

House Bill 5121 (Substitute H-1)
First Analysis (10-28-97)

Sponsor: Rep. Tom Alley
Committee: Tax Policy

THE APPARENT PROBLEM:

With the passage of Proposal A in 1994, local school property taxes have been significantly reduced, and school taxes are no longer available for capture by tax increment finance authorities (or TIFAs). Those local authorities had been authorized by statute to capture the growth in tax revenue in a designated development area for use in financing a wide variety of public improvements. In recognition of the effect the new tax system would have on existing TIFAs and on projects then in the "pipeline", the legislature permitted the capture of state and local school taxes in the amount needed to cover those bond issues and also required state reimbursement in cases where the payment of existing obligations could not be met due to property tax reductions. Generally speaking, the protected bond issues were those issued before August 19, 1993 (known as "eligible obligations") and those issued after that date but before December 31, 1994 and stemming from TIFA plans approved before August 19, 1993 (known as "other protected obligations").

Reportedly, a sewer project in the city of Gladwin was funded by an economic development infrastructure grant and local matching funds. The matching funds were provided from a portion of a county bond issue to be repaid from revenue captured by a downtown development authority. (Apparently, cost overruns led to a subsequent bond issue.) This arrangement was determined by the state not to meet the definition of "other protected obligation" as required to capture the state education tax. Legislation has been introduced to address this special case.

THE CONTENT OF THE BILL:

House Bill 5121 would amend the definition of "other protected obligation" in the Local Development Financing Act to include that portion of a bond issued by an authority, or by a municipality on behalf of an authority, or by a county on behalf of a municipality, after August 19, 1993 and before December 31, 1996, to finance a project described in a tax increment finance plan approved by a municipality before December 31, 1993,

that was partially funded by a public agency grant for which a grant agreement was signed before December 31, 1993. The amount of this other protected obligation, excluding interest payments, could not exceed the municipality's or authority's required contribution under the grant.

The bill also would make some technical amendments to move language regarding the reporting to the Department of Treasury of "other protected obligations" from one place in the act to another.

MCL 125.2152 and 125.2161a

BACKGROUND INFORMATION:

Two related bills, Senate Bills 698 and 699, are on the Senate calendar as of 10-27-97. They would amend other TIFA acts to address the same case.

FISCAL IMPLICATIONS:

The House Fiscal Agency reports that the bill could have some small impact on the amount of local school taxes captured by the authority and there would be a cost to the School Aid Fund to replace the lost local tax base. (Fiscal Note dated 10-20-97)

ARGUMENTS:

For:

The bill would address a special case in Gladwin and would allow an authority in that city to capture school tax revenue so that the city can repay bonds issued (by the county on the city's behalf) to match a grant for the funding of a sewer project.

Against:

It would be a bad precedent to make an exception to allow the capture of school revenues by a tax increment authority not now permitted to do so.

POSITIONS:

The Michigan Municipal League supports the bill. (10-27-97)

The Department of Treasury is opposed to the bill. (10-24-97)

Analyst: C. Couch

■ This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.