CITY COUNCIL REPORT

September 18, 2007

TO: Phillip L. Nelson, City Manager

FROM: John M. Lamerato, Assistant City Manager-Finance/Administration
Nino Licari, City Assessor

SUBJECT: New Michigan Business Tax effect on LDFA collections

Background:

- The State of Michigan eliminated the Single Business Tax effective December 31, 2007. In its place the Legislature instituted the new Michigan Business Tax.

  Tie-barred to this legislation were 4 bills that affected Personal Property Tax collection, beginning in the 2008 year, Public Acts #37, 38, 39, and 40 of 2007.

  In short, these bills exempt the levy and collection of the 6 mill State Education Tax on commercial and industrial Personal Property. Industrial Personal Property will also be exempted from the 18 mill levy for school operating purposes. Commercial Personal Property will be exempted from 12 of the 18 mills of school operating millage.

  Concern has arisen amongst local units of government that have DDAs (Downtown Development Authority), LDFAs (Local Development Financing Authority), and BRAs (Brownfield Redevelopment Authority) that capture some or all of the millage that will no longer be levied. Many local units have debt payments that are dependent on the capture of this millage.

  Public Acts 40 of 2007 recognize this problem, and states that this issue will be addressed at a later time.

  The City of Troy has the SmartZone, an LDFA that captures 9 of the 18 mill levy for school operating purposes. The total captured millage for 2007 is estimated to be 26.550 mills. The 9 mills is 34.3% of the total captured millage.

  The 2007 captured value of the SmartZone is $11,227,940. The total estimated captured taxes would then be $294,789.56. The 9 mills of school operating levy account for $101,051.46 of the total captured taxes.

Per City Council Resolution 2003-08-411 (LDFA), the City is committed to making a $265,000 total payment towards the Automation Alley building debt, over a 5 year time frame. The last payment would be made in the 2008 calendar year.

Roughly 60% of the captured taxes are used for the Automation Alley building operations. The 5 year payment on the debt for the building is taken from the remaining 40%.

Financial Considerations:

- Assuming that no replacement revenue is forthcoming from the State, and also assuming no measurable change in the LDFA capture or millage rates, there will be financial considerations in the 2008 year for the City.

  Without the $101,051.46 in taxes generated by the 9 mill levy, the capture for the SmartZone will be $193,738.10 instead of $294,789.56.

  Sixty percent of the $193,738.10 (a total of $116,242.86) will go to the operations of the Automation Alley building. The $116,242.86 is less than the $127,000.00 budgeted for the last year.

  This leaves $77,495.40 that the $53,000.00 debt payment must come out of. Once the debt is paid, the SmartZone is left with $24,495.40 for administration and marketing. This is $27,104.60 less than the $51,600.00 in the last budget year.

  In 2009, the excess $53,000.00 from the debt that has now been fully paid will revert to the administrative cost side of the SmartZone ledger.

Legal Considerations:

- While it is always possible to sue the State for reimbursement of lost revenues, the chances of success are best answered by the City Attorney. While we have only the SmartZone to contend with, there are many more communities that have captured school millages, and will be forced into financial circumstances far more dire than Troy.

Policy Considerations:

- Unchanged, this legislative action is in opposition to Council Goal III: “Retain and attract investment while encouraging redevelopment.”

Options:

- Contact with State Representatives, and the State Senator may prove beneficial in bringing the City’s position to light.

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