Legislative Analysis

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NEIGHBORHOOD IMPROVEMENT AUTHORITY

Senate Bill 69 (Substitute H-1)
Sponsor: Sen. Tupac A. Hunter
House Committee: Intergovernmental, Urban and Regional Affairs
Senate Committee: Commerce and Tourism

First Analysis (5-14-07)

BRIEF SUMMARY: The bill would create the Neighborhood Improvement Authority Act. The act creates a new kind of tax increment financing authority that cities and villages could use to promote residential growth and economic growth in residential districts; that is, in a district where 75 percent or more of the area is zoned for residential housing.

FISCAL IMPACT: Initially, this bill would increase local unit of government expenses to create a Neighborhood Improvement Tax Increment Finance Authority. However, this amount is not determinable, nor is the number of local units that would choose to create such authorities. The impact on the State of Michigan government is negligible in the short run.

In the future, this bill allows local units to use taxes arising from increased property values to pay for improvements to the residential neighborhood. These improvements, which would include housing, streets, pedestrian malls, and many other public facilities, could be financed initially through bonding, which would be repaid from the enhanced property tax revenue stream. Although the concept of tax increment financing is well established for the development of commercial and industrial areas, the expansion of this concept to residential neighborhoods is new. Therefore, the long term fiscal impact on both local units of government and the State of Michigan government is not determinable.

THE APPARENT PROBLEM:

Local units of government are authorized by several state statutes to create tax increment finance authorities, or TIFAs, which capture the incremental growth in tax revenue in a designated development district for use in financing public improvement projects within that district, often through the issuance of bonds. Traditionally, TIFAs have been used in commercial and industrial areas to spur economic development and halt deterioration. For example, the Downtown Development Act allows a local unit of government to create a special authority in order "to halt property value deterioration and increase property tax valuation where possible in its business district, to halt the causes of that deterioration, and to promote economic growth."

Now, some are proposing that the TIFA concept be expanded so that it can be used to promote residential neighborhoods.

THE CONTENT OF THE BILL:

The bill would create the Neighborhood Improvement Authority Act. The act creates a new kind of tax increment financing authority that cities and villages could use to promote residential growth and economic growth in residential districts; that is, in a district where 75 percent or more of the area is zoned for residential housing.

The new act would mirror the existing Downtown Development Act, which applies to business districts, and it contains similar notice and public hearing requirements. (The act's provisions are also similar to the recently enacted Historic Neighborhood Tax Increment Finance Authority Act—Public Act 530 of 2004—which applies to historic districts. A residential district or development area created under Senate Bill 69 could not include an area already covered by a historic neighborhood authority under PA 530.)

The bill would, generally, do the following:

- Authorize a city or village to create one or more neighborhood improvement authorities by passing an ordinance after providing notice and holding a public hearing. The local unit would also designate the development area boundaries by ordinance.

- Provide for the supervision and control of an authority by a board that included the city's or village's chief executive officer and five to nine members appointed by the chief executive, subject to the approval of the local governing body. (The local governing body would decide the size of the authority board.) A majority of the board would have to be individuals with an ownership or business interest in property in the development area. At least one member would have to be a resident of the development area or of an area within one-half mile of a development area.

- Allow a board to hire a director to serve as chief executive officer of the authority, subject to the approval of the city's or village's governing body. The board could also employ other officers and personnel.

- Make the board subject to the Open Meetings Act and the Freedom of Information Act.

- Allow an authority to prepare and submit to the city or village governing body a tax increment financing plan, which would have to include a development plan for the authority's development area. Tax increment financing plans and development plans would be subject to public hearings and affected local taxing jurisdictions would have to be notified.

- Protect separate millages for public libraries against capture by a TIF at the request of the local library board.

- Specify an authority board's powers, as described later.

- Provide for the financing of authority activities, including borrowing money and issuing bonds. The authority could issue negotiable revenue bonds under the Revenue Bond Act and could, with local unit approval, issue revenue bonds or notes to finance all or part of the costs of acquiring or constructing property, as delineated in the bill. The local unit would not be liable on such debt.

