

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

**SFA**



**BILL ANALYSIS**

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

Senate Bill 698 (Substitute S-1 as passed by the Senate)  
Senate Bill 699 (Substitute S-1 as passed by the Senate)  
Sponsor: Senator Bill Schuette  
Committee: Economic Development, International Trade and Regulatory Affairs

Date Completed: 10-14-97

### RATIONALE

Reportedly, the City of Gladwin was awarded an Economic Development Infrastructure Grant to fund a project to improve its sewage system. The local match for the project was to come from proceeds of a downtown development authority (DDA) bond issue. The grant and the bond proceeds were depleted before the completion of the project. The city had to sell additional bonds at \$250,000 to complete the grant. To address this and similar situations, some people believe that a DDA or a tax increment finance authority should be allowed to meet its obligations to fund a public agency grant by capturing future revenue growth to reimburse a municipality for financing a project partially funded by the public agency grant.

### CONTENT

**Senate Bill 698 (S-1) would amend the Tax Increment Finance Authority Act and Senate Bill 699 (S-1) would amend the downtown development authority Act to include under "other protected obligation" a bond issued by an authority to finance a project that was partially funded by a public agency grant.**

Under the Acts, tax increment finance authorities and downtown development authorities are permitted to "capture" the growth in tax revenue in a designated development area for improvements to a variety of public facilities such as streets, parks, parking facilities, and recreational facilities. These improvements are typically financed through bond issues that are paid off out of tax revenue growth. The Acts allow the capture of State and local school taxes as necessary to repay other protected obligations.

The Acts' definition of "other protected obligation"

includes a qualified refunding obligation issued to refund an obligation described under the Acts; an obligation that was issued or incurred after August 19, 1993, and that meets certain criteria under the Acts; and an obligation issued or incurred to implement a project described in a tax increment finance plan on land owned by a public university, on the date the tax increment financing plan was approved, and for which a contract for final design was entered into before December 31, 1993. In addition, the term includes an ongoing or professional service contract with the governing body of a county that was entered into before March 1, 1994, and that was preceded by a series of a limited term management or professional service contracts with the governing body of the county, the last of which was entered into before August 19, 1993. Under the bills, the term "other protected obligation" also would include a portion of a bond that was issued by an authority, or by a municipality on behalf of an authority, after August 19, 1993, to finance a project described in an approved tax increment finance plan before December 31, 1993, that was partially funded by a public agency grant for which a grant agreement was signed before that date. The amount of this "other protected obligation", excluding interest payments, could not exceed the municipality's or authority's required contribution under the grant.

MCL 125.1801 & 125.1812a (S.B. 698)  
125.1651 & 125.1663b (S.B. 699)

## **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**

The bills would allow a municipality's tax increment finance authority or downtown development authority to meet its obligation to fund a public agency grant match by capturing future increments to reimburse the municipality for financing a project partially funded by the public agency grant. The municipality would then be able to use this reimbursement to further the State and municipality's commitment to address the environmental and social concerns in the area.

Legislative Analyst: N. Nagata

## **FISCAL IMPACT**

### **Senate Bill 698 (S-1)**

This bill would allow municipalities or tax increment finance authorities, that meet the definition described, to capture school taxes to repay bonds issued.

### **Senate Bill 699 (S-1)**

This bill would allow municipalities or downtown development authorities, that meet the definition described, to capture school taxes to repay bonds issued.

Fiscal Analyst: R. Ross

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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.