



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

House Bill 4318 (Substitute S-1 as reported by the Committee of the Whole)

Sponsor: Representative Tom Meyer

House Committee: Commerce

Senate Committee: Economic Development, Small Business and Regulatory Affairs

CONTENT

The bill would amend the downtown development authority Act to require the governing body of a municipality to mail notice of a public hearing by certified mail to the treasurer, clerk, and chairperson of the board of commissioners of the county in which a business district or a proposed development area was located, at least 20 days before the date set for the hearing. The notice requirement would apply beginning June 1, 2005.

Under the Act, the governing body of a municipality must set a date for a public hearing on the adoption of a proposed resolution creating an authority and designating the boundaries of the downtown district. At least 20 days before the hearing, the governing body must mail notice of the hearing to the property taxpayers of record in the district, and to the governing body of each taxing jurisdiction levying taxes that will be subject to capture if the authority is established and a tax increment financing plan is approved.

The Act also requires the governing body to hold a public hearing before approving a development plan or a tax increment financing plan, and to mail notice of this hearing to all property taxpayers in the development area, at least 20 days before the hearing. The bill would require a governing body to hold a public hearing before amending (as well as before approving) a development plan or tax increment financing plan.

Additionally, the bill would amend the Act's definition of "tax increment revenues" to include ad valorem property taxes and specific local taxes, in an annual amount and for each year approved by the State Treasurer, attributed to the levy by the State under the State Education Tax Act, and by local or intermediate school districts, upon the captured assessed value of real and personal property in the development area of an authority established in a city with a population of 750,000 or more, to pay for, or reimburse an advance for, not more than \$8.0 million for the demolition of buildings or structures on public or privately owned property within a development area that commenced in 2005, or to pay the annual principal of or interest on an obligation, whose terms were approved by the State Treasurer, issued by an authority, or by a city on behalf of an authority, to pay not more than \$8.0 million of the costs to demolish buildings or structures on public or privately owned property within a development area commenced in 2005.

MCL 125.1651 et al. Legislative Analyst: J.P. Finet

FISCAL IMPACT

Downtown development authorities (DDAs) are authorized to "capture" certain property tax revenue from properties within their boundaries. At the time a DDA is established, the taxable value of all property within the DDA is fixed at an initial amount. Property tax collected on any increase from that initial value is redirected to the DDA, which generally uses the revenue to repay bonds issued to finance improvement projects within the DDA.

Except under certain conditions, such as the repayment of obligations or advances issued or incurred before August 19, 1993, DDAs may not capture certain education mills. Education mills that generally may not be captured include the State education tax (SET), local school operating and debt mills, and mills levied by intermediate school districts.

The bill would create another purpose for which education mills could be captured by DDAs, but only within the Detroit DDA. The Detroit DDA would be allowed to capture education mills to pay up to \$8.0 million for the demolition of buildings or structures within the DDA, if the demolition commences during 2005. The State Treasurer would be required to approve both the amount of the capture (including all or part of the relevant education mills) as well as the terms of any debt issued to finance the demolition.

The proposed amendment would have a negligible fiscal impact on the State, particularly in the near future. The Detroit DDA already may capture revenue attributable to education mills. It is unknown when the obligations that allow the capture of education mills will be repaid, and the capture would be adjusted to reflect the repayment stream required by any bonds issued under the amendment. For example, if the bonds required equal payments over a period of 10 years, the term of the capture would be increased by 10 years. However, the amount captured also would be $1/10^{\rm th}$ of what it would be if the bonds were structured to require a "balloon" payment as soon as the current capture provisions are exhausted. It is also unknown when repayment would begin on any bonds issued to cover the cost of the demolition. If the first payments were not needed until 2010, the bill would have no fiscal impact until 2010.

Under the "balloon" payment example, the proposed amendment essentially would increase the period of time under which revenue would be captured by a little more than six months. In the year when the additional six months occurred, the State would not receive approximately \$1.9 million (assuming no growth in property values for the entire DDA) in SET revenue for the School Aid Fund (SAF) it otherwise would receive, and the SAF would face increased expenditures of \$11.1 million to offset local education mills that otherwise would be received (again assuming no increase in property values). This example would represent the most significant impact the State could experience in a given year. To the extent that the bond repayment was structured over a period of years, the impact would be reduced correspondingly. In comparison, the State is estimated to receive more than \$1.9 billion in SET revenue during FY 2005-06 and the SAF is estimated to receive \$11.3 billion in restricted revenue. The DDA would be allowed to capture only the amount of education mills necessary to meet the bond repayment.

The proposed amendment could affect DDA revenue in the short-term by an unknown magnitude. While the demolition presumably would reduce blight, and thus downward pressure on property values near the demolished properties, the demolition also would destroy taxable value for the properties demolished. To the extent that taxes are being paid on those properties, the demolition would lower the revenue stream from property within the DDA and thus reduce revenue available for capture. The net effect of these two different pressures is unknown, as is the effect on future property values as a result of the demolition and/or any subsequent projects the DDA may pursue on the property where the demolished structures were located.

The other provisions of the bill would have no fiscal impact on State or local government.

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

Date Completed: 4-20-05 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.