

# Legislative Analysis



## ALLOW RETROACTIVE TAX CAPTURE FOR SMARTZONES

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**House Bill 5074 as reported from committee**

**Sponsor: Rep. Will Snyder**

**Committee: Local Government and Municipal Finance**

**Complete to 10-18-23**

Analysis available at  
<http://www.legislature.mi.gov>

*(Enacted as Public Act 312 of 2023)*

### SUMMARY:

House Bill 5074 would amend Part 4 (Local Development Finance Authorities) of the Recodified Tax Increment Financing Act to allow local development finance authorities (LDFAs) to retroactively capture certain tax revenues for certified technology parks, commonly known as “SmartZones.”

Under the act, these special technology parks or zones are able to capture the growth in property taxes (tax increments) within the park, with the revenue to be used in the park for a variety of purposes, including infrastructure construction, property purchases, marketing and promotion, and creating high-technology support facilities such as laboratories and training centers. There are currently 20 of these zones.<sup>1</sup> The act also requires the state, in the case of the certified technology parks created after 2002, to reimburse local school districts, intermediate school districts, and the state's School Aid Fund for tax revenue lost.

The act currently authorizes an LDFA to capture up to 50% of state and local school taxes for up to 15 years for certain bonding to finance public facilities for a certified technology park, with the approval of the state treasurer. It also allows for a five-year extension of school tax capture if the LDFA agrees to additional reporting requirements and modifies its tax increment financing plan to include regional collaboration as determined by the state treasurer and the president of the Michigan Economic Development Corporation (MEDC).<sup>2</sup>

The bill would allow the MEDC president and the state treasurer to retroactively approve an LDFA’s school tax capture for a certified technology park for an additional five years beyond the five-year extension described above, as long as the LDFA remains in compliance with the additional reporting and regional collaboration requirements.

MCL 125.4402

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<sup>1</sup> For a map of the existing zones, see:

<https://www.michiganbusiness.org/4a810c/globalassets/documents/reports/fact-sheets/mismartzonefactsheet.pdf#page=2>.

<sup>2</sup> The extension can be 15 years in cases where a municipality that has created a certified technology park has entered into an agreement with another LDFA that does not contain a park to designate a “distinct geographic area” within the authority as a technology park. This allows, generally speaking, for a community without a designated SmartZone to have a SmartZone by piggybacking on a SmartZone in another community. House Bill 5074 would not affect this provision.

**BRIEF DISCUSSION:**

According to committee testimony, the city of Muskegon applied for a five-year extension of its SmartZone in 2015, which was approved by the MEDC. The extension would have taken effect in 2020 after the end of the zone’s initial 15-year term, but a state-level paperwork error ultimately prevented the extension from being ratified. House Bill 5074 would allow for a retroactive approval process so that Muskegon SmartZone can receive the extension.

**FISCAL IMPACT:**

To the extent that it authorizes the capture of state education tax (SET) and local or intermediate school district levies that would otherwise revert to the respective taxing bodies, the bill would reduce state School Aid Fund and local revenues. Since revenue from school operating mills could be reduced under the bill, School Aid Fund expenditures could increase, assuming the foundation allowance was maintained. The specific impact would depend on the characteristics of the affected property and the extent to which the taxes were eligible for capture for the additional period authorized under the bill.

**POSITIONS:**

Representatives of the following entities testified in support of the bill (10-11-23):

- Michigan Department of Treasury
- City of Muskegon

The Michigan Economic Development Corporation indicated support for the bill. (10-11-23)

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