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CITIZENS RESEARCH COUNCIL OF MICHIGAN

108 YEARS OF UNCOMPROMISING POLICY RESEARCH

Allowing the Detroit DDA's Captured Tax Revenues to Again Fund Government Services

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Allowing the Detroit DDA's Captured Tax Revenues to Again Fund Government Services

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Allowing the Detroit DDA's Captured Tax Revenues to Again Fund Government Services

Preface

Ten years from bankruptcy presents a demarcation point by which to evaluate the city of Detroit's economic development policy and economy. This report is the second of two addressing Detroit's economic condition and assessing the city's use of tax incentives.

This series of reports was drafted at the request of the City of Detroit's Legislative Policy Division (LPD). The Citizens Research Council was contracted to provide (a) an economic analysis of the city, to provide context to assessments of (b) past and current economic development policies, (c) opportunities for reform, and (d) alternative approaches to the city's reliance on tax incentives. The research project relies on decades of expertise in public matters accrued over a 108-year existence. The Research Council examined peer-reviewed research, held conversations with city staff and community members, and collected data from various sources.

This report and the accompanying paper focused on the city's use of tax abatements covers (c) opportunities for reform and (d) alternative approaches to the city's reliance on tax incentives.

Introduction

It has been nearly 50 years since the Detroit Downtown Development Authority (Detroit DDA) was created in 1976. It is carrying out its mission and has many successes to its credit. The central business district (CBD) is in much better condition than it was before the Detroit DDA was created. The revitalization of the CBD is important for the city and all of Southeast Michigan, but the extent to which it has aided the city or other local governments to provide services to all of their constituents is questionable.

Unfortunately, because of how the Detroit DDA board (like many other boards throughout the state) have interpreted and implemented the Downtown Development Authority Act (Public Act 197 of 1975), these successes of the DDA are providing only marginal benefits to the city government and little direct benefit to the overlapping jurisdictions such as the Detroit Library, Wayne County, and Wayne Regional Educational Service Agency (RESA).

As was documented in the first paper, Detroit continues to confront many challenges. The loss of population that began more than 60 years ago continued unabated until the slight growth was estimated earlier this year. Jobs within the city are not as plentiful as elsewhere in the region and high paying jobs tend to go to commuters rather than Detroit residents. The low educational attainment of Detroit residents contributes to low levels of personal income. For all the successes of the DDA in the recovery of the CBD, not all of Detroit and its residents are benefiting.

The goal of Detroit city government should be to end the tax capture that has grown since it was initiated in 1978. That is not possible with revenue from the tax capture pledged to repay outstanding debt, so the first step should be to place a moratorium on the issuance of new debt and retire the Detroit DDA's existing debt as soon as possible. Retaining and attracting businesses and avoiding downtown's return to the depressed conditions that necessitated creation of the DDA should remain a priority. With the current debt retired and tax capture ended, future city leaders will have to weigh decisions to initiate a new tax capture plan against the economic needs of the whole city.

Property Value Deterioration

To understand why Detroit Mayor Coleman Young (Mayor from 1974 to 1994) and other city leaders worked with the state legislature to create a state law authorizing the establishment of DDAs, it is necessary to begin with an explanation of conditions at the time. The CBD was a microcosm of Detroit's bigger problems.

Detroit's population peaked with the 1950 census at 1,849,568. By 1975, Detroit was estimated to have lost more than 500,000 people, mostly to the suburbs where the population increased rapidly. The population decline was consistent with larger economic trends for the city including shrinkage of the labor force, the closure of manufacturing plants, a decrease in the number of retail establishments, and the loss of more than a third of the city's wholesale establishments. With the loss of jobs tied to those establishments, Detroit's unemployment rate was about double the national average.

