

Legislative Analysis



TIFA: ELIGIBLE OBLIGATIONS

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House Bill 4482 (Substitute H-1)

Sponsor: Rep. Michael Nofs

Committee: Commerce

Complete to 3-23-05

A SUMMARY OF HOUSE BILL 4482 AS REPORTED FROM COMMITTEE

The bill would amend the definition of the term "eligible obligation" in the Tax Increment Finance Authority Act (MCL 125. 1801) so that the term would include an ongoing management contract or contract for professional services entered into by the authority or a municipality on behalf of the authority in 1991, and related similar agreements executed before 1984, if the 1991 agreement both provides for automatic annual renewal and incorporates by reference the prior related amendments. However, the future receipt of school taxes (both local and state school taxes) to pay costs arising under those agreements would be limited to:

**\$3 million each year for taxes levied after June 30, 2005 through July 1, 2010;

**\$2.75 million for taxes levied after June 30, 2010 and before July 1, 2011;

**\$2.5 million for taxes levied after June 30, 2011 and before July 1, 2012;

**\$2.225 million for taxes levied after June 30, 2012 and before July 1, 2013;

**\$1.6 million for taxes levied after June 30, 2013 and before July 1, 2014;

**\$1.25 million for taxes levied after June 30, 2014 and before July 1, 2015; and no captured taxes after that.

BACKGROUND INFORMATION:

Tax increment finance authorities, or TIFAs, are authorized by statute to capture the growth in tax revenue in a designated development district for use in financing public improvement projects within the district. Since the passage of the Proposal A school financing plan in 1994, TIFAs have been restricted from capturing school taxes within tax increment finance districts, except in cases where obligations had been entered into before or during the implementation of Proposal A. These are known as "eligible obligations" and "other protected obligations." The term "eligible obligations" currently refers to an obligation issued or incurred on behalf on an authority before August 19, 1993, and its subsequent refunding, as well as a 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 on an authority.

According to testimony before the House Committee on Commerce, school taxes that were being captured by a Battle Creek-area TIFA for economic development projects at the former Camp Custer were assumed to have been grandfathered when Proposal A was enacted. Questions were later raised by the Department of Treasury about the TIFAs continued ability to collect school taxes, however, because the agreement between the City of Battle Creek and Battle Creek Unlimited, the economic development entity, involved a series of renewable one-year contracts rather than a single long-term agreement. Reportedly, the local entities and the Department of Treasury have reached a resolution of this issue.

FISCAL IMPACT:

The bill designates the amounts of school taxes that a local tax increment financing authority can continue to capture and retain through June 30, 2015.

POSITIONS:

The Department of Treasury has indicated support for the bill. (3-22-05)

Representatives from Battle Creek Unlimited testified in support of the bill. (3-22-05)

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