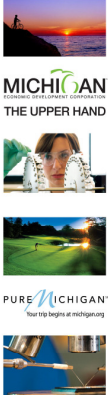


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**Tax Increment Financing Programs:
An Interactive Overview**

September 29, 2008

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Outline for Discussion

1. TIF Explained
2. The Basics: DDA Act as Example
3. Program Variations
4. Other Issues & Challenges

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Tax Increment Financing Laws

1. DDAs
2. TIFAs
3. LDFAs
4. BRFAs
5. HNTIFAs
6. CIAs
7. NIAs
8. WITIFAs

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Tax Increment Financing Laws

1. **Downtown Development Authority (DDA)**
PA197 of 1975
2. **Tax Increment Finance Authority Act (TIFA)**
PA450 of 1980
3. **Local Development Financing Act (LDFA)**
PA281 of 1986
4. **Brownfield Redevelopment Finance Act (BRFA)**
PA381 of 1996
5. **Historical Neighborhood TIFA Act (HNTIFA)**
PA350 of 2004
6. **Corridor Improvement Authority Act (CIA)**
PA280 of 2005
7. **Neighborhood Improvement Authority Act (NIA)**
PA61 of 2007
8. **Water Resource Improvement TIFA Act (WRTIFA)**
PA94 of 2008

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The TIF Concept

Tax increment financing is a tool for cities, villages, and townships to finance development projects.

Financing comes from property taxes generated by proposed new private property developments and improvements:

- buying land
- constructing and improving streets, sidewalks, lighting
- construction of parking lots or the public mall of shopping district
- site demolition, clearance and new construction
- other examples

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Simple TIF Example

- Development Plan
- Boundaries of development determine the tax increment district.
- Assessed value of district before development is identified
- Assessed value of district after development is identified
- The difference in value is the **captured assessed value**

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Total Taxable Value	\$5,000,000
Base Year Taxable Value	\$3,000,000
"Captured" Taxable Value	\$2,000,000
X Tax Rate (36 Mills)	.036
= Tax Increment Revenue	\$72,000

\$72,000 per year is available for necessary public improvements for redevelopment in the development district.

The Basics using the DDA Act as the Example

Using the Acts

The statutes provide guidance on what is allowed.

- Definitions, including specific local taxes and tax increment revenue.
- Establishment of an Authority and construction of its board.
- Handling of a Tax Increment Financing plan.
- Other details, including the STC's role.

DDA Act: Authorizes the following:

- Creation of a board and prescribe its powers and duties.
- The levy and collection of taxes.
- The issuance of bonds and other evidences of indebtedness.
- The use of tax increment financing.

DDA Act: Authorized Participants

- Cities.
- Villages.
- Townships.

The elected legislative bodies of these municipalities may create DDAs.

Only 1 DDA per municipality unless there is or was an annexation. A single Board may run more than 1 DDA if the municipality chooses

Creating a DDA: THE PROCESS

Creating a DDA: Public Notice

- Created by resolution of the governing body of the municipality
- In a resolution of intent, a date for holding a public hearing on a proposed ordinance creating the (DDA) and designating the boundaries of the downtown district.
- Public notice: Published twice in the local newspaper, not less than 20 or more than 40 days before the hearing.

Creating a DDA: Public Notice

- Not less than 20 days before the hearing, a mailed hearing notice must be sent to the taxpayers in the proposed district and the governing bodies of each taxing jurisdiction levying taxes to be captured.

Creating a DDA: Public Notice

- Notices shall be posted in at least 20 conspicuous and public places in the proposed downtown district not less than 20 days before the hearing.

Creating a DDA: Opt Out

- Not more than 60 days after the public hearing, the governing body of the taxing jurisdictions levying ad valorem property taxes that would be subject to capture may be exempt its taxes from capture by adopting a resolution to that effect and filing a copy with the clerk of the municipality proposing the DDA.

Creating a DDA: Passage

- Not less than 60 days after a public hearing, the governing body proposing the DDA shall adopt an ordinance establishing the authority and designating the boundaries of the downtown district within which the DDA shall exercise its powers.

Creating a DDA: Passage

- The ordinance shall be filed with the secretary of state promptly and shall be published in at least once in a general circulation newspaper in the municipality.

Creating a DDA: Amending

- Amending the downtown district follows the same requirements for adopting the ordinance creating the DDA.