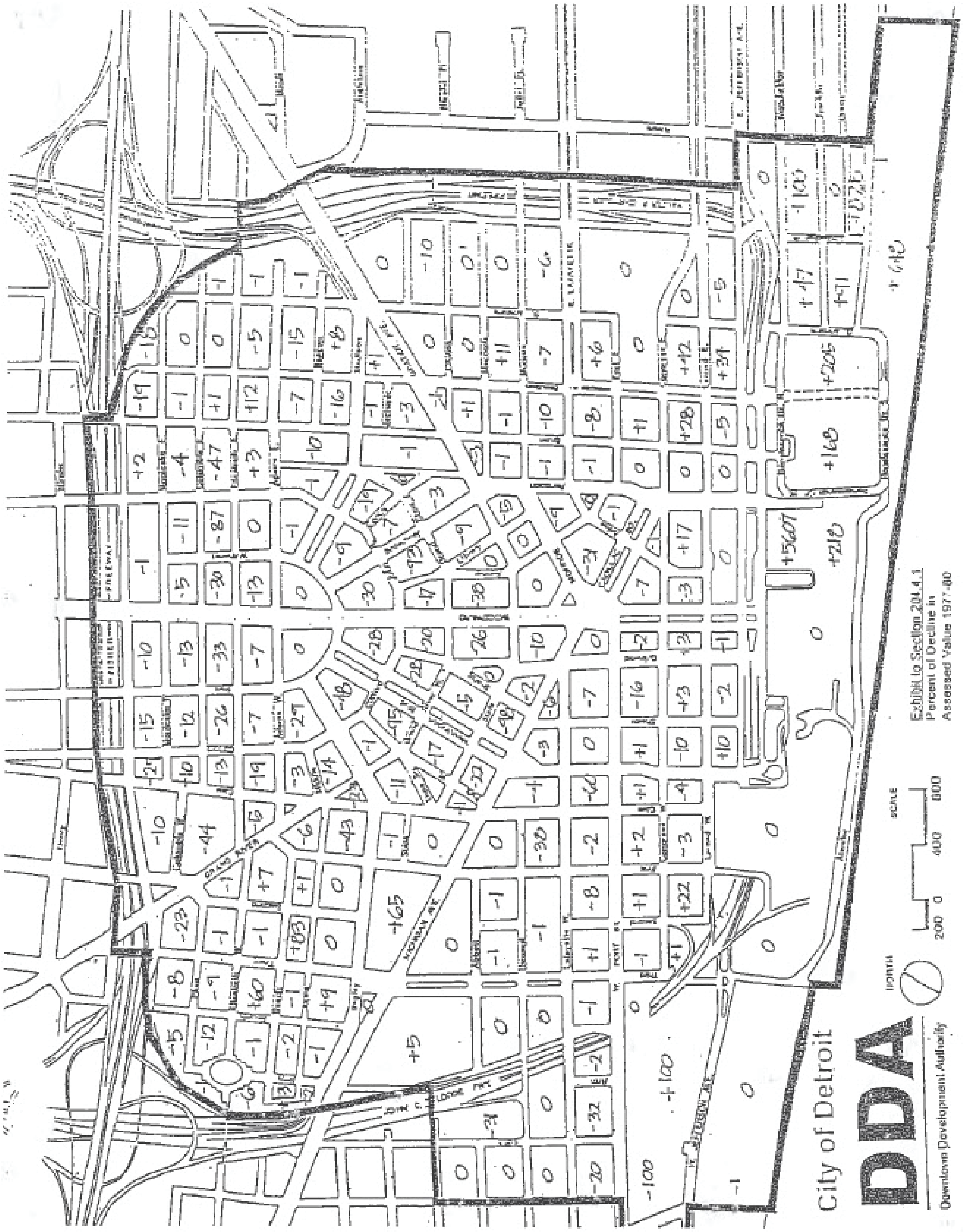
Conditions within the CBD were on a steady decline. The addition of new office space in the downtown area led to movement from older buildings within the CBD, rather than the attraction of new businesses. Fewer people working downtown led to fewer people shopping downtown, leading retail establishments to move to the newly opened suburban shopping malls.

The trends did not bode well for attracting new investors. Data from the city assessor illustrates the decline in demand to be downtown and the deterioration of property values in the CBD. **Map 1** reflects the percentage decline in assessed values from 1977 to 1980. This came on top of years of earlier deteriorating property values.

It became apparent to city and state leaders that these trends were not likely to turn around without some form of policy intervention.

Map 1

Percent of Decline in Assessed Value in Detroit's Central Business District, 1977 to 1980



Source: Detroit Downtown Development Authority, *Restated City of Detroit Downtown Development Authority Tax Increment Financing Plan and Development Plan for Development Area No. 1*, last approved by City Council on June 20, 2017.

