



TO: Steve Powers, City Administrator

FROM: Tom Crawford, Chief Financial Officer
Matt Horning, Treasurer

DATE: August 7, 2014

SUBJECT: Impact of LDFA TIF on Local School District Funding

During recent discussions by City Council regarding the potential extension of the Ann Arbor/Ypsilanti Smartzone LDFA, there were a number of questions raised involving how the Smartzone tax capture affects the local school district. The following is a summary of the information found in response to council questions.

Was the Smartzone tax capture designed in a way that it could adversely impact funding to the local school district?

Originally, legislation (PA281 of 1986) permitted ten Smartzones under Section 8. The Ann Arbor/Ypsilanti Smartzone is one of these ten authorities. For these Smartzones, the legislation provided that ½ of the growth in school tax receipts could be captured by the Smartzone as follows:

- Non-homestead taxpayers paying the school operating millage
- Homestead & Non-homestead taxpayers paying the State Education Tax
- Homestead & Non-homestead taxpayers paying the Intermediate School District millage

The Ann Arbor TIF agreement only permits capture of the first two millages. These funds, normally levied for the benefit of the local school district and the State School Aid fund, would instead be captured and sent to the Smartzone. The above third millage is not reimbursed for section 8 authorities.

The State funds the local schools with a per pupil allocation from the School Aid fund as a part of the State's Foundation Grant per pupil. The Department of Education performs the calculations which ensured the local Ann Arbor School District received its full per pupil allocation, so the local school district did not receive a lower per pupil amount as a result of the tax capture. This was confirmed in a discussion with the Ann Arbor Public School system.

In subsequent legislative changes, additional authorities were authorized via section 9, 10 & 11, resulting in authorities in Lansing/East Lansing, Jackson, Sault

Ste. Marie, Sterling Heights, and Midland. These authorities have a provision that local school districts will be reimbursed for all taxes captured by the authority. However, since the legislation is not the same as the State's annual appropriation bill, the reimbursement language really only served as language of intent. Discussions with Treasury indicated that no specific appropriations for section 9, 10, & 11 authorities were adopted since the legislation was passed. Consequently, despite being established under different sections of the legislation with language to reimburse all captured taxes, all the authorities have operated under the same level (or lack thereof) of reimbursement support from the legislature.

The LDFA act that authorizes Smartzone authorities contains a deadline for the establishment of an authority under section 8. The Ann Arbor/Ypsilanti authority applied for approval prior to the Oct. 3, 2002 deadline. The application was signed-off by the MEDC on November 25, 2002. Due to these dates straddling the deadline, there was some ambiguity as to whether the Ann Arbor/Ypsilanti district is a section 8 or later authorized district. Discussions with the MEDC confirmed that Ann Arbor/Ypsilanti district is considered section 8 since the application was prior to the deadline.

The Ann Arbor/Ypsilanti Smartzone was designed in a way that it would not adversely impact the local school district. However, subsequent legislation that exempted some non-homestead taxpayers from personal property taxes on the school operating millage created a situation where the authority could capture "hold harmless" mills levied upon personal property that would have otherwise gone to the local school district.

Has the Ann Arbor School District been adversely impacted due to the existence of the Ann Arbor/Ypsilanti Smartzone tax capture?

The Ann Arbor School District could have received less revenue due to the tax capture, but two counteracting events occurred which virtually eliminated any adverse impact to the local schools.

In the first year after the plan was established, a company called GT Products left Ann Arbor. The result of this departure was the creation of a negative tax capture for industrial personal property in the Smartzone. While commercial personal property subsequently grew, it did not grow large enough to offset the negative industrial property until FY2014. (Due to increased personal property tax exemptions, the net tax capture is again projected to be negative in FY2015.)

This negative tax capture would have been irrelevant but in recent years the State legislature modified the tax laws to exempt all or a portion of the school operating mills for commercial & industrial personal property. Communities that levy a "hold harmless millage" against homestead property owners (a section 20J community) levy the same hold harmless mills upon the exempted commercial & industrial

personal property taxpayers. Subsequent guidance from Treasury to implement this legislation resulted in a tax capture for Ann Arbor that could have adversely affected the local school district.

However, since the district's total personal property tax capture was negative through FY2013, there were no adverse impacts to the Ann Arbor School District. This has been confirmed by the AAPS staff. In FY2014, the personal property capture became slightly positive resulting in the local schools receiving \$1,430 less than they would have had the Smartzone not existed. In FY2015 and subsequent years, it is projected that there will again be no impact due to the new exemptions on commercial personal property.

Since Council will be considering an extension to the Smartzone for 15 years, is there a way to amend the TIF plan that would ensure under existing law that the local schools are held harmless?

Yes, the tax capture plan could be amended with verbiage to only permit the capture of school operating and State Education Tax mills and specifically exclude "hold harmless" mills.

Has the legislature funded the School Aid Fund less as a result of the Smartzone legislation?

To the extent the State revenue estimates are lower due to tax captures, the legislature's decision on how much to fund the School Aid Fund foundation grant could be impacted. However, discussions with staff at the State indicated that there are many sources of revenues used to fund the School Aid fund. The State Education Tax in total only represents approximately 12% of the funding sources that contribute to funding foundation grants.