- Allow an authority also to authorize, issue, and sell bonds to finance a TIF plan's development program. A city or village could make a limited tax pledge to support the authority's TIF bonds or notes with governing body approval but would need voter approval to pledge its unlimited tax full faith and credit for authority bonds or notes.

- Establish criteria for any development plan.

- Specify requirements for an authority's budget approval process.

- Require that a city or village dissolve an authority after it has completed its purpose, and provide that the authority's property and assets remaining after the satisfaction of its obligations would belong to the local unit.

- Authorize the State Tax Commission to institute proceedings to enforce the proposed act and permit the STC to promulgate rules for its administration.

<u>Board powers</u>. An authority board could do any of the following:

-- Prepare an analysis of economic changes taking place in the development area.

-- Study and analyze the impact of metropolitan growth upon the development area.
-- Plan and propose the construction, renovation, repair, remodeling, rehabilitation, restoration, preservation, or reconstruction of a public facility, an existing building, or a multiple-family dwelling unit for a plan that the board believed aided in the development area's residential and economic growth.

-- Develop long-range plans, in cooperation with the city's planning agency, designed to halt the deterioration of property values and promote residential growth and economic growth in the development area and take steps to persuade property owners to implement the plans to the fullest extent possible.

-- Implement in the development area any plan of development, including low-income housing, that was necessary to achieve the purposes of the proposed act.
-- Make and enter into contracts to exercise its powers and the performance of its duties.

-- Acquire, own, convey, or otherwise dispose of, or lease land and other real or personal property necessary to achieve the purposes of the proposed act, and to grant or acquire licenses, easements, and options.

-- Improve land and construct, reconstruct, rehabilitate, restore and preserve, equip, clear, improve, maintain, repair, and operate any public facility, building (including multiple-family dwellings), and any necessary or desirable appurtenances, within the development are for a public or private use.

-- Fix, charge, and collect fees, rents, and charges for the use of any facility, building, or property it controlled and pledge the collections for the payment of revenue bonds issued under by the authority.

-- Accept from public and private sources, grants and donations of property, labor, or other things of value.

-- Acquire and construct public facilities.

("Public facility" would mean housing; a street, plaza, or pedestrian mall, and any improvements to them; park; parking facility; recreational facility; right of way; structure; waterway; bridge; lake; pond; canal; utility line or pipe; or building, including access routes designed and dedicated to public use or used by a public agency.)

HOUSE COMMITTEE ACTION:

The House Intergovernmental, Urban, and Regional Affairs Committee adopted three amendments to the Senate-passed version of the bill. Each is described below.

The first amendment removed the requirement that a local unit determine that it is necessary "to halt property value deterioration and increase property tax valuation where possible in a residential district [and] to eliminate the causes of that deterioration." Instead the local unit would have to determine only that it is necessary "to promote residential growth in a residential district and . . . promote economic growth."

The second amendment specifies that a neighborhood tax increment financing authority would be established for 30 years. However, the governing body of a municipality authorizing it could extend its duration by resolution, if the purposes for which the authority was created still exist.

The third amendment adds the Neighborhood Enterprise Zone Act (Public Act 147 of 1992) to the definition of "specific local tax."

Additional information on the content of the bill can be found in the Senate Fiscal Agency analysis dated 3-22-07.

ARGUMENTS:

For:

Proponents say that the bill would provide cities and villages with a much-needed economic development tool to improve neighborhoods, increase property value and property tax revenue, and attract new residents and businesses. Tax increment financing is a proven method for a community to create a revenue stream to invest in its own development, and has long been used for economic development in commercial and industrial areas. While the development of new and expanded business and industrial activity is highly beneficial to a community, thriving residential areas also are an essential component of economic vitality. Making a city or village a more attractive place to live can influence the decision of a business to remain, locate, or expand in a particular area. Attractive neighborhoods also can draw residents who will shop, dine, and otherwise conduct business in the city or village. Enhancing residential areas, then, also encourages economic growth. By authorizing cities and villages to create neighborhood improvement authorities and use TIF programs, the bill would provide a mechanism for those municipalities to promote residential growth and economic development in those communities.

POSITIONS:

The Michigan Economic Development Corporation supports the bill. (5-9-07)

The Michigan Municipal League supports the bill. (5-9-07)

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