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BILL ANALYSIS

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Senate Bill 329 (as enrolled)

Sponsor: Senator John J. H. Schwarz, M.D.

Senate Committee: Finance

House Committee: Taxation

**PUBLIC ACT 120 of 1989**

Date Completed: 7-27-89

**RATIONALE**

The Tax Increment Financing Authority (TIFA) Act allows a city to finance public improvements in tax increment financing districts by using the taxes generated on the "captured assessed value" of property in the district. The "captured assessed value" is the amount in any given year by which the current assessed value of the property exceeds the initial assessed value of the property at the time the tax increment financing plan for the district was approved.

Michigan communities may implement tax increment financing plans under three different laws: the downtown development authority act; the Tax Increment Finance Authority act; and the Local Development Financing Act. In 1988, the downtown development authority Act and the Tax Increment Finance Authority Act were amended to make the Acts more consistent with each other regarding the way TIFA plans are implemented. Reportedly, the Acts operated to allow some local units of governments using a TIFA plan to capture certain tax increments that the State ultimately paid for. For example, some TIFA plans excluded 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. Public Act 420 of 1988, which amended the TIFA Act, provided that the percentage of taxes levied for school operating purposes that were captured and used by the plan could not exceed the percentage of

any other tax levied by a city, village, township, or county for operating purposes that was captured and used by the plan. That legislation, now in effect, consequently reduces the amount by which the State subsidizes TIFA plans by a significant amount, which requires municipalities to make up the difference. It has been suggested that the limitations put on the capture of school millages be phased-in over a three-year period to help some 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. (Public Act 108 of 1989 already has made similar changes in the downtown development authority Act.)

**CONTENT**

The bill would amend the Tax Increment Finance Authority Act to revise a limitation on the percentage of taxes levied for school operating purposes that may be captured and used by a tax increment financing plan. As the Act was amended by Public Act 420 of 1988, the percentage of taxes levied for school operating purposes that is captured and used by a plan cannot exceed the percentage of any other tax levied by a city, township, village, or county for operating purposes that is captured and used by the plan. For this purpose, taxes levied by a county for operating purposes include only millage allocated for county or charter county purposes under the Property Tax Limitation Act. The bill specifies that this limitation would not apply to the portion of the captured assessed value shared pursuant to an

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agreement, entered into before 1989, with a county or city in which an enterprise zone was approved under the Enterprise Zone Act. If a portion of the captured assessed value were shared with a municipality in 1988, for tax years 1989 through 1991, a plan could share with the municipality the amount allowed by this limitation or the following applicable amount, whichever was greater:

- For the 1989 tax year, 100% of the dollar amount shared with the municipality in 1988.
- For the 1990 tax year, two-thirds of the dollar amount shared in 1988.
- For the 1991 tax year, one-third of the dollar amount shared in 1988.

MCL 125.1813

### **FISCAL IMPACT**

The bill would have no fiscal impact on local units of government. There could be a minor increase in State payments to in-formula schools.

### **ARGUMENTS**

#### **Supporting Argument**

Prior to the passage of Public Act 420 of 1988 there was nothing to prevent a TIFA from capturing a school district's millage on the increased value of property in a TIFA plan and ignoring the city and county millage on the value of a property, knowing that the State would make up the difference between the amount of tax revenue the school district should get according to the school aid formula and the amount it actually receives. Public Act 420 ended that practice, by providing that the percentage of taxes levied for school operating purposes that were captured and used by a plan could not exceed the percentage of any other tax levied for operating purposes that were captured and used by the plan. The bill would help local units gradually adjust to the limitations contained in Public Act 420 by phasing in the limitations, thus easing and reducing the losses that local units will otherwise suffer.

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