The Policy Response

Understanding the context in which state and city policymakers were struggling to address property value deterioration helps to give context to the policy responses. Until the early 1970s, neither Michigan state government nor its local governments was engaged in the types of activities currently called economic development. Laws did not authorize tax abatements or tax capture. Government officials might help to identify available land, but land acquisition was left to business. The loss of businesses, jobs, and people and the accompanying property value deterioration initiated new approaches and unprecedented government involvement.

Having decided that government intervention was appropriate, policymakers then had to decide what level of government should bear that responsibility.

All forms of local government in Michigan—cities, villages, townships, counties, school districts, community college districts, and an assortment of special authorities that provide a wide variety of government services—rely on property taxes as their primary source of revenues. They apply their tax rates to a common tax base.

Thus, empowering one level of government to engage in economic development activities imposes the responsibility and cost on that one government. Yet all of the levels of government would stand to benefit from successful expansion of the tax base.

Tax increment financing (TIF) addresses this conundrum by authorizing the creation of a special authority with the power to capture the growth of property tax revenue attributed to the economic development activities. In this way, all levels of government share in the cost of the economic development activities by foregoing the incremental new tax revenue that results (presumably) from the economic development activities.

DDAs invest in certain properties or geographic areas, usually with funds borrowed against future tax revenues, and use TIF to capture the growth of property tax revenues collected from those properties to repay the debt and fund future investments. Because it is structured that way, the redirection of property tax revenues for economic development activities does not compete in a budgeting process against other government functions—such as public safety, parks and recreation, or education.

TIF captures taxes on the incremental growth of property values to support economic development activities. The taxing jurisdictions are no worse off in terms of revenue than they were the year before the tax capture was started. Still, with a finite amount of tax revenue, a dollar used for economic development is a dollar not available for those other government functions.

The motivation for intervention is based on the idea that construction of new facilities in areas where deterioration has occurred, or where no facilities currently exist, will increase the value of the properties around the development. If the development is successful, it should create a desire to locate other facilities in that immediate area, thereby increasing the value of properties adjacent to the development.

TIF projects typically involve "hard costs" such as land acquisition, building demolition and site clearance, parking facilities, architectural, engineering, and construction management fees, streetscaping, and improvements to buildings to make them appropriate for the new tenants. TIF funding is not appropriate for "soft costs" such as funding government services or underwriting the cost of events.

The goal for Detroit, and all other cities that created a DDA, was to identify areas that have suffered from deterioration or that would otherwise benefit from targeted investment. For Detroit, the initial focus was in commercial and retail businesses, entertainment and recreation centers, and convention-related developments. The initial goal was to locate office, residential, and retail uses in existing or new structures adjacent to the major magnet projects or businesses that the DDA will attract.

The TIF Model

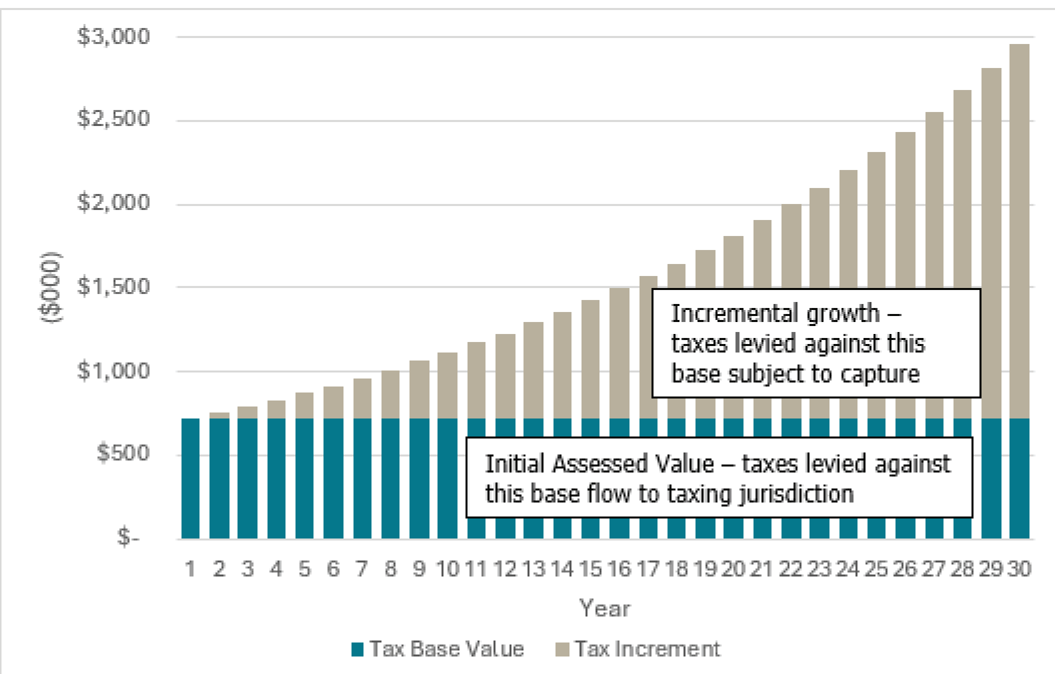
The mechanics of TIF require a little explanation. A tax increment finance district is created that defines the geographic area to be included in the plan and the assessed value of all property in the district is used to create an initial assessed value. The city, library, county, and other taxing jurisdictions continue to benefit from collection of taxes levied against this initial assessed value.

