



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

Senate Bill 588 (as enrolled)
Sponsor: Senator Buzz Thomas
Senate Committee: Economic Development and Regulatory Reform
House Committee: Commerce

Date Completed: 7-2-07

RATIONALE

The Corridor Improvement Authority Act was enacted in 2005 to provide a mechanism for funding improvements in business districts other than downtown areas. The Act allows a municipality to form a corridor improvement authority to "capture" the incremental growth in tax revenue from property located in a development area, similar to the method by which municipalities may fund improvements in downtown areas by creating a downtown development authority (DDA). While DDAs have helped a number of Michigan municipalities to improve their downtown business districts, the DDA Act does not allow communities to address deteriorating commercial corridors located outside of their downtown areas. Also, a municipality may have only one DDA. Some people believe that a particular proposed commercial development in the City of Detroit could benefit from site improvements funded by tax increment financing under the Corridor Improvement Authority Act, but the development area and the development plan do not meet the Act's criteria. In addition, the Act does not allow the capture of State and local education taxes, and taxing authorities may opt out of the tax capture plan. It has been suggested that the Act should be amended in order to accommodate the Detroit project.

CONTENT

The bill would amend the Corridor Improvement Authority Act to do the following:

-- Provide for a "qualified development area" in which tax increment

revenue subject to capture could include taxes under the State Education Tax Act and taxes levied by local or intermediate school districts, with the approval of the Michigan Economic Growth Authority (MEGA).

- Make an exception for a qualified development area to a provision under which a taxing jurisdiction may exempt its taxes from capture under the Act.**
- Allow the board of a corridor improvement authority to make certain improvements to a qualified development area and enter into a financing arrangement with a public or private person for costs associated with improvements.**
- Revise the definition of "public facility" to include certain facilities in a qualified development area.**

Qualified Development Area

A "qualified development area" would be a development area that is located within a city with a population of 700,000 or more (Detroit) that contains at least 30 contiguous acres and meets all of the following:

- The area was owned by the State on December 31, 2003, and was conveyed to a private owner before June 30, 2004.
- The area is zoned to allow for mixed use that includes commercial use and that may include residential use.
- The area is located in a "distressed area" (defined below).

Also, construction would have to begin within the qualified development area within two years after the bill's effective date.

In addition, a qualified development area would have to comply with the following current criteria for a corridor improvement development area:

- The area is adjacent to a road classified as an arterial or collector according to the Federal Highway Administration manual "Highway Functional Classifications—Concepts, Criteria and Procedures".
- Residential use, commercial use, or industrial use has been allowed and conducted under the zoning ordinance or conducted in the entire development area, for the immediately preceding 30 years.
- The area is presently served by municipal water and sewer.
- The municipality agrees to expedite the local permitting and inspection process in the development area and to modify its master plan to provide for walkable nonmotorized interconnections, including sidewalks and streetscapes throughout the development area.

"Distressed area" would mean a local governmental unit that meets all of the following:

- Has a population of 700,000 or more.
- Shows a negative population change from 1970 to the date of the most recent Federal decennial census.
- Shows an overall increase in the State equalized value of real and personal property of less than the statewide average increase since 1972.
- Has a poverty rate, as defined by the most recent census, greater than the statewide average.
- Has had an unemployment rate higher than the statewide average.

Tax Increment Revenue

The Act excludes taxes under the State Education Tax Act and taxes levied by local or intermediate school districts from its definition of "tax increment revenues". Under the bill, however, within 60 days after a development plan for a qualified development area was approved and upon written request from the corridor improvement authority, MEGA could include

taxes under the State Education Tax Act and taxes levied by local or intermediate school districts within the definition of "tax increment revenues" if it determined that doing so was necessary to reduce unemployment, promote economic growth, and increase capital investment in a qualified development area.

Also, under the Act, within 60 days after a public hearing on a tax increment financing plan, the governing body in a taxing jurisdiction levying ad valorem property taxes that would otherwise be subject to capture may exempt its taxes from capture by adopting a resolution to that effect and filing a copy with the clerk of the municipality proposing to create the corridor improvement authority. Under the bill, this opt-out provision would not apply in a qualified development area.

Authority Powers in Qualified Development Area

In addition to the powers of a corridor improvement authority board specified in the Act, in a qualified development area, the authority board could do one or more of the following:

- Perform any necessary or desirable site improvements to the land within the development area for the use, in whole or in part, of any public or private person and/or business entity.
- Incur expenses and spend funds to pay or reimburse a public or private person for costs associated with site improvements.
- Make and enter into financing arrangements with a public or private person for the purposes of implementing the board's powers, including lease purchase agreements, land contracts, installment sales agreements, sale leaseback agreements, and loan agreements.

