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SFA BILL ANALYSIS

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Senate Bill 484 (as enrolled) **PUBLIC ACT 49 of 1999**
Sponsor: Senator John J.H. Schwarz, M.D.
Senate Committee: Economic Development, International Trade and Regulatory Affairs
House Committee: Economic Development

Date Completed: 6-16-99

RATIONALE

Business improvement districts are organized by property owners and local governments to identify and develop defined areas of cities where a more successful and profitable business climate is needed. By pooling private resources, business owners in business improvement districts collectively pay for activities that they could not afford on an individual basis. These districts plan for and execute business retention, improve security and maintenance, help to bring about revitalization and value enhancement, and undertake marketing and development. Also, these districts attempt to keep aging neighborhoods economically viable by attracting clientele by means of supplemental services, capital improvement, and increased marketing and promotion. Reportedly, an estimated 1,000 business improvement districts are in operation in other states and provinces across the country and in Canada.

It has been suggested that business improvement districts might be desirable in Michigan. Apparently, for example, automotive dealers in Battle Creek and Springfield are under pressure from auto companies to move their dealership operations from the downtown area to locations bordering a freeway for better visibility. In order to retain businesses in downtown areas, some people believe that predominantly commercial or industrial cities, such as Battle Creek and Springfield, should be allowed to establish a business improvement district.

CONTENT

The bill amended the shopping areas redevelopment Act to extend the Act to a business improvement district; allow a city to create one or more business improvement districts by resolution; specify criteria for bonds, notes, or other obligations issued to finance a public improvement project; and establish the membership of a business improvement district board. The bill requires the board, before levying a special assessment that benefits property within the business improvement district, to develop a marketing and development plan.

Business Improvement District

The Act allows a city with a plan for the physical development of the city, that includes an urban design plan designating a principal shopping district or includes the development or redevelopment of a principal shopping district, to conduct projects in conjunction with the principal shopping district. The city may improve highways and construct, reconstruct, maintain or relocate pedestrian walkways; prohibit or regulate vehicular traffic to carry out a project; regulate or prohibit vehicular parking on highways; acquire, own, maintain, or operate properties, off-street parking lots, or structures; contract for the operation or maintenance of city off-street parking lots; construct, maintain, and operate malls with bus stops, information centers, and other buildings serving the public interest; own and maintain or operate real or personal property necessary to implement the Act; promote economic activity in the district; and provide for the maintenance, security, and operation of a district within the city.

Under the bill, this authority also may be exercised by one or more cities that establish a business improvement district by resolution. The bill defines "business improvement district" as one or more portions of a city or combination of contiguous portions of two or more cities that are predominantly commercial or industrial in use.

If one or more cities establish a business improvement district by resolution, the resolution must identify the following: the geographic boundaries of the district, the number of board members, the different classes of property owners in the district, and the class of business or property owners, if any, who are projected to pay more than 50% of the special assessment levied to benefit property in that business improvement district.

Business Improvement District Board

Membership. The members of the board of a business improvement district must be determined by the city as provided in the bill. The board must consist of one representative of the city, appointed by the chief executive officer of the city with the concurrence of the legislative body of the city in which the business improvement district is located. If the district is located in more than one city, then one representative from each city in which the district is located must serve on the board. Other members must be nominees of the business and property owners located within the district. If a class of business or property owners (as identified in the resolution) is projected to pay more than 50% of the special assessment levied to benefit property in a business improvement district for the benefit of the district, the majority of the board members must be nominees of the business or property owners in that class.

Special Assessment. Under the Act, the cost of a principal shopping district project may be financed by various specified methods, including the levying of special assessments against land or interests in land. Under the bill, a business improvement district project also may be financed by the same methods. The bill specifies that before a city levies a special assessment that benefits property within a business improvement district, the board must develop a marketing and development plan that details the scope, nature, and duration of the business improvement district project or projects; and the different classes of property owners who are going to be assessed and the projected amount of the special assessment on the different classes. A city that levies a special assessment that benefits property within a business improvement district is considered to have approved the marketing and development plan.

Finance

Beginning January 1, 2000, a bond, note, or other obligation issued to finance a project authorized under the Act must meet all of the following criteria:

- The proceeds of the bonds, notes, or other obligations are used for capital expenditures; costs of a reserve fund securing the bonds, notes, or other obligations; and costs of issuing the bonds, notes, or other obligations. The proceeds must not be used for operational expenses of a district.
- The weighted average maturity of the bonds, notes, or other obligations does not exceed the useful life of the capital assets.
- The bonds, notes, or other obligations must not in whole or in part appreciate in principal amount or be sold at a discount of more than 10%.
- If bonds, notes, or other obligations are issued to refund bonds, notes, or other obligations that meet the conditions described above, the net present value of the principal and interest to be paid on the refunding bonds, notes, or other obligations, excluding the cost of issuance, will be less than the net present value of the principal and interest to be paid on the bonds, notes, or other obligations being refunded, as calculated using a method approved by the Department of Treasury.

MCL 125.981-125.985

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 bill will increase the opportunities by which businesses can be profitable, improve and refurbish city districts, and increase the cities' tax revenue. Business improvement districts are capitalized by the property and business owners within a district. Funds collected under the business improvement district may be used for activities, programs, promotions, capital improvements, and services such as maintenance, sanitation, and security beyond those services provided by the city. The focus is to increase clientele in the area by providing for a cleaner, safer, and more attractive environment. The bill will enable businesses to revitalize districts within a city, and increase the city's tax base.

There are many successful business improvement districts currently in operation across the nation. Philadelphia's Center City District, a business improvement district formed six years ago, reportedly has experienced an increase in security and a decrease in crime. Repaved sidewalks, decorative furniture, daily sidewalk sweepings, and landscaping have created an environment pleasing to both businesses and customers. The Grand Central Partnership, one of New York's 33 business improvement districts, apparently has a $13 million budget, sold $32 million in bonds for capital improvements, operates a 42-member security police force, cleans the streets, and provides the city with amenities such as flowers and taxi stands.

Opposing Argument

The creation of a business improvement district benefits certain areas only and may cause existing public services to be shifted elsewhere, depriving the areas not rich enough to pay for additional services. General taxes should provide for decent public services throughout a city.

Legislative Analyst: N. Nagata

FISCAL IMPACT

The bill will have no fiscal impact on State government. The bill allows cities, as specified in the bill, to create business improvement districts. Data such as the size of the districts, and the type and number of businesses that will be included in the districts, are not available to determine the fiscal impact. However, special assessments will be levied only on businesses in the business improvement districts according to the benefits each business receives.

Fiscal Analyst: R. Ross