Senate Fiscal Agency
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BILL ANALYSIS

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Senate Bills 1233 through 1236 and 1238 (as passed by the Senate) *(as enrolled)*
Sponsor: Senator Jason E. Allen (S.B. 1233)
Senator Gilda Z. Jacobs (S.B. 1234)
Senator Alan L. Cropsey (S.B. 1235)
Senator Jud Gilbert, II (S.B. 1236)
Senator Buzz Thomas (S.B. 1238)
Committee: Commerce and Tourism

Date Completed: 11-5-10

RATIONALE

Because Michigan's economy long has been based heavily on manufacturing, which has declined severely in recent years, most people would agree that the State needs to diversify its economic base. At the same time, Michigan has lagged behind other states in the development and use of public transit; as a result, the State has obtained fewer of the available resources for transit development and Michigan residents have relatively poor access to transportation services. Several Michigan statutes authorize public authorities to issue bonds or "capture" tax revenue from incremental increases in property values, in order to fund various types of development projects. It has been suggested that the use of bond proceeds or tax increment financing (TIF) through existing entities could help to encourage transit-oriented development in Michigan, thereby expanding the State's economy, improving the availability of public transportation, and enhancing Michigan's access to transit funding.

CONTENT

The bills would amend various statutes dealing with economic development programs to include transit-oriented development and transit-oriented facilities in the activities allowed under those laws.

Senate Bill 1233 would amend the Brownfield Redevelopment Financing Act; Senate Bill 1234 would amend the Corridor Improvement Authority Act; Senate Bill 1235 would amend Public Act 31 of the First Extra Session of 1948, which provides for the incorporation of building authorities; Senate Bill 1236 would amend the Commercial Redevelopment Act; and Senate Bill 1238 would amend the Tax Increment Finance Authority Act.

Under the bills, "transit-oriented development" would mean infrastructure improvements that are located within one-half mile of a transit station or transit-oriented facility that promotes transit ridership or passenger rail use. "Transit-oriented facility" would mean a facility that houses a transit station in a manner that promotes transit ridership or passenger rail use.

Senate Bill 1233

The Brownfield Redevelopment Financing Act allows municipalities (cities, villages, townships, and counties) to establish brownfield redevelopment zones and brownfield redevelopment zone authorities, which may implement brownfield plans for the redevelopment of commercial or industrial property. The Act specifies financing sources for authority activities, including the capture of tax increment revenue within a zone. The revenue may be used to pay the costs of eligible activities on eligible property within a zone, including certain infrastructure improvements.

The bill would include transit-oriented development and a transit-oriented facility in the Act's definitions of "eligible property" and "infrastructure improvements".

Senate Bill 1234

The Corridor Improvement Authority 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 or a qualified development area. Among other things, an authority board may plan and propose the construction, renovation, repair, remodeling, rehabilitation, restoration, preservation, or reconstruction of a public facility. A board also may plan, propose, and implement an improvement to a public facility.

The bill would include transit-oriented development and a transit-oriented facility in the Act's definition of "public facility".

In addition, under the bill, a "qualified development area" would include a development area that contains transit-oriented development or a transit-oriented facility.

Senate Bill 1235

Under Public Act 31 of the First Extra Session of 1948, a county, city, village, or township may incorporate one or more authorities to acquire, furnish, equip, own, improve, enlarge, operate, and maintain buildings, parking lots or structures, recreational facilities, stadiums, and the necessary sites for those buildings, for use for any legitimate public purpose of the county, city, village, or township. The bill would include transit-oriented developments and transit-oriented facilities in that provision.

An authority may issue bonds to fund the projects described above.

Senate Bill 1236

The Commercial Redevelopment Act allows a local governmental unit to establish a commercial redevelopment district. Certain commercial properties located in a district are exempt from the general property tax and are subject instead to a specific tax, the commercial facilities tax.

"Commercial property" includes land improvements to certain property, whose primary purpose and use are the operation of a commercial business enterprise, including office, engineering, research and development, warehousing parts distribution, retail sales, hotel or motel development, and other commercial facilities. Under the bill, a commercial business enterprise also would include a business that owns or operates a transit-oriented development or a transit-oriented facility.

Senate Bill 1238

The Tax Increment Finance Authority Act allows a city to establish not more than one tax increment finance authority, which may capture tax increment revenue in an authority district. Among other things, an authority board may plan and propose the construction, renovation, repair, remodeling, rehabilitation, restoration, preservation, or reconstruction of a public facility. A board also may plan, propose, and implement an improvement to a public facility.

Under the bill, "public facility" would include transit-oriented development and a transit-oriented facility.

MCL 125.2652 (S.B. 1233)
125.2873 (S.B. 1234)
123.951 (S.B. 1235)
207.653 & 207.654 (S.B. 1236)
125.1801 (S.B. 1238)

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

Transit-oriented development can benefit communities in many ways. Aiming economic development efforts at areas around transit facilities has a proven track record of encouraging private investment in nearby areas. According to a *Detroit Free Press* editorial, "[E]very dollar spent on transit spurs an estimated $4 to $7 of related private investment" ("State incentives provide a needed push for transit systems", 4-7-10). Transit-oriented developments in other states have demonstrated positive results. Since 2001, Portland, Oregon, reportedly has seen more than $1.4 billion of investment along the 4.7-mile loop of its streetcar system. A 1998 project in Silver Springs, Maryland, targeting for development a four-block area around a transit station reportedly generated a surge in economic activity, resulting in the investment of more than $400.0 million in public funds and $1.37 billion in private investment. The development area in Portland evidently ties a cluster of residential and commercial areas to the streetcar line, and the project reportedly has generated more than $1.3 million in property tax revenue for the city while increasing property value by almost 500%. Similar increased development in Michigan around transit facilities could help to bolster this State's property values and increase much-needed tax revenue to local units and the State.

Engaging in transit-oriented development also would help to create dense, walkable communities around transit hubs. In turn, this could relieve congestion, conserve energy, reduce the costs of maintaining and expanding highways, and create jobs through development and greater mobility. Areas near transit hubs could attract new businesses, which also would create jobs and help to ease "brain drain" by keeping creative, knowledge-based workers in Michigan, and attracting them from other states.

In addition, improving development around transit facilities could help the State to recover more of the Federal resources available for public transit projects. According to the *Free Press* editorial, Michigan currently receives only about 46 cents in transit funding for every dollar it sends to Washington for that purpose. More transit development would mean more opportunities to secure those Federal funds.

By allowing authorities to issue bonds and use captured tax increment revenue for transit-oriented development and transit-oriented facilities, the bills would make transit development part of the focus of the State's economic development efforts.

Supporting Argument

The bills would offer local units an option to engage in transit-oriented development using existing funding mechanisms. The legislation would not raise taxes or require any community to invest in bus or rail systems, but would expand the use of economic development tools currently available to municipalities through bonding and tax increment financing. This approach represents progress toward the development of effective regional transit systems, which are needed in communities across the State.

Response: The bills could reduce available TIF revenue for other deserving projects already funded in that manner. In addition, property values have decreased in Michigan in recent years. Unless property values in a district increase, there is no tax increment revenue to capture.

Legislative Analyst: Patrick Affholter

FISCAL IMPACT

By expanding the type of activities that are eligible under the various statutes to include transit-oriented development, the bills could result in a loss of State and local revenue. The potential lost revenue would depend on the amount and value of transit-oriented activity spurred by this change in law that would not have occurred otherwise. Potential lost revenue would include State and local education property taxes as well as local general property taxes. The State also would potentially incur increased expenditures due to the need to replace losses in school operating property taxes.

Fiscal Analyst: Eric Scorsone

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