

# Legislative Analysis

---



## DDA AMENDMENTS

Mitchell Bean, Director  
Phone: (517) 373-8080  
<http://www.house.mi.gov/hfa>

### Senate Bill 1240 (Substitute H-1)

**Sponsor: Sen. Tom George**

**House Committee: Commerce**

**Senate Committee: Commerce and Labor**

### First Analysis (6-16-04)

**BRIEF SUMMARY:** The bill would allow a downtown development authority 1) to engage in marketing activities and to contract for broadband and wireless technology services; and 2) in narrowly specified circumstances, to refund debt without meeting current statutory requirements.

**FISCAL IMPACT:** The bill should not have any significant fiscal impact on state or local revenues.

### **THE APPARENT PROBLEM:**

The Downtown Development Authority (DDA) Act authorizes cities, villages, and townships to create special districts and authorities in order to capture the incremental growth in tax revenue on property within the district for use in financing a variety of public improvements within the district. The act also authorizes the board of a DDA to engage in certain activities, including planning and proposing the construction, renovation, repair, rehabilitation, or preservation of a "public facility" (e.g., a street, pedestrian mall, park, parking facility, recreational facility, waterway, bridge, or building), and implementing a plan of development in the district. Some people believe that promoting a DDA and the businesses in its downtown district through marketing initiatives, and contracting for the provision of broadband or wireless technology within the downtown district, also could foster economic growth in local communities and should be among the permitted activities.

In a unique situation, according to testimony before the House Commerce Committee, the DDA in Battle Creek seeks to restructure its debt in order to avoid a shortfall that otherwise would occur due the creation of a new agricultural enterprise zone used to successfully entice the headquarters of a division of the Kellogg Corporation to Battle Creek from Illinois. This new economic development measure will result in two years of reduced revenue that will not allow the DDA to meet its obligations. The DDA does not meet the current requirements in the act on refunding debt (in part because of a successful refunding in 1997 and a rise in interest rates since then).

***THE CONTENT OF THE BILL:***

The bill would amend the Downtown Development Authority Act to add both of the following to the list of authorized DDA board activities:

-- Creating, operating, and funding marketing initiatives that benefit the downtown district.

-- Contracting for broadband service and wireless technology service in the downtown district.

Further, the bill would add an exception to the current criteria for refunding DDA obligations, specifying that a refunding could occur “if the obligation is issued to refund a qualified refunding obligation issued in November 1997 and any subsequent refundings of that obligation issued before January 1, 2010”.

The amendment, specifically, would alter the definition of “qualified refunding obligation”, which currently requires both 1) that the net present value of the principal and interest on the refunding obligation, including the cost of issuance, will be less than the net present value of the principal and interest on the debt being refunded; and 2) that the present net value of the sum of tax increment finance revenues and the distributions to repay the refunding obligation will not be greater than the net present value of the revenues and distributions to repay the obligation being refunded. (In brief, there must be a financial advantage to the refunding.)

MCL 125.1651 and 125.1657

***HOUSE COMMITTEE ACTION:***

The House Committee on Commerce added the provision allowing an exception to the standard criteria for refunding DDA debt.

***ARGUMENTS:***

***For:***

Downtown development districts were created to promote economic growth and are allowed to capture taxes that otherwise would go to other taxing jurisdictions in order to fund public improvements that will attract or are ancillary to increased economic activity. Permitted improvements include such things as pedestrian malls, parking structures, street improvements, beautification projects, bridges, and utility lines. The act does not currently permit, however, the financing of marketing initiatives. Some people believe these should be permitted, as they can be useful tools in promoting downtowns and downtown activities, such as festivals and special sales.

Similarly, the act should permit a DDA board to contract for broadband services and wireless communication technology, both technologies that have come to the fore since

the enactment of the DDA Act. Providing access to these technologies could further enhance the attractiveness of a downtown district by helping to recruit businesses that rely on them.

***Against:***

Some people believe that these activities should not be permitted under the act. It would be better to focus on the kinds of infrastructural improvements already cited in the act. Using tax dollars to market one part of a community or a select group of businesses is not appropriate.

***For:***

The special exception in the bill that would allow for the restructuring of debt outside of the DDA Act's current requirements is justifiable because it is part and parcel of an economic incentive package in Battle Creek that will result in a significant number of well paying jobs. Revenue to the DDA will be reduced for two years as a result of a tax incentive package that has attracted a headquarters operation to the city. The current interest rate climate does not allow the city to meet the requirement in the bill that a refunding of debt be financially advantageous in certain specified ways. State finance officials do not object because the exception is narrowly drawn; it is connected to a job-creation effort; and the city requesting the exception will put its full faith and credit behind the refunding bonds.

***POSITIONS:***

Testifying in support of the debt refunding amendment before the House Committee on Commerce were representatives from the City of Battle Creek and Battle Creek Unlimited. (6-15-04)

The Department of Treasury indicated that it is neutral on the bill. (6-15-04)

Legislative Analyst: Chris Couch  
Fiscal Analyst: Jim Stansell

---

■ 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.