



Senate Fiscal Agency  
P. O. Box 30036  
Lansing, Michigan 48909-7536

**BILL ANALYSIS**

Telephone: (517) 373-5383  
Fax: (517) 373-1986  
TDD: (517) 373-0543

House Bill 4344 (Substitute S-2 as reported)

Sponsor: Representative Lisa Wojno

House Committee: Commerce

Senate Committee: Economic Development, Small Business and Regulatory Reform

Date Completed: 5-18-04

**RATIONALE**

The downtown development authority (DDA) Act permits a city, village, or township, by ordinance, to create an authority and establish a downtown district, in order to "capture" the incremental growth in tax revenue on property within the district, for use in financing a variety of public improvements in that area. Under the law, a district may contain only one "area". This requirement has been problematic for at least one municipality, the City of Warren, which would like to include additional, noncontiguous property in its existing downtown district. The situation in Warren is unusual, but not unique, in that this city completely surrounds another municipality, the City of Centerline. Warren's present downtown district begins at the northern boundary between the cities, while the proposed addition to the district begins at the southern boundary. Warren would like to use the tax increment revenue from the existing downtown district to finance activities in the area south of Centerline, but it cannot do so because that property is not within the district.

It has been suggested that a city should be allowed to include segregated parcels in a single downtown district under these circumstances.

**CONTENT**

The bill would amend the downtown development authority Act's definition of "downtown district" to include one or more separate and distinct geographic areas in a business district as determined by the

municipality, if the municipality is a city that surrounds another city, which lies between the two separate and distinct geographic areas. If the downtown district contained more than one separate and distinct geographic area, those areas would be considered one downtown district.

Presently, "downtown district" means an area in a business district that is specifically designated by ordinance of the governing body of the municipality pursuant to the Act. The bill would refer to "that part of" such an area.

MCL 125.1651

**BACKGROUND**

The downtown development authority Act states, "When the governing body of a municipality determines that it is necessary for the best interests of the public to halt property value deterioration and increase property tax valuation where possible in its business district, to eliminate the causes of that deterioration, and to promote economic growth, the governing body may, by resolution, declare its intention to create and provide for the operation of an authority."

The governing body must hold a public hearing on a proposed ordinance creating the authority and designating the boundaries of the downtown district. After the hearing, if the governing body intends to proceed, it must adopt an ordinance establishing the authority and designating

the boundaries of the district within which the authority will exercise its powers.

In addition to receiving tax increment revenue attributable to increased property values within the downtown district, the authority (with the board's approval) may levy an ad valorem tax on nonexempt real and personal property within the district. The tax may not exceed 1 mill if the municipality has a population of 1 million or more, or 2 mills if the municipality's population is under 1 million. A DDA also may issue revenue bonds.

### **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**

According to a representative of the City of Warren, the municipality would have included the area south of Centerline when it originally created its DDA district in 1993, if the law had allowed the inclusion of noncontiguous parcels. In order to include both areas, however, Warren would have had to create a district that entirely surrounded Centerline, rather than just the relatively small portions to the north and south that it wished to include in the district. Both portions are adjacent to a major thoroughfare, Van Dyke, that runs north-south through Warren and Centerline. Instead of creating a "gerrymandered" district, Warren established a DDA district that encompasses only the area north of Centerline. The territory to the south, in an older part of the city, is governed by a different tax increment financing authority (TIFA), which will expire in 2009. Evidently, the DDA district has prospered, while the TIFA captures little revenue and is struggling financially. This situation apparently is contributing to a growing social and economic disparity within the city. If Warren were allowed to add the property south of Centerline to its downtown district, it could use the revenue captured within the original district to promote economic development in the southern portion, which needs the help. The bill would give Warren this spending flexibility, and while giving other cities in a similar predicament the same opportunity to expand their downtown districts.

Legislative Analyst: Suzanne Lowe

### **FISCAL IMPACT**

The bill would have no net effect on the State or local units. For local units affected by the bill, it would increase both revenue and expenditures by the same amount. Downtown district expansions are allowed under current law for contiguous property added to an authority, but the bill would expand the conditions allowing property to be included in an authority. To the extent that the areas included in these expansions would not otherwise become part of a downtown district, and to the extent that there would be some interaction between capturing revenue from the existing portion of a district and repaying any bonds issued related to the expansion, the bill would represent new revenue and new expenses that otherwise would not occur.

This analysis is preliminary and will be revised as new information becomes available.

Fiscal Analyst: David Zin

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This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.