Senate Fiscal Agency
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BILL ANALYSIS

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House Bill 4658 (as reported without amendment)
Sponsor: Representative James McNutt
House Committee: Urban Policy
Senate Committee: Economic Development, International Trade and Regulatory Affairs

Date Completed: 6-5-95

RATIONALE

Under provisions of the Urban Cooperation Act that were added by Public Act 286 of 1987, two or more local units of government (counties, cities, villages, townships, and/or charter townships) could enter into an agreement to share of all or some of the revenue from general ad valorem property taxes or specific taxes levied in lieu of property taxes upon certain commercial or industrial property. This approach was considered one way in which communities could collaborate on economic development efforts, rather than compete with each other. Local units could not enter into tax-sharing agreements, however, after December 31, 1992. Reportedly, the City of Midland had entered into such an agreement with two neighboring townships to deal with differences of development prior to the statutory deadline, and subsequently entered into an agreement with two other townships (Lincoln and Homer); apparently, these local units are putting shared tax revenue into escrow for the time being. In addition, other local units reportedly are interested in entering into tax-sharing agreements. It has been suggested that the statutory authority for these agreements be reinstated.

CONTENT

The bill would amend the Urban Cooperation Act to permit two or more local units of government to enter into an agreement for sharing property tax revenue; require an agreement to be approved by a majority of the members of each affected unit's legislative body; provide that an agreement could be terminated by a referendum of the residents of a local unit; and validate an interlocal agreement executed before the bill's effective date.

The bill would remove the December 31, 1992, deadline on entering into interlocal tax-sharing agreements, and would permit local units to enter into an agreement to share the revenue received from property taxes or specific taxes upon any real or personal property. As the Act currently requires, an interlocal agreement would have to include at least the duration of the agreement and the method by which it could be rescinded or terminated by a contracting local unit before the stated date of termination; a description of the property upon which taxes to be shared were levied; the formula or formulas for sharing the tax revenue; and a schedule and method of distribution of the shared revenue. In addition, under the bill, an agreement would have to provide that it could be terminated or rescinded by a referendum of the residents of a local unit that was a party to the agreement within 30 days after the local unit's governing body approved of the agreement.

A decision to enter into an agreement would have to be made by a majority vote of the members elected and serving on the legislative body of each affected local governmental unit. Before entering into an interlocal agreement, the legislative body of each affected unit would have to hold at least one public hearing, and give notice of the hearing as provided by the Open Meetings Act.

If, within 45 days of the meeting at which an interlocal agreement was approved by a governmental unit, a petition were signed by at least 8% of the registered electors of that local unit voting in the preceding general election, a referendum would have to be held in that local unit at the next regularly scheduled election or at a special election held for this purpose. If a majority of the electors voting on the agreement approved it, the local unit could enter into the agreement. If a petition were not filed, the local unit could enter into the agreement.

The bill specifies that it would validate and would not affect an interlocal agreement for a publicly authorized undertaking that was executed before the bill's effective date and that included a method or formula for equitably providing for and allocating revenues as authorized in the Urban Cooperation Act.

MCL 124.502 & 124.505a

ARGUMENTS

(Please note: The arguments contained in this analysis originate from sources outside the Senate Fiscal Agency. The Senate Fiscal Agency neither supports nor opposes legislation.)

Supporting Argument

The bill essentially would reinstate a law that allowed local units of government to share tax revenue for agreed-upon purposes. Further, it would expand the law by allowing local units to share revenue from taxes on any type of real or personal property--not just on commercial and industrial property. The bill also would require at least one public hearing before a local unit entered into an agreement, and would enable residents of a community to petition for a referendum on the local unit's participation in the agreement. The authority to enter into these agreements served in the past as a cooperative economic development tool for local communities; by reducing concerns over who would "win" and "lose" in efforts to attract business and industry, the law encouraged local units to work together on economic development projects. Apparently, the law also served as a useful tool for dealing with boundary disputes. Under the bill, neighboring communities again would be able to enter into new tax-sharing agreements that could lead to cooperation, rather than competition, for new development. The bill also would validate an agreement that was reached before the bill's effective date.

Opposing Argument

Instead of simply giving residents 45 days to petition for a referendum on an agreement that already had been approved by the local legislative body, the bill should require a vote of the electors on any local unit's participation in a tax-sharing agreement. This approach would give the citizens a more direct voice in the actions of their government.

Legislative Analyst: S. Margules

FISCAL IMPACT

The bill is designed to develop interlocal tax agreements to share property taxes and taxes levied in lieu of property taxes on any real or personal property between two local units. Two local units, possibly as a result of annexation from a township to a city, could voluntarily enter into an interlocal tax agreement that stated the formula or formulas for sharing the revenue.

Fiscal Analyst: R. Ross

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