



Senate Fiscal Agency
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Senate Bill 306 (as reported without amendment)
Sponsor: Senator Peter MacGregor
Committee: Economic and Small Business Development

Date Completed: 7-10-19

RATIONALE

Public Act 120 of 1961 authorizes the development or redevelopment of principal shopping districts, business improvement districts, and business improvement zones, which serve as economic development tools for local governments. Under Chapter 1 (Principal Shopping District) of the Act, the cost of the whole or any part of a principal shopping district project or business improvement district project may be financed by one or more methods, including the levying of special assessments against land or interests in land, or both. A special assessment must be levied against assessable property on the basis of the special benefits to that parcel from the total project.

Under Chapter 2 (Business Improvement Zone) of the Act, one or more business improvement zones may be established within a city or village. A business improvement zone may be funded in whole or in part by one or more assessments on assessable property. An assessment under Chapter 2 is in addition to any taxes or special assessments otherwise imposed on assessable property. An assessment may be imposed against assessable property only on the basis of the benefits to assessable property afforded by the zone plan.

The Act prohibits residential real property from being considered assessable property under both Chapters. Since the Act was created in 1961, many commercial districts have become desirable places to live with residential and mixed-use property developments augmenting existing commercial areas. However, because residential real property is not considered assessable property, those properties are not eligible to be included in the special assessments. Some believe that this is unfair, as both owners of residential real property and commercial property receive the benefits of the economic development activities provided in principal shopping districts, business improvement districts, and business improvement zones, but only commercial property owners pay for those developments. To resolve this issue and to provide residential real property owners the opportunity to be included when determining which economic development projects occur, it has been suggested that local governments should be allowed to designate property classified as residential real property as assessable property under the Act.

CONTENT

The bill would amend Chapter 1 and Chapter 2 of Public Act 120 of 1961, which authorizes the development of principal shopping districts and business improvement zones, to modify the definition of "assessable property".

Under Chapter 1, "assessable property" means real property in a district area other than the following:

- Property owned by the Federal, a state, or a local unit of government where property is exempt from the collection of taxes under the General Property Tax Act.
- One or more classes of property owners whose property is exempt from the collection of taxes under the General Property Tax Act other than property previously identified, and as a class

has been determined by the legislative body of the local governmental unit not to be benefited by a project for which special assessments are to be levied.

The term also means real property in a district area other than property classified as residential real property under the General Property Tax Act.

Under the bill, instead, the term would include real property in a district area other than property classified as residential real property under the General Property Tax Act unless the local governmental unit expressly designated property classified as residential real property as assessable property as part of its special assessment proceedings.

Chapter 2 defines "assessable property" as real property in a zone area other than property classified as residential real property under the General Property Tax Act or real property exempt from the collection of taxes under that Act. Under the bill, the term would mean one or more of the following:

- Real property in a zone area other than real property exempt from the collection of taxes under the General Property Tax Act.
- Real property in a zone area classified as residential real property under the General Property Tax Act, only if the one plan for the zone area designated property classified as residential real property in the zone area as assessable property under the zone plan.

MCL 125.981 & 125.990

BACKGROUND

House Bills 5325 and 5720 of the 2017-18 Legislative Session proposed similar changes to Public Act 120 of 1961 that Senate Bill 306 currently proposes. However, while the House Bills passed both the Michigan Senate and the Michigan House of Representatives, Governor Snyder vetoed the bills, and provided the following veto explanation:

Today I am returning House Bills 5325 and 5720 to you without my approval. The bills would have amended the statute dealing with principal shopping districts, business improvement districts, and business improvement zones, to allow for those local economic development entities to levy special assessments against certain residential real property.

PSDs, BIDs, and BIZs perform a critical function in revitalizing our core commercial and downtown areas. One of the tools they use is levying special assessments on certain real property in order to undertake projects that benefit the relevant area.

While I appreciate the goal of expanding the properties against which special assessments can be levied, I believe this issue merits further discussion and consideration, including whether it is appropriate for residential taxpayers to be assessed in this manner. With that in mind, I am vetoing House Bills 5235 and 5720 so that the legislature and next administration can have a more thorough discussion about the issue.

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

When Public Act 120 of 1961 was enacted, most downtown areas and commercial districts had few residents living within them. However, urban areas across Michigan have become popular places to own or occupy residential real property and have seen extensive growth. For example, a 2018

publication by Moody's Corporation states that Detroit's population had increased 28% (or about 10,000) in the city center between 2010 and 2018. Similarly, Grand Rapids reportedly has experienced historic growth, according to a 2019 publication by *Experience Grand Rapids*.¹

Although residential real property ownership is increasing in urban areas, that type of property is not eligible for a special assessment under the Act. Since residential real property owners benefit from the economic development activities provided by a principal shopping district, business improvement zone, or business improvement district, they, too, should be eligible for the assessment.

By allowing local governments to designate property classified as residential real property as assessable property for the purposes of the assessment, the bill would ensure equal treatment of commercial and residential property, would give residential real property owners the opportunity to contribute to economic development planning, and would provide local governments flexibility when making and approving their assessment plans.

Legislative Analyst: Drew Krogulecki

FISCAL IMPACT

The bill would have no fiscal impact on the State and no net fiscal impact on local governments. The distribution of assessments would change in any district that chose to include residential real property as assessable property, but such a change would not affect the total amount of revenue assessed for the district.

Fiscal Analyst: Ryan Bergan

¹ "Grand Rapids is growing and people are noticing", www.experiencegr.com. Retrieved on 7-8-2019.

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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.