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TIFA EXCEPTION

House Bill 6175 as introduced
First Analysis (10-14-98)

Sponsor: Rep. Raymond Basham
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). This kind of local authority (which includes downtown development authorities and local development finance 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 existing and pipeline financing obligations 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").

Representatives of the city of Romulus say that the city was authorized as of 1994 to issue $20 million in bonds under a TIFA plan for a new highway interchange and local road projects aimed at promoting economic development on vacant farmland near the I-94 freeway and north of Metro Airport. (This qualified as a pipeline project, say local officials.) Eventually, $6 million of the bonding was used as the local match for a federal project to build the new highway interchange but the local road projects and the commercial development were delayed, and $14 million in bonding was retired because there was not sufficient tax increment revenue to support them. Now, however, the city wants to revive the larger road building project because of the interest of a major retailer in locating in the area. But the project no longer meets the definition in the TIFA statute aimed at protecting pipeline projects and so school taxes are not available to back the bonds. Legislation has been introduced to amend the statute so that the Romulus project can proceed and the original amount of authorized bonds can be issued.

THE CONTENT OF THE BILL:

The bill would amend the Tax Increment Financing Authority Act to amend the definition of "other protected obligation." That term would be extended to apply to an obligation issued or incurred by an authority or by a municipality on behalf of an authority that met all of the following qualifications.

-- The obligation was issued or incurred to finance a project described in a tax increment financing plan approved before August 19, 1993 by a municipality in accordance with the act.

-- The obligation previously qualified as an other protected obligation and was issued or incurred by the authority before December 31, 1994 for the purpose of financing the project.

-- A portion of the obligation issued or incurred by the authority before December 31, 1994 for the purpose of financing the project was retired prior to December 31, 1996.

-- The obligation does not exceed the dollar amount of the portion of the obligation retired prior to December 31, 1996.

MCL 125.1801

BACKGROUND INFORMATION:

Recent legislation (Public Acts 201 and 202 of 1997 and Public Act 1 of 1998) amended TIFA-related statutes to clarify this section in order to make ongoing projects in four Michigan communities eligible to collect school taxes; there had been disputes between the local units and the state over whether the projects met the requirements of the acts as regards existing and pipeline TIFA projects.

FISCAL IMPLICATIONS:

There is no information at present.

ARGUMENTS:

For:

The bill would permit the city of Romulus to capture school property taxes to back bonds to be used to complete a long-planned road construction project needed for the location of a large retail development. These bonds would have been within the original time frame of the act being amended had the project not been stalled and the bonds retired. Advocates say that increased taxes from the economic development would offset losses in school property taxes. Local officials say the $50 million-plus retail project is projected to generate $4 million in new real estate taxes and $13 million in new sales taxes annually. The capture of school taxes is necessary to support a bond issue.

Against:

It is unwise to continue making exceptions to allow the capture of school revenues by tax increment financing authorities that would otherwise not be permitted to do so. The restrictions on revenue capture were enacted originally (in the wake of Proposal A) to prevent this.

POSITIONS:

Representatives of the city of Romulus have indicated support for the bill. (9-24-98)

The Department of Treasury is opposed to the bill. (9-24-98)

Analyst: C. Couch

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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.