



Senate Fiscal Agency
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BILL ANALYSIS



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Senate Bill 700 (Substitute S-1 as passed by the Senate)

Sponsor: Senator Kevin Hertel

Committee: Local Government

Date Completed: 6-26-24

RATIONALE

Harsens Island is an island community in southeast Michigan and is part of Clay Township, which already has a downtown development authority (DDA) on the mainland facing south toward Harsens Island. Harsens Island's commercial district is on the southeast side of the island, facing away from mainland Clay Township and toward Canada. Under current law, Clay Township's DDA cannot expand to encompass Harsens Island's commercial district because the DDA would have more than one distinct geographic area. This prevents Harsens Island's commercial district from using tax increment finance (TIF), which is a financing model that municipalities use to fund public improvements (see **CONTENT**). According to testimony, without proper financing, Harsens Island cannot afford to fund needed improvements that would help the community grow, such as a septic infrastructure project. The bill would allow municipalities located on mainland and one or more islands, like Clay Township, to have separate geographic areas in a business district, helping to attract businesses and residents to the municipality.

CONTENT

The bill would amend Part 2 (Downtown Development Authorities) of the Recodified Tax Increment Financing Act to allow a municipality's downtown district to include more than one separate and distinct geographic area in a business district if the municipality were located on the mainland and one or more islands, and a body of water laid between the two separate and distinct geographic areas.

The Act governs TIF, which is a tool that municipalities use to fund public improvements within the geographic area of a TIF authority. When a municipality creates a TIF authority, the authority "captures" a portion of the increased property tax revenue gained from redeveloping property within its geographic boundaries. A downtown development authority uses TIF revenue to fund improvements to buildings or infrastructure within that municipality's downtown district.

Currently, "downtown district" means that part of an area in a business district (an area within the downtown that is zoned and used principally for business) that is specifically designated by ordinance of the governing body of the municipality. A downtown district may include more than one separate and distinct geographic areas in a business district as determined by the municipality if the municipality enters into an agreement with a qualified township under Section 203(7) or if the municipality is a city that surrounds another city and that other city lies between the two separate and distinct geographic areas.¹

¹ Generally, Section 203(7) of the Act specifies that if a municipality has created a TIF authority it may enter an interlocal agreement with a qualified township to operate the township's TIF authority in a downtown district within the qualified township.

Under the bill, "downtown district" would mean as described above and could include more than one separate and distinct geographic areas in a business district as determined by the municipality if one of the following requirements were met:

- The municipality entered into an agreement with a qualified township under Section 203(7).
- The municipality was a city that surrounded another city and that other city laid between the two separate and distinct geographic areas.
- The municipality was located on the mainland and one or more islands, and a body of water laid between the two separate and distinct geographic areas.

MCL 125.4201

BACKGROUND

The Act took effect on January 1, 2019, and is a recodification of several previous statutes that governed TIF and TIF authorities. Before the Act took effect, an estimated 60% of all TIF authorities were noncompliant with State reporting requirements, according to the Department of Treasury.² Some believed that this occurred because there was confusion about reporting and filing requirements and a lack of penalties for noncompliance.³ This led to the passage of the Act to standardize and make more significant reporting requirements for TIF authorities and to establish penalties for noncompliance.⁴

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.)

Opposing Argument

Reportedly, submerged land areas within the boundaries of a municipality remain under the jurisdiction of that municipality and so nothing prevents Clay Township from expanding its DDA to Harsens Island's commercial district. If passed, the bill could have unintended consequences by allowing other municipalities to expand their DDAs to different areas.

Response: There would be no harm in clarifying a municipality's ability to establish a DDA on two separate and distinct geographic areas. Without the bill, some communities that are attempting to grow and finance necessary improvements may be unable to do so.

Legislative Analyst: Alex Krabill

FISCAL IMPACT

The bill would have no fiscal impact on the State but would change the distribution of revenue in affected local governmental units. It would allow for additional areas to be included as part of the definition of "downtown district". For local units that elected to create downtown districts under the bill, the bill would redirect revenue increases from property taxes levied on property within the district to the relevant downtown development authority. The amount of any redirected revenue would depend on the value of property within the district and the relevant millage rates.

Fiscal Analysts: Bobby Canell
David Zin

² Senate Fiscal Agency, Analysis as Enacted of Senate Bill 393 of 2018, 3-28-2019. Available on the Michigan Legislature website: <https://www.legislature.mi.gov/>.

³ *Id.*

⁴ *Id.*

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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.