A demonstration of a significant commitment on behalf of the institution of higher education, private research-based institute, or a large, private corporate research and development center to the commercialization of research produced at the certified technology park, as evidenced by intellectual property and tenure policies that reward faculty and staff for commercialization and collaboration with private businesses.
-- A demonstration that the proposed certified technology park will be developed to take advantage of the unique characteristics and specialties offered by the public and private resources available in the area in which the proposed park will be located.
-- The existence of or proposed development of a business incubator within the proposed certified technology park.[1]

Under the Act, if the State Treasurer determines that tax capture revenues are necessary to reduce unemployment, promote economic growth, and increase capital investment in the municipality in which a certified technology park is proposed to be located, the Treasurer may

[1] MCL 125.4412a

authorize an LDFA to capture up to 50% of taxes levied by the State[2] and by local and intermediate school districts for up to 15 years.[3]

The Treasurer and President of the MEDC may authorize an LDFA to continue its capture for an additional five years if the LDFA agrees to additional reporting requirements and modifies its TIF plan to include regional collaboration as determined by the Treasurer and the President of the MEDC. The bill would specify that the LDFA would have to agree to these conditions before the extension could occur.

Additionally, under the bill, if an LDFA met the additional reporting and regional collaboration requirements, the State Treasurer and President of the MEDC could retroactively approve an LDFA's capture for a certified technology park for an additional five years.

MCL 125.4402

BACKGROUND

Generally, certified technology parks are referred to as SmartZones. SmartZones provide geographic areas in which technology-based companies, entrepreneurs, and researchers can work in proximity with community assets, such as colleges and universities. Currently, there are 20 zones throughout the State, including three in the Upper Peninsula.[4]

Legislative Analyst: Abby Schneider

FISCAL IMPACT

The bill would have an indeterminate impact on State and local revenue as well as State expenditures. The bill would allow the retroactive approval of tax captures for plans that met the requirements of the bill. The bill would not allow retroactive captures, nor would it add additional years to an allowed capture. For the existing LDFA affected by the bill, the bill would provide correct authorization for captures that have already taken place and were expected to occur through 2024.

While the bill appears to be intended to address a technical issue specific to an existing LDFA, the language of the bill is general and would potentially be applicable in future situations. For example, if an LDFA were to continue capturing revenue beyond the default 15-year limit without seeking approval and such captures were discovered, the bill would allow them to seek approval retroactively rather than automatically invalidating the unauthorized captures.

Absent the bill, the affected LDFA would likely have to refund captured amounts. Any refunds would have an indeterminate impact on the LDFA and its obligations, although presumably the impact would be negative or the LDFA would not have pursued the extended capture in the first place. Similarly, absent the bill, State Education Tax (SET) revenue to the School Aid Fund (SAF) would increase, SAF expenditures would be reduced if the foundation allowance remained unchanged, and local unit revenue through 2024 would be higher. The amount of these changes would depend on the characteristics of the affected properties.

Fiscal Analyst: Cory Savino; Elizabeth Raczkowski; David Zin

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[2] Generally, the State Education Tax Act provides for the levy and collection of the SET, which is deposited into the SAF. For the 2023 tax year, property was assessed at six mills.

[3] The Act requires the State to reimburse intermediate school districts, local school districts, and the SAF each year for tax revenue lost that was captured by a certified technology park created after 2002.

[4] For a map of Michigan's SmartZones, see www.michiganbusiness.org.