SFA BILL ANALYSIS
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House Bill 4592 (as reported with amendment)
Sponsor: Representative Mary C. Brown
House Committee: Taxation
Senate Committee: Finance

Date Completed: 10-8-87

RATIONALE

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 needed for a region as a whole, it is considered counterproductive for localities to fight among themselves since success might more likely follow from cooperative endeavors. Nevertheless, 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 suggested by a Kalamazoo citizens group would allow cooperating communities to agree to share tax revenues from new facilities no matter where they were located.

CONTENT

The bill would amend the Urban Cooperation Act to allow two or more local units of government to enter into 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 also would 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.

MCL 124.502

SENATE COMMITTEE ACTION

As passed by the House, the bill contained a provision which stated that if an interlocal agreement involved a project or facility that had the effect of transferring employment from one or more local units to another, a local unit could not enter into the agreement unless each local unit in the State that would lose employment consented to the agreement by resolution. The Senate Finance Committee adopted an amendment to the bill to remove this provision. It was argued that the provision could lead to communities' holding hostage the development plans of other communities, whether they were neighbors or hundreds of miles apart.

FISCAL IMPACT

House Bill 4592 would impact on the pooling of local property tax revenues among local governments. Passage of the bill would not change the overall level of property taxes collected locally.

ARGUMENTS

Supporting Argument

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 would be able to share the cost of developing the local economy without fighting over where a new business could be located. The bill would facilitate 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 enter into voluntary 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. Local units are able now to engage in cooperative ventures of various kinds and can share revenue for a combined purpose, but this bill would allow communities to use shared revenue for their own purposes.

Opposing Argument

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.

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

OVER

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