Senate Fiscal Agency
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BILL ANALYSIS

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Senate Bills 1222 and 1223 (as enacted) **PUBLIC ACTS 480 & 481 of 2018**
Sponsor: Senator Mike Nofs
Senate Committee: Economic Development and International Investment
House Committee: Tax Policy

Date Completed: 4-2-19

RATIONALE

Public Acts 154 through 157 of 2008 amended the Brownfield Redevelopment Financing Act, the Local Development Financing Act, the Tax Increment Financing Authority Act, and the downtown development authority Act, respectively, to reimburse different authorities for revenue losses attributed to the exemption of personal property from various school taxes. The reimbursements are based on the captured value of industrial and commercial personal property. However, the personal property tax reform that occurred in 2014 minimized the tax base used to calculate reimbursement under Public Acts 154 through 157 of 2008 by reducing the taxable value of certain personal property.

For most authorities, the revenue lost because of the reform is offset by reimbursements made under Public Act 86 of 2014, which created the Local Community Stabilization Authority and required it to distribute money to locals for certain purposes. Nevertheless, the Act does not reimburse those authorities that are collecting revenue from school taxes on personal property. Therefore, it was suggested that the Brownfield Redevelopment Financing Act and the Recodified Tax Increment Financing Act (which governs downtown development authorities, tax increment finance authorities, and local development finance authorities, among others) be amended to ensure that the authorities that were not receiving reimbursement for the lost revenue receive compensation.

CONTENT

Senate Bill 1222 and Senate Bill 1223 amended the Brownfield Redevelopment Financing Act and Part 2 (Downtown Development Authorities), Part 3 (Tax Increment Finance Authorities), and Part 4 (Local Development Finance Authorities) of the Recodified Tax Increment Financing Act, respectively, to modify formulas used to calculate the amount a local tax collecting treasurer may have to retain and pay to an authority for reduced allowable school tax capture for fiscal years beginning January 1, 2019, and each year thereafter, and make eligible for reimbursement the exemption of industrial personal property from school operating taxes.

The bills took effect on December 27, 2018.

Specifically, each Act and Part listed above allows an authority, if the amount of tax increment revenue lost as a result of certain personal property tax exemptions provided by the Revised School Code, the State Education Tax Act, the plant rehabilitation and industrial development Act, and the General Property Tax Act will reduce the allowable school tax capture received in a fiscal year, and with the Department of Treasury's approval, to request the local tax collecting treasurer to retain and pay to the authority taxes levied within the municipality under the State Education Tax Act to be used for listed purposes. The bills also make eligible for reimbursement the exemption of industrial personal property from school operating taxes under Section 1211(1) of the Revised School Code.

Under Michigan statute, the aggregate amounts that may be paid to the authorities are determined by a formula, which includes the amount by which the tax increment revenue the authority would have received and retained for the fiscal year, excluding taxes exempt under the General Property Tax Act if the personal property tax exemptions described above were not in effect, exceed the tax increment revenue the authority actually received for the fiscal year. The bills specify that, for fiscal years beginning January 1, 2019, and each year thereafter, the amount must be calculated using the greater of the following:

-- The captured assessed value of industrial personal property, commercial personal property, and the personal property component of exemption certificates granted under the plant rehabilitation and industrial development Act, that are sited on property classified as either industrial or commercial, for the authority's fiscal year ending in the current year.
-- The 2013 captured assessed value of industrial personal property, commercial personal property, and the personal property component of exemption certificates granted under the Act that are sited on property classified as either industrial or commercial.

MCL 125.2665a (S.B. 1222)
125.4213c et al. (S.B. 1223)

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

All authorities in Michigan are being reimbursed to cover lost revenues attributed to the personal property tax reform that occurred in 2014. However, authorities collecting revenue from school taxes on personal property never received reimbursement like other authorities did. The situation was burdensome for those municipalities in which those authorities were established. The bills ensure that those authorities receive proper reimbursement, as was intended by the Legislature for all authorities following the 2014 reform.

Legislative Analyst: Drew Krogulecki

FISCAL IMPACT

The bills will have a negative fiscal impact on the State and a positive fiscal impact on affected authorities. Specifically, they will reduce State School Aid Fund (SAF) revenue and increase State expenditures, while increasing revenue to the affected authorities by an equal amount. School Aid Fund revenue will decrease to the extent that State Education Tax (SET) revenue is approved to be retained and paid to an authority. It is unknown whether appropriations will be made from the General Fund to offset any reduction in SET revenue, however the Acts also require the Legislature to appropriate funds to reimburse authorities when SET capture is insufficient to reimburse authorities for their loss.

According to the Michigan Department of Treasury, the bills will affect primarily three different authorities: the Detroit Local Development Finance Authority (LDFA), the Battle Creek Downtown Development Authority (DDA), and the Battle Creek Tax Increment Finance Authority (TIFA). The reimbursements to the three authorities will be approximately $3.45 million per year until their eligible obligations are retired. The Detroit LDFA reimbursement will be approximately $1.3 million per year and should be retired in about five years. The remaining $2.15 million reimbursement will be for the Battle Creek DDA and TIFA, which will retire in 15-25 years.

The amount of any fiscal impact outside of those authorities should be small, likely less than $100,000 per year, but will depend upon the specific characteristics of the local units affected, the amount of revenue appropriated to authorities, and the amount of State Education Tax allowed to be retained by authorities.

Fiscal Analyst: Ryan Bergan
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