EXECUTIVE DIGEST

IMPACT OF TAX INCREMENT FINANCING AND TAX ABATEMENTS ON MICHIGAN COMMUNITY COLLEGES

INTRODUCTION

This report, issued in July 2001, contains the results of our performance audit* of the Impact of Tax Increment Financing and Tax Abatements on Michigan Community Colleges as reported by the Office of Revenue and Tax Analysis (ORTA), Department of Treasury.

AUDIT PURPOSE

This performance audit was conducted as part of the constitutional responsibility of the Office of the Auditor General. Performance audits are conducted on a priority basis related to the potential for improving effectiveness* and efficiency*. Also, this performance audit was conducted in accordance with Section 216, Act 295, P.A. 1998, and Section 211a, Act 109, P.A. 1999 (community college appropriations acts).

BACKGROUND

Section 211, Act 295, P.A. 1998, and Section 211, Act 109, P.A. 1999, required the Department of Treasury to annually collect and compile data on the tax revenue losses of community colleges resulting from tax increment financing authorities* (TIFAs) and tax abatements* and to submit this data to the Department of Education not later than November 1 for the previous fiscal year. This legislation also required the Department of Treasury to report to the Legislature no later than February 1, 1999 and January 7, 2000. This report was to include confirmed revenue losses of each community college for each of the previous 3 years and projected revenue losses for the next 3 years. Furthermore, the legislation stated that it was the intent of the Legislature to fully reimburse community colleges for tax revenue losses resulting from TIFAs and tax abatements.

Statutes authorize TIFAs to "capture" the property tax revenue associated with the increases of the State equalized valuation* within a TIFA's boundary. Captured revenue is to be used to promote economic development. In its report dated February 17, 2000, ORTA estimated that TIFAs captured community college tax revenue totaling approximately $3.9 million, $4.7 million, $5.6 million, $6.4 million, $7.8 million, $8.2 million, and $8.7 million for calendar years 1994 through 2000, respectively (Exhibit 1).

Tax abatements are used as an incentive to owners of both real and personal property to promote economic development. Pursuant to Act 198, P.A. 1974; Act 255, P.A. 1978; and Act 385, P.A. 1984, a local governmental unit may grant property tax abatements that reduce the taxes levied on certain property for up to 12 years. The recipient of a tax abatement pays specific taxes in lieu of property taxes. In its report dated February 17, 2000, ORTA estimated that tax abatements reduced community college tax revenue by approximately $6.6 million, $6.7 million, $6.3 million, $7.0 million, $7.4 million, $7.9 million, and $8.4 million for calendar years 1994 through 2000, respectively (Exhibit 2).

Although TIFAs and tax abatements directly reduce community college tax revenue, economic development resulting from a TIFA or tax abatement may indirectly increase a college's tax revenue. To the extent that a TIFA or tax abatement increases economic development beyond what would have been developed without the TIFA or tax abatement, tax revenue associated with this increase would reduce or eliminate the impact of the direct tax revenue reduction.

AUDIT OBJECTIVE AND CONCLUSION

Audit Objective: To determine the accuracy of the Department of Treasury's reported tax revenue losses of community colleges resulting from TIFAs and tax abatements.

Conclusion: We concluded that the Department of Treasury's reported tax revenue losses of individual community colleges for calendar year 1998 and before were generally accurate for tax abatements but were sometimes inaccurate for TIFAs. For both tax abatements and TIFAs, the Department of Treasury's reported tax revenue losses for calendar year 1999 and later were not accurate. Our assessment of the Department of Treasury's methodology for reporting tax revenue losses disclosed reportable conditions* relating to estimation methodology, TIFA reporting requirements, and excess revenue distributions and pass-through funding (Findings 1 through 3).

AUDIT SCOPE AND METHODOLOGY

Our audit scope was to examine the program and other records of the Department of Treasury and selected local governmental units. Our audit was conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

Our audit procedures included examination of records and activities for the period January 1, 1994 through September 30, 2000.

To accomplish our objective, we reviewed State statutes and Department of Treasury reports entitled "Impact of Tax Abatements and Tax Increment Financing on Michigan Community Colleges," dated June 2, 1998; June 11, 1999; and February 17, 2000. Also, we obtained an understanding of the Department of Treasury's methodology used to determine reported community college tax revenue losses and recalculated the dollar amounts reported, on a test basis, for calendar years 1997 and 1998 and for all community colleges for calendar years 1999 and 2000. In addition, on a test basis, we reviewed supporting documentation and discussed TIFA and tax abatement reporting requirements and processes with representatives of 10 local governmental units, including on-site visits to 4 units.

SUBSEQUENT EVENT

On July 6, 2000, the Governor vetoed Section 219, Act 272, P.A. 2000 (a section of the community college appropriations act for fiscal year 2000-01), which had continued the requirement for the Department of Treasury to collect and compile tax revenue loss data. Also, Section 219 provided for a $50,000 allocation to reimburse community colleges for their TIFA and tax abatement data collection efforts. Previously, the Legislature had not appropriated any funds to reimburse community colleges for reported tax revenue losses or data collection efforts.

Because the Department of Treasury is no longer required to collect and compile data and report annually to the

Legislature, the recommendations in this audit report are no longer applicable. However, we have presented our original findings and recommendations and agency responses to provide a report that is complete, accurate, and objective in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

AGENCY RESPONSES

Our audit report includes 3 findings and recommendations. The Department of Treasury's preliminary response indicated that it agreed with the recommendations.