



Senate Fiscal Agency  
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**BILL ANALYSIS**

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House Bill 4482 (Substitute H-1 as passed by the House)  
Sponsor: Representative Michael Nofs  
House Committee: Commerce  
Senate Committee: Finance

Date Completed: 4-27-05

**CONTENT**

The bill would amend the Tax Increment Finance Authority Act's definition of "eligible obligation" to include an ongoing management contract or contract for professional services or development services that was entered into by an authority or a municipality on behalf of an authority in 1991, and related similar written agreements executed before 1984, if the 1991 agreement both provided for automatic annual renewal and incorporated by reference the prior related agreements; however, receipt by the authority of tax increment revenue from State and local school taxes in order to pay costs arising under those contracts would be limited to the following:

- The amount permitted to be received by an authority for an eligible obligation as provided in the Act, for taxes levied before July 1, 2005.
- \$3.0 million each year for taxes levied after June 30 and before July 1 between June 30, 2005, and July 1, 2010.
- \$2,750,000 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.
- \$2,225,000 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.
- \$1,250,000 for taxes levied after June 30, 2014, and before July 1, 2015.
- \$0 for taxes levied after June 30, 2015.

Currently, the Act defines "eligible obligation" as an obligation issued or incurred by an authority or by a municipality on behalf of an authority before August 19, 1993, and its subsequent refunding by a qualified refunding obligation. Eligible obligations 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.

MCL 125.1801

**BACKGROUND**

Under the Tax Increment Finance Authority Act, an authority may "capture" ad valorem property taxes and specific local taxes attributable to the incremental increase in the value of property in an authority district, or "tax increment revenue". Under legislation enacted after the approval of Proposal A in 1994, revenue from the State education tax and local and intermediate school district property taxes may be captured only to repay obligations

incurred before August 19, 1993, including eligible obligations, eligible advances, and other protected obligations.

Legislative Analyst: J.P. Finet

### **FISCAL IMPACT**

While it is unknown how many authorities would qualify under the bill, the changes are expected to affect very few authorities and might not affect more than the Battle Creek authority (which testified in support of the bill in the House). The bill would increase the revenue that could be captured from State and local education taxes by up to \$3.0 million per 12-month period, for periods running from July 1, 2005, to June 30, 2010. After June 30, 2010, the amount would decline through June 30, 2015. State education taxes are estimated to comprise approximately 18.3% of the education mills levied in Battle Creek (and 18.9% statewide), indicating that the bill would reduce State education tax revenue to the School Aid Fund by approximately \$550,000 per year through 2010. Similarly, because School Aid expenditures rise to offset any decline in locally raised school district revenue, in order to maintain per-pupil funding guarantees, the bill would increase School Aid Fund expenditures by approximately \$2.5 million per year through 2010.

Reportedly, the bill would provide statutory permission for a practice that already is occurring. To the extent that revenue presently is being captured, the bill would have no fiscal impact on the State and the losses identified in the previous paragraph instead would be increased revenue (and decreased expenditures) should the practice cease if the bill were not enacted.

This analysis is preliminary and will be revised as new information becomes available.

Fiscal Analyst: David Zin

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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.