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Michigan legislators propose major changes to Tax Increment Financing (TIF)

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News Editor

Boyne City—along with hundreds of other municipalities—could lose millions if lawmakers were to slash Tax Increment Financing.

For months now, Michigan legislators have been fact-finding, holding discussions and hearings on the development funding tool known as "TIF."

"On Wednesday Oct. 1, Mayor (Ron) Grunch and I traveled to Lansing to testify before the house commerce committee, which is looking at possible changes in Tax Increment funding," Boyne City Manager Michael Cain told the Boyne City Commission during its regular Tuesday Oct. 14 meeting. "Tax Increment funding is important to us because of its major sources of funding for our Downtown Development Authority, which also operates as our Main Street and also our Local Development Finance Authority, which supports our Business Industrial Park."

Boyne City is now in its fifth year of a 15-year Tax Increment Financing cycle that was expected to raise nearly $7.8 million, which will go toward funding some of the city's wish-list of downtown improvements totaling $19.354 million.

Improvements proposed back in 2010 included redevelopment of the Dilworth Hotel, renovation of some city streets, expanding the city's marina, parks upgrades and even possibly moving the chamber of commerce cabin.

In the first four years since the Downtown Development Authority's TIF was renewed, $1,224,000 has been raised.

While 2014's figures are not yet available, the breakdown of years and funds raised are as follows:

2013 – $278,319
2012 – $291,711
2011 – $311,440
2010 – $342,587

The city had hoped to raise $7,806,646 over the 15-year levy period but, so far, revenues have come in lower than expected.

The projected revenues for 2010 through 2014 are as follows:

2014 – $366,133
2013 – $359,042
2012 – $352,022
2011 – $345,071
2010 – $345,071

Boyne City Clerk/Treasurer Cindy Grice said the difference in what was hoped to have been collected and the revenue actually raised is due to several factors.

"There were some taxable value decreases but when the laws changed a lot of personal property came off (the tax roll) and a lot of them exist in the downtown area," she said. "That made a big difference."

The proposal to alter TIF authorities comes in the form of House Bill 5856, which would amend Public Act 197 of 1975, which established Downtown Development Authorities so as to, "Correct and prevent deterioration in business districts; to encourage historic preservation; to authorize the acquisition and disposal of interests in real and personal property; to authorize the creation and implementation of development plans in the districts; to promote the economic growth of the districts; to create a board; to prescribe its powers and duties; to authorize the levy and collection of taxes; to authorize the issuance of bonds and other evidences of indebtedness; to authorize the use of tax increment financing; to reimburse downtown development authorities for certain losses of tax increment revenues."

Proposed changes in HB 5856

• Local TIF authorities that fail to comply with any of the state's rules governing them will lose the ability to capture any tax increment revenues in excess of what is necessary to make bond payments or other obligations during the period of noncompliance. Any excess funds captured would have to be returned to the taxing jurisdiction from which they came.

• Proposed to be added to those items which can be improved include: roads, sidewalks, trails, lighting and traffic flow modification and the environmental remediation of a property.

• Public hearings on TIF would no longer need to be posted in 20 conspicuous places downtown, and only published once in newspapers instead of twice.
• Annual TIF reports would no longer be required to be published in local newspapers.
• Also no longer required would be the number of jobs created by the TIF implementation.
• Development plans for properties located outside of the boundaries of the development area but within the district would no longer be eligible for construction, renovation, rehabilitation, or acquisition.
• A number of reporting requirements have been added to the proposed amendment, including: detailing the nature of the activity or project, its benefits to the development area, total value of all projects for which building permits were issued on new private investment, and the anticipated economic development goals.
• A TIF authority may provide services in the downtown district that exceed the levels of public services generally provided if determined necessary by the authority; however, funding for additional public services may not be provided outside the downtown district.
• The TIF authority would be required to create and maintain a website containing all of its records and documents including board meeting minutes, annual budget, audits, development plans, TIF plans, all sponsored and managed events, and staff contact information.

"Despite a packed hearing room and last-minute changes to the bill, it's still possible that some sort of bill might be passed before the year end—quite likely in the lame duck session that would occur after the upcoming election," Cain said.

He added that even more far-reaching legislation is possible for next year.

The move to increase transparency and reduce the reach local governments have to levy TIF began back in 2013 when a package of Michigan Senate and House Bills were introduced to address TIF authorities in some major cities like Dearborn and Detroit.

According to the white paper by David S. Bieri and Carla Maria Kayanan of University of Michigan's Urban & Regional Planning Department entitled "Improving TIF Transparency and Accountability: Towards a Consolidated View of TIF Activities in Michigan," there are numerous issues with TIF authorities across the state, which may have been the impetus for the proposed amendments.

"We did not succeeded in finding some of the required reporting information as specified by legal statutes governing TIF usage and authority practices in Michigan because the majority of the authorities are not doing an adequate job of reporting mandated requirements, and a system is not in place at any level of government to penalize those that do not comply with their statutory obligations," Bieri and Kayanan stated.

"Our investigations have produced overwhelming evidence that authorities fail to comply with the requirement of publishing their (annual report) in a publication of general circulation."

They further stated, "In particular, with the virtual collapse of intergovernmental revenue sharing in Michigan over the last two decades, the Michigan Treasury does not possess any meaningful incentive mechanism to increase TIF reporting. In the post-crisis environment and with real estate prices in Michigan still at secular lows, many TIF entities might experience negative tax capture which acts as a further disincentive to disclose detailed financial statements on TIF activities.:

According to the TIF white paper, compliance could be as low as 20 percent.

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