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INTERLOCAL TAX AGREEMENTS

House Bill 4658 as enrolled
Public Act 108 of 1995
Second Analysis (6-26-95)

Sponsor: Rep. James McNutt
House Committee: Urban Policy
Senate Committee: Economic Development, International Trade, and Regulatory Affairs

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. (Public Act 287 applied to counties, cities, villages, townships, and charter townships only; not to school districts or other taxing units. The Urban Cooperation Act, which dates from 1967, also contains other provisions regarding the joint excercise of powers by public agencies not directly related to the bill under discussion.) One aim of the 1987 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 entered into such an arrangement prior to the sunset with two neighboring townships (Larkin and Midland Township) to resolve development differences, and has since the expiration of the act entered into an agreement with two other townships (Lincoln and Homer). In the latter case, the local 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 also require the agreement to specify that the agreement could be terminated or rescinded by a referendum of the residents of a local governmental unit that was party to the agreement not more than 45 days after the approval of the agreement by the local legislative body. (An agreement would require approval by majority vote of the members elected and serving on the local legislative body. At least one hearing would be required before approval, with notice of the hearing to be provided as specified in the Open Meetings Act.)

The bill would provide for a referendum to be held on the agreement if, within 45 days after the local legislative body approved the agreement, a petition was signed by at least eight percent of the registered voters in the local unit voting the last general election before adoption of the agreement. If a majority of electors approved the agreement, the local unit could enter the agreement. The local unit could also enter the agreement if no petition was filed.

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

MCL 124.502a

FISCAL IMPLICATIONS:

The bill has no fiscal impact on state or local governments, according to the House Fiscal Agency. (Memo dated 3-29-95)

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 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. The bill also would permit citizens of a community to force a referendum on the local unit's participation in an interlocal agreement.

Response:

Some people believe the bill should require voter approval of these agreements instead of making citizens engage in a petition drive if they want to contest an interlocal agreement.