Site improvement that could be performed would include installation of temporary or permanent utilities; temporary or permanent roads and driveways; silt fences; perimeter construction fences; curbs and gutters; sidewalks; pavement markings; water systems; gas distribution lines; concrete, including building pads; storm drainage systems; sanitary sewer systems; parking lot paving and light fixtures; electrical

service; communications systems, including broadband and high-speed internet; site signage; and excavation, backfill, grading, landscaping, and irrigation.

Currently, a corridor improvement authority board may acquire, by purchase or otherwise, on terms and conditions and in a manner it considers proper, or own, convey, otherwise dispose of, or lease as lessor or lessee, land and other property, or rights or interests in the property, that the authority determines is reasonably necessary to achieve the purposes of the Act, and may grant or acquire licenses, easements, and options. Under the bill, an authority could take these actions for consideration the authority considered proper or for no consideration.

Reimbursement of Costs

Under the Act, the cost of purchasing, acquiring, constructing, improving, enlarging, extending, or repairing property in connection with the implementation of a corridor improvement authority's development plan in a development area may be financed by the issuance of revenue bonds or notes. The bill also would allow such financing for the cost of reimbursing a public or private person for any of those costs in the implementation of the development plan in a qualified development area.

"Public Facility"

Under the Act, a corridor improvement authority board may plan and propose the construction, renovation, repair, remodeling, rehabilitation, restoration, preservation, or reconstruction of a public facility or plan, propose, and implement an improvement to a public facility. "Public facility" means a street, plaza, pedestrian mall, and any improvements to those facilities, sidewalk, trail, lighting, traffic flow modification, park, parking facility, recreational facility, right-of-way, structure, waterway, bridge, lake, pond, canal, utility line or pipe, or building, including access routes that are designed and dedicated to use by the public generally or used by a public agency. The bill would include access routes that were located in a qualified development area and were for the benefit of or for the protection of the health, welfare, or safety of the public generally, whether or not used by one or more

business entities. Any road, street, or bridge would have to be continuously open to public access and other property would have to be located in public easements or rights-of-way and be designed to accommodate foreseeable development of public facilities in adjoining areas.

MCL 125.2873 et al.

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

State of Michigan and City of Detroit economic development officials have been working with private developers on a plan to build a retail and restaurant complex at 8 Mile Road and Woodward Avenue, adjacent to the State Fairgrounds, in Detroit. The proposed development reportedly represents a \$90 million investment and will include 40 stores and restaurants. It apparently will be the first significant retail development in Detroit, outside of the downtown area, in several decades and the single largest retail development in the city's history. The development is expected to provide a much-needed boost to the economy of Detroit and the metropolitan area. By creating the subcategory of qualified development area under the Corridor Improvement Authority Act, and allowing the contribution of captured tax revenue toward the cost of site improvement activities that are necessary to prepare the area for the construction of the planned retail and dining outlets, the bill would assist the developers of this project to move forward.

Opposing Argument

Under the bill, tax revenue dedicated to school funding could be captured for the proposed retail project in Detroit, even though the Act otherwise does not allow the capture of that revenue by a corridor improvement authority. According to testimony before the Senate Economic Development and Regulatory Reform Committee by an official from the Michigan Economic Development Corporation, site improvements for the project will cost about \$20 million, and the potential impact on the School Aid Fund is \$9 million to \$10 million. The bill should not allow the capture of revenue dedicated to the funding of schools.

Response: Representatives of the project developer testified that the funding derived from the capture of that revenue is crucial to the success of the project. In addition, revenue from the State education tax and taxes levied by local and intermediate school districts could be included in the definition of "tax increment revenues" only if MEGA determined that doing so was necessary to reduce unemployment, promote economic growth, and increase capital investment in a qualified development area.

Legislative Analyst: Patrick Affholter

FISCAL IMPACT

The bill would reduce local school taxes as well as State education tax revenue to the School Aid Fund, and increase School Aid Fund expenditures, by an unknown amount. School Aid Fund expenditures would increase in order to maintain per-pupil funding guarantees given the reduction in local school taxes. By expanding the areas subject to the Act, the bill also would reduce the growth in local unit revenue by an unknown amount. The impact of any revenue reductions or increased expenditures would depend upon the specific characteristics of the property in the development area allowed under the bill.

Fiscal Analyst: David Zin

A0708\588ea

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.