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## INTERLOCAL TAX AGREEMENTS

### House Bill 4658 with committee amendment First Analysis (3-30-95)

Sponsor: Rep. James McNutt  
Committee: Urban Policy

#### ***THE APPARENT PROBLEM:***

Under Public Act 287 of 1987, which amended the Urban Cooperation Act, two or more local units of government could enter into an interlocal agreement to share all or a portion of revenues from property taxes, or from specific taxes levied in lieu of property taxes, levied on certain commercial and industrial property. (The act applied to counties, cities, villages, townships, and charter townships only; not to school districts or other taxing units.) One aim of the legislation was to encourage neighboring communities to work together on economic development projects by reducing the concerns over who would "win" and "lose" in efforts to attract business and industry. A five-year sunset was attached to the legislation. No agreements were allowed after December 31, 1992. It has been recommended that these arrangements, which are strictly voluntary, continue to be available to local units and that the sunset be removed. It has also been recommended that local units be allowed to share taxes on all kinds of property, not just taxes on commercial and industrial property.

According to testimony before the House Urban Policy Committee, the city of Midland, which had entered into such an arrangement with two neighboring townships to deal with differences of development prior to the sunset, has since the expiration of the act entered into an agreement with two other townships (Lincoln and Homer). These units are escrowing shared tax revenue in anticipation of the law being reinstated.

#### ***THE CONTENT OF THE BILL:***

The bill would amend the Urban Cooperation Act to eliminate the December 31, 1992, sunset date on the provision that allows local units to enter into interlocal agreements to share property tax revenue. The bill also would permit the sharing of property taxes and specific taxes levied in lieu of property taxes on any real and personal property (rather than

just on real property classified as commercial or industrial).

The act says that an interlocal agreement to share property taxes must specify at least all of the following: the duration of the agreement and the method by which it can be rescinded or terminated by a contracting local unit; a description of the property upon which the taxes to be shared are levied; the formula or formulas for sharing the revenue; and a schedule and method of distribution of the shared revenue. The bill would add that the agreement must specify that the agreement could be terminated or rescinded by a referendum of any local governmental unit that was party to the agreement if the sufficient amount of qualifying signatures were filed within 90 days.

(The bill also would say that an interlocal agreement executed before the effective date of the bill that includes a method or formula providing for and allocating revenues would be validated and not affected by the bill.)

MCL 124.502a

#### ***FISCAL IMPLICATIONS:***

There is no information at present.

#### ***ARGUMENTS:***

##### ***For:***

The bill would essentially reinstate an act that allows local governmental units to share tax revenue for agreed-upon purposes. Further, it would expand the act somewhat by allowing taxes on all kinds of property to be shared, not just taxes on commercial and industrial property. This act has served in the past as a cooperative economic development tool for local units of government. Under the bill, neighboring communities would continue to be able

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to enter tax-sharing agreements that could lead to cooperation for new development rather than competition. It has also served as a useful tool for dealing with boundary disputes, as an alternative to annexation, which is often emotional and costly. Consenting local units can agree on the sharing of services and tax revenue within defined areas. As reported from committee, the bill also would permit citizens of a community to force a referendum on the local unit's participation in an interlocal agreement.

***Response:***

It is important that the right to a referendum on an interlocal agreement, if it is necessary at all, have a limited time frame. Otherwise, there would be no certainty to the agreements. Under the amendment adopted in committee, residents would have 90 days to turn in signatures. Any referendum would take place some time after that. It might be better to require that the referendum be held within 90 days. Some would prefer a referendum within 30 or 45 days after the agreement was entered into by the governing boards of the local units. Or local requirements regarding referendums on ordinances could govern.

***POSITIONS:***

The Michigan Municipal League supports the bill.  
(3-29-95)

The Michigan Townships Association supports the bill. (3-29-95)