House
Legislative
Analysis
Section

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INTERLOCAL AGREEMENTS: PROPERTY TAXES

House Bill 4592 with committee amendment
First Analysis (6-2-87)

Sponsor: Rep. Mary C. Brown
Committee: Taxation

THE APPARENT PROBLEM:

Some people active in community development believe that more ways must be found to encourage communities to collaborate on economic development efforts rather than compete. When economic development is good for a region as a whole, it is counterproductive for localities to fight among themselves since success might more likely follow from cooperative endeavors. Obviously, cooperation is difficult when, for example, the local unit that lands a new commercial or industrial facility gains all the resulting tax revenue while a neighboring unit gets none but instead faces increased expenditures (e.g., road repairs, traffic control, water and sewerage services, etc.). A proposal made by a Kalamazoo citizens group would allow cooperating communities to agree to share tax revenues from new facilities no matter where they were located.

THE CONTENT OF THE BILL:

The bill would amend the Urban Cooperation Act so that two or more local units of government could enter an interlocal agreement to share all or a portion of revenues from general ad valorem property taxes, or from specific taxes in lieu of property taxes, levied on certain commercial or industrial property. The agreement would require the approval of each local legislative body, and would have to describe the commercial or industrial property upon which the shared taxes would be levied. The agreement would also have to specify the duration of the agreement and available methods for early termination, the formula for sharing tax revenue, and the schedule and method of distributing the revenue. No such agreement could be entered into after December 31, 1992.

The bill would apply to counties, cities, villages, townships, and charter townships only; it would define "local governmental unit" so as to exclude other entities, such as school districts.

The bill would also provide that if an interlocal agreement of the kind described above involved a project or facility that had the effect of transferring employment from one or more local governmental units to another, a local unit could not enter into the agreement unless each unit that would lose employment consented by resolution to the agreement.

MCL 124.502

FISCAL IMPLICATIONS:

There is no fiscal information at present.

ARGUMENTS:

For:

The bill would encourage neighboring communities to work together on economic development projects by reducing the worries about who will "win" and "lose" in efforts to attract business and industry. Local units will be able to share the cost of developing the local economy without fighting over where a new business will be located. It does this by allowing two or more local units to agree to share revenue from commercial and industrial property. The bill does not require anybody to do anything. It simply allows local units to voluntarily enter agreements of their own design. It would not affect school taxes or revenues. The property would be taxed at the rate of the unit in which it was located (not at some alternative or combined rate). Revenues would be divided by agreement of the local units. Each participating unit would decide how to spend its share of revenues. In the case of a project that drew jobs to one community at the expense of others, each affected unit would have to consent for there to be any interlocal agreement. Local units are able now to engage in cooperative ventures of various kinds and can share revenue for a combined purpose, but this bill will allow communities to use shared revenue for their own purposes.

Against:

Some people have expressed concern about the possibility of local units being coerced by other communities. For example, a township might have an incentive to agree to an annexation of property subject to a shared-revenue agreement if the taxes on the property would increase sufficiently to produce a revenue windfall for the township. The transfer-of-employment provision could lead to communities holding hostage the development plans of their neighbors.

Response: The bill provides for a five-year trial of interlocal sharing-of-revenue agreements, so the legislature can address problems that arise. The bill's aim is to facilitate voluntary arrangements between communities. Local units are not required to enter agreements that will disadvantage them. Agreements can contain provisions specifying conditions under which they will be automatically terminated (e.g. annexations).

POSITIONS:

The Michigan Municipal League supports the bill. (5-27-87)