Creating a DDA: Combos

- A municipality that has created a DDA may enter into an agreement with an adjoining municipality that has created a DDA to jointing operate and administer those authorities under an interlocal agreement (Urban Cooperation Act).

Creating a DDA: Combos

- A municipality with a DDA may enter into an agreement with a qualified township to operate its DDA in a downtown district in a qualified township under an interlocal agreement (Urban Cooperation Act).

Creating a DDA: Qualified Township

- Was not eligible to create a DDA prior to January 3, 2005.
- Adjoins a municipality that previously created a DDA.
- Along with the adjoining municipality, is a member of the same joint planning commission under the Joint Municipal Planning Act.

Creating a DDA: The Board

- We will not get into the board of director structures, appointment terms, officers, etc.
- Important note: The DDA board may retain counsel to advise on the proper performance of its duties.
- **Powers and functions.**

The DDA: Powers, Functions, & Financing

The DDA: Powers & Functions

- Study, plan and propose projects.
- Make and enter into contracts.
- Acquire land and other property, real or personal.
- Fix, charge, and collect fees, rents or other charges for property under its control.
- Hire staff.
- Others

The DDA: Finances

- Donations
- Proceeds of DDA tax
- Money borrowed
- Revenues from DDA property
- Proceeds from the TIF plan
- Proceeds from a special assessment district
- Money obtained from other sources approved by the municipality or authorized by law to finance a development plan
- State backup funding

DDA Powers: Financing

- The DDA may borrow money and issue negotiable **revenue bonds**. The municipality by majority vote may pledge its full faith and credit to support the DDA's revenue bonds.
- May levy an **ad valorem tax** of up to 2 mills if the DDA is in a municipality having a population of 1 million or less. It can be 1 mill with a population of 1 million or more.

DDA Act: TIF Plan

- DDA prepares, submits TIF Plan to municipality.
- Proposal includes a Development Plan.
- The Development Plan must provide full details of existing public and private infrastructure, proposed improvements, bidding process, timetables, etc.

Development Plan Must Include

- Explanation of TIF procedure.
- Maximum amount of bonded indebtedness to be incurred.
- Duration of the program.
- Estimated impact of TIF on assessed values of all taxing jurisdictions.
- Clear statement captured assessed value (all or part) to be used. Inflationary value may be excluded.

TIF Revenues

- Municipal and County Treasurers transmit tax increment revenues to the DDA.
- DDA expend tax increment revenues for the development program only.
- Surplus funds must be reverted proportionally to the respective tax bodies.
- The tax increment plan may not be abolished until the principal and interest on bonds issues are paid or funds set aside.

DDA: TIF Reporting Requirements

- Must annually report to the municipality and STC the status of the TIF account.
- Details on revenue account, reserve account, expenditures, outstanding bonded indebtedness, assessment values (initial & captured), job creation data, and other information requested by municipality or STC.

DDA: Public Hearing

- Before adopting a development plan, the municipality must hold a public hearing.
- Notice process is similar to the DDA adoption process.

DDA: Citizens Council

- A citizens council must be established at least 90 days before the public hearing if the proposed development area has 100 or more residents.
- The citizens council shall action as an advisory body to the DDA.

Other TIF Programs

Tax Increment Finance Authority Act: PURPOSE

- Prevent urban deterioration
- Encourage economic development and activity.
- Encourage neighborhood revitalization and historic preservation.
- Establish tax increment authorities and prescribe their powers and duties...

TIFA Act: Authorized Participants

- Cities.

Only 1 TIFA per city municipality unless there is or was an annexation or consolidation.

After 1987, no new TIFA may be created and boundaries may not be expanded.

Local Development Financing Act: PURPOSE

- Prevent conditions of unemployment and promote economic growth.
- Establish tax increment authorities and prescribe their powers and duties...

LDFA: Authorized Participants

- Cities.
- Village
- Urban Townships

Only 1 LDFA per municipality and a municipality may join with 1 or more municipality in the same county to create a LDFA.

LDFA: Eligible Properties

Eligible property means land improvements, buildings, structures, other real property, and machinery, equipment, furniture and fixtures, of which the primary purpose and use is 1 of the following:

LDFA: Eligible Properties

- Manufacture of goods and materials.
- Agricultural processing.
- High Technology activity
- A Business Incubator

High tech definition follows the MEGA Act definition.

Brownfield Redevelopment Financing Act: PURPOSE

- Facilitate the implementation of brownfield plans.
- Promote the revitalization, redevelopment, and reuse of tax reverted, blighted, or functionally obsolete property.
- Establish brownfield redevelopment authorities and prescribe their powers and duties...

