

TAX INCREMENT FINANCING AUTHORITY FOR RESIDENTIAL NEIGHBORHOODS IN CITIES

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House Bill 4181 (Substitute H-1)
Sponsor: Rep. Tupac Hunter
Committee: Commerce

Complete to 4-20-06

A SUMMARY OF HOUSE BILL 4181 AS REPORTED FROM COMMITTEE

The bill would create the Neighborhood Improvement Authority Act. The act creates a new tax increment financing authority that cities could use to address property value deterioration in residential districts; that is, in a district where 75 percent or more of the area is zoned and occupied by residential housing. Generally speaking, tax increment finance authorities, or TIFAs, are authorized by statute to capture the growth in tax revenue in a designated development district for use in financing public improvement projects within the district. Typically, they cannot capture school taxes or debt millages.

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 House Bill 4181 could not include an area already covered by a historic neighborhood authority.)

The bill would do the following:

- Authorize a city to create a neighborhood improvement authority by passing a resolution after providing notice and holding a public hearing.
- Provide for the supervision and control of an authority by a board that included the city's chief executive officer and five to nine members appointed by the chief executive, subject to the approval of the city's governing board. A majority of the board would have to be residents of the development area or of an area within one-half mile of a development area. [If no one is residing in the area initially, other members from the community could serve until people began to move into the 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 governing body.
- 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's governing body a tax increment financing plan, which would have to include a development plan for the authority's development area.
- Specify an authority board's powers, as described later.
- Provide for the financing of authority activities, including borrowing money and issuing bonds.
- Allow a city and an authority to authorize, issue, and sell bonds to finance a TIF plan's development program.
- Specify requirements for a development plan, including providing assistance to people displaced by the plan.
- Require that a person to be relocated be given at least 90 days' written notice to vacate, unless modified by a court order issued for good cause and after a hearing.
- Specify requirements for an authority's budget approval process.
- Require that a city 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 city.
- Authorize the State Tax Commission to institute proceedings to enforce the proposed act and permit the STC to promulgate rules for its administration.

Board powers. 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.)

A city could acquire private property under Public Act 149 of 1911, which provides for the acquisition of private property for public use or benefit, or under the Uniform Condemnation Procedures Act, for the purposes of transfer to an authority for use in an approved development. The taking, transfer, and use would be considered necessary for public purposes and for the benefit of the public.

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 the 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. The bill also provides for the condemnation of property within the neighborhood, potentially giving rise to lawsuits from displaced owners and renters. 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.

POSITIONS:

The Department of Labor and Economic Growth indicated support for the bill. (4-18-06)

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■ This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.