

Senate Fiscal Agency
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SFA



BILL ANALYSIS

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Senate Bill 698 (as enrolled)
Senate Bill 699 (as enrolled)
Sponsor: Senator Bill Schuette
Senate Committee: Economic Development, International Trade and Regulatory Affairs
House Committee: Tax Policy

PUBLIC ACT 201 of 1997
PUBLIC ACT 202 of 1997

Date Completed: 1-21-98

RATIONALE

In 1993, the City of Gladwin was awarded an Economic Development Infrastructure Grant to fund a project to improve its sewage system. The grant contract was entered into in December 1993. The local match for the project was to come from proceeds of a downtown development authority (DDA) bond issue. The grant and the bond proceeds were depleted before the completion of the project. The city had to sell additional bonds at \$250,000 to complete the grant, and tax increment revenue or reimbursement is not available to defray the cost.

Because of the 1994 passage of Proposal A, which significantly reduced local school property taxes, DDAs and other tax increment finance authorities (TIFAs) are not able to capture the growth in school tax revenue, except to repay certain protected obligations. These obligations generally are those that were 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"). It was suggested that these categories should be expanded in order to enable the Gladwin DDA to meet its obligations.

CONTENT

Senate Bill 698 amended the Tax Increment Finance Authority Act, and Senate Bill 699 amended the downtown development authority Act, to expand the Acts' definitions of "other protected obligation"; and allow the State Tax Commission to require reimbursement calculations to be made using a 12-month debt payment period. Each bill states that its amendments are retroactive and

effective for taxes levied after 1993.

(A third bill, Enrolled House Bill 5121, would make similar amendments to the Local Development Financing Act.)

Senate Bill 698

The bill includes in the definition of "other protected obligation" an obligation issued or incurred by a municipality under a contract executed on December 19, 1994, as subsequently amended, between the municipality and the authority to implement a project described in a tax increment finance plan approved by the municipality under the Act before August 19, 1993, for which a contract for final design was entered into by the municipality before March 1, 1994. The municipality must make final payment by December 31, 2001.

Under the TIFA Act, in order to capture school tax revenue or to receive a distribution from the State for revenue that would have been captured but for Proposal A, an authority must file an annual claim with the State Tax Commission. Among other things, the claim must calculate the amount of distributions and tax increment revenue. Under the bill, the State Tax Commission may provide that the reimbursement calculations and the calculation of allowable capture of school taxes must be made for each calendar year's tax increment revenues using a 12-month debt payment period used by the authority and approved by the State Tax Commission.

Senate Bill 699

The bill includes under "other protected obligation" a loan from a municipality to an authority if the loan

was approved by the municipality's legislative body on April 18, 1994; and, funds that were spent to match a grant received by a municipality on behalf of an authority for sidewalk improvements from the Department of Transportation if the municipality's legislative body approved the grant application on April 5, 1993, and the municipality received the grant in June 1993.

In addition, for taxes captured in 1994, "other protected obligation" includes an obligation issued or incurred to finance a project if the following conditions are met: the obligation requires raising capital for or paying for the project whether or not a borrowing is involved; the obligation was part of a development plan and the tax increment plan was approved by a municipality on May 6, 1991; the obligation is in the form of a written memorandum of understanding between a municipality and a public utility on October 27, 1994; and the authority or municipality captured school taxes during 1994.

The bill also amended the definition of "eligible obligation" to include an authority's written agreement entered into before August 19, 1993, to pay an obligation issued after August 18, 1993, and before December 31, 1996, by another entity on behalf of the authority.

In regard to the calculation of distributions and revenue, the bill includes the same language added by Senate Bill 698 (described above).

MCL 125.1801 & 125.1812a (S.B. 698)
125.1651 & 125.1663b (S.B. 699)

ARGUMENTS

(Please note: The arguments contained in this analysis originate from sources outside the Senate Fiscal Agency. The Senate Fiscal Agency neither supports nor opposes legislation.)

Supporting Argument

The bills will allow a municipality's tax increment finance authority or downtown development authority to meet its obligation to fund a public agency grant match by capturing future increments to reimburse the municipality for financing a project partially funded by the public agency grant. The municipality will then be able to use this reimbursement to further the State and municipality's commitment to address the environmental and social concerns in the area.

Along with the Gladwin DDA, the Auburn Hills, Howell, and Pinconning DDAs also will be able to meet their obligations.

Legislative Analyst: N. Nagata

FISCAL IMPACT

Senate Bill 698

This bill will allow municipalities or tax increment finance authorities, that meet the definition described, to capture school taxes to repay bonds issued.

Senate Bill 699

This bill will allow municipalities or downtown development authorities, that meet the definition described, to capture school taxes to repay bonds issued.

Fiscal Analyst: R. Ross

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This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.