BRFA: Authorized Participants

- Cities.
- Village
- Township areas outside a Village
- Township including areas in a Village with the concurrence of the village.
- County

Corridor Improvement Act: PURPOSE

- Correct and prevent deterioration in business districts.
- Encourage historic preservation.
- Establish corridor improvement authorities and prescribe their powers and duties...

CIA: Authorized Participants

- Cities.
- Village
- Townships

A municipality may establish multiple authorities but a property parcel shall not be included under more than 1 authority.

CIA Development Area Criteria

- Located in City, Village, or Township.
- Be adjacent to a road classified as an arterial or collector (federal standard)
- Contain at least 10 contiguous parcels or at least 5 contiguous acres.
- More than half of existing ground floor square footage is classified as commercial real property.
- Residential, commercial, or industrial use has been allowed and conducted under the zoning ordinance for the immediately preceding 30 years.
- Served by municipal water and sewer.
- Zoned for mix use, including high-density residential.
- Permit process expedited & master plan includes walkable nonmotorized interconnections.

Neighborhood Improvement Act: PURPOSE

- Correct and prevent deterioration in neighborhoods and certain other areas.
- Promote residential and economic growth.
- Establish neighborhood improvement authorities and prescribe their powers and duties...

NIA: Authorized Participants

- Cities.
- Villages.

A municipality may establish multiple authorities but a property parcel shall not be included under more than 1 authority or part of HNTIFA.

Water Resource Improvement TIFA Act: PURPOSE

- Correct and prevent deterioration in water resources.
- Promote water resource improvement.
- Establish water improvement tax increment finance authorities and prescribe their powers and duties...

WRITIFA: Authorized Participants

- Cities.
- Village
- Townships

A municipality may establish multiple authorities but a property parcel shall not be included under more than 1 authority.

Water Resource Improvement: DEFINED

- Elimination of causes and proliferation of aquatic nuisance species.
- Sewer systems with failing on-site disposal systems.
- Storm water systems that service existing infrastructure.

Not included: chemical treatment for aquatic nuisance control.

Water Resource Improvement: District Location

- Inland body of water and land that is up to 1 mile from the shoreline that contains 1 or more public access points.
- Inland body of water and parcels of land that are contiguous to the shoreline that does not contain public access points.

Other Program Comparisons

Specific Taxes Defined by Authority Type

	DDA	TIFA	LDFA	BRFA	HN TIFA	CIA	NIA	WRI TIFA
Lessees/Tax Exempt Property <small>(PA 189 of 1955)</small>	X	X	X	X	X	X	X	X
IFT <small>(PA 198 of 1974)</small>	X	X	X	X	X	X	X	X
CFT <small>(PA 255 of 1978)</small>	X	X	X	X	X	X	X	X
Tech Park <small>(PA 385 of 1984)</small>	X	X	X	X	X	X	X	X
Enterprise Zone <small>(PA 224 of 1985)</small>			X	X				
NEZ <small>(PA 147 of 1992)</small>				X			X	
OPRA <small>(PA 146 of 200)</small>			X	X				
Eligible Tax Reverted Property Tax <small>(PA 260 of 2003)</small>				X				
Commercial Rehab <small>(PA 210 of 2005)</small>				X			X	

Tax Capture Overlap

- BRFA excludes capture for eligible property already under DDA, TIFA, or LDFA.

K-12 School Tax Capture Authority

	DDA	TIFA	LDFA*	BRFA	HN TIFA	CIA	NIA	WRI TIFA
State Education Tax	EO/EA/ OPO	EO/EA/ OPO	EO/EA/ OPO	DEQ/MEGA approval				
Local School Operating Tax	EO/EA/ OPO	EO/EA/ OPO	EO/EA/ OPO	DEQ/MEGA approval				
Local School Debt	EO/EA/ OPO	EO/EA/ OPO	EO/EA/ OPO					
Intermediate School District	EO/EA/ OPO	EO/EA/ OPO	EO/EA/ OPO	Not a school tax by definition				
*LDFA "Smart Zones" have different rules								

Other Issues & Challenges

State Protection Against Revenue Shortfall

- PA154 -157 of 2008 protect against revenue shortfalls for bond payments because of 2007 PP tax exemptions.
- Municipalities report shortfall and apply for tax replacement.
- Authorities reimbursed from SET collections.

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