ECONOMIC DEVELOPMENT TOOLS FOR LOCAL GOVERNMENTS

ECONOMIC DEVELOPMENT - The "Good Years"

- 1960s -- urban revitalization was issue
- Federal government enabled a growing list of tools using federal tax exemptions for interest on bonds issued by local governments for economic development purposes
- 1970s -- heyday of tax exempt industrial development bonds

ECONOMIC DEVELOPMENT - The "Good Years"

- 1970s State began offering additional benefits to industries and commercial enterprises to locate in Michigan
- These benefits included tax abatements for new industrial facilities and rehabilitating old industrial facilities
- New State tools also included downtown development authorities

ECONOMIC DEVELOPMENT - The Decline

- 1970s - 1980s proliferation of types of tax exempt bond issues for private development purposes brought attention of IRS
- IRS began imposing restrictions on uses - no massage parlors, etc.
- Then no automobile dealerships
- Then no big corporations

ECONOMIC DEVELOPMENT - The Decline

- 1985 marked the greatest change to the use of tax exempt financing for economic development purposes with the 1986 Tax Reform Act
- 1970s-1980s proliferation of tax increment financing plans in the State led to alarm at State level about captured taxes

ECONOMIC DEVELOPMENT - The Decline

- 1986 - froze the use of the popular TIFA Act
- 1986 - limited use of TIF financing to industrial purposes

THE GOOD OLD DAYS

- Combination of tax increment financing to put in roads, water, sewer to bring industrial projects and EDC tax exempt financings for those projects
- Combination of tax increment financing with local housing code enforcement to demolish non-code housing and sell vacant land to neighbors to increase lot size

THE GOOD OLD DAYS

- Combination of tax increment financing and environmental enforcement to clean up contaminated sites and replace them with non-dangerous uses
- Combination of tax increment financing, economic development bonds, transportation economic development funds, and tax abatements to bring in development

BASIC CONCEPTS of TIF

- "If we build it they will come" theory of economic development.
- Put in infrastructure to make ready for new businesses = eventually increased property values.
- Use the increased property tax revenues to pay the debt service costs for the infrastructure.

WHO USES TIFs?

- Cities, townships and villages (Downtown Development Authority Act)
- Cities (Tax Increment Finance Authority Act)
- Cities and "urban townships" (Local Development Financing Authority Act)
- Cities, townships, villages and counties (Brownfield Redevelopment Financing Act)

WHY SO MANY TYPES OF TIFS?

- DDAs are for downtowns only.
- TIFAs are for cities only, but all over the city.
- LDFAs are for industrial development and certain high tech development only, with more limitations than TIFAs.
- Brownfields are for environmental cleanup only.

WHOSE TAX REVENUES PAY FOR TIFs?

- "Capture" means compare taxable value of property at time tax increment financing plan is adopted to taxable value each year thereafter, and "capture" that value for TIF.
- "Tax increment" means (meant) the proceeds of the levy by ALL units on the "captured assessed value" of ALL property in the specified TIF area.

WHO BEARS THE BRUNT OF TIFs?

- Counties
- Pre- 1994 "Out of formula" school districts
- Pre-1994 The State for "in formula" school districts
- Other taxing units (community colleges, libraries, etc.)

HISTORICAL MILESTONES for TIFs

- DDA Act is PA 197 of 1975. Response to deteriorating downtowns in urban settings after riots.
- TIFA Act is PA 450 of 1980. Response to request to open up tax increment financing to greater areas of cities, not just downtowns.

HISTORICAL MILESTONES for TIFs

- LDFA Act is Act 281 of 1986. Response to freewheeling use of tax increments by cities. Sunsetted TIFA Act and limited use to industrial development only in cities and certain "urban townships".
- LDFA Act submitted to Supreme Court for Advisory Opinion on constitutionality -- upheld.

HISTORICAL MILESTONES for TIFs

- 1987-1988 amendments to all acts included: "The state tax commission may institute proceedings to compel enforcement of this act."
- "Institute proceedings" = bring law suits? What other kinds of "proceedings"?
- "Enforcement of this act" -- few clear prohibitions or requirements to "enforce".

HISTORICAL MILESTONES for TIFs

- 1994 - Proposal A dramatically reduced revenues to be received by TIFs by reducing overall school operating mills and prohibiting future capture of state and school mills for new projects and new bonds.
- Legislature enacted protective changes for outstanding bonds and projects "in the pipeline".

HISTORICAL MILESTONES for TIFs

- 1994 laws required approval of other taxing units before expanding districts or creating new ones
- 1994 new form required for reporting to Treasury for TIFs
- 1996 Treasury staff begins auditing TIF plans
- Auditing still ongoing, with larger staff

HISTORICAL MILESTONES for TIFs

- Brownfield Redevelopment Financing Act is Act 381 of 1996. Offered as opportunity to assist in cleanup costs as a part of economic development of contaminated areas.
- Controlled in part by DEQ and MEGA
- Smart Zones added to LDFA Act to accommodate Tech Tri-Corridor

ABATEMENTS - A Later Discussion

- Tax abatements are offers from local units of government to certain companies to grant relief from property taxes for a limited period of time.
- Industrial Facilities Tax -- PA 198 of 1974
- Enterprise Zones -- PA 224 of 1985

ABATEMENTS - A Later Discussion

- Neighborhood Enterprise Zones -- PA 147 of 1972
- Obsolete Property and Rehabilitation Tax Credit -- PA 146 of 2000