After that initial assessment, as the DDA works with other public entities and private businesses to invest in the area, the value of property in the district should appreciate. The DDA can "capture" from properties in the TIF district the revenue generated by the incremental growth of taxes levied by the taxing jurisdictions.

Chart 1 illustrates this concept in a simplistic form. It assumes an annual five percent appreciation of property values and a continuation of tax rates at the same amounts for 30 years.

The tax base for the levy of city, county, and other taxes is frozen at the year 1 level. These governments share the revenue from the teal portion of the bars in proportion to the tax rates levied. The DDA captures the incremental growth of tax revenues created by the appreciated property values, represented by the tan portions of the bars. Within 15 years, in this model, the DDA is capturing tax revenue equivalent to taxes generated from the initial assessed value—the sum of all taxes levied and distributed to the taxing jurisdictions. Within 30 years, the DDA is capturing tax revenues equivalent to three times the sum of the taxes generated from the initial assessed value.

Chart 1
Model of Tax Increment Finance



Income Tax Revenue Growth

For cities that levy a city income tax, foregoing growth in property tax revenues can be justified because it may be offset by the growth in income tax revenue. In Detroit and 23 other Michigan cities, the idea of foregoing property tax revenues to fund city operations is not a zero-sum game. These income tax cities benefit as the revitalized downtown attracts people to work in the downtown district. They benefit from the income of residents and non-resident workers in jobs provided by businesses successfully retained and attracted to the revitalized downtown.

However, in Michigan, local-option income taxes are available only to cities, so TIF is a zero-sum game for the counties, intermediate school districts, community college districts, and special authorities that forego revenues from the expanded tax base.

DDA Powers

Local governments can perform the same tasks through the acts that authorize their creation or through Michigan's TIF acts, but local governments gain access to additional capital by working through the special authorities that authorize TIF. Beyond the powers to study, analyze, and develop economic development plans, the authorizing law grants the authority boards the power to:

- Engage in the construction, renovation, repair, remodeling, rehabilitation, restoration, preservation, our reconstruction of a public facility, an existing building, or a multiple family dwelling unit.
- Engage in improvements to public facilities within the development area to comply with the barrier free design requirements of the state construction code.
- Acquire land and other property or the rights or interest in property, which the authority determines as reasonably necessary to achieve economic development purposes, and to grant or acquire licenses, easements, and options with respect to that property.
- Improve land and construct, reconstruct, rehabilitate, restore and preserve, equip, improve, maintain, repair, and operate any building, including multiple family dwellings, and any necessary or desirable appurtenances to that property.
- Fix, charge, and collect fees, rents, and charges for the use of any buildings or property.
- Lease any building or property under its control, or any part of a building or property.
- Contract for broadband service and wireless technology service in the downtown district.
- Create, operate, and fund retail business incubators in the downtown district.

Judging the Detroit DDA

As creation of the DDA was justified by many factors, the ability to fulfill its purposes must be considered in various ways. The primary goal justifying the DDA's creation was revitalization of downtown. That can be measured in the number of employers, workers, and people in the CBD. It can be measured in the market and taxable value of property in the CBD. It can be measured in the income tax revenue generated from workers downtown that help to fund services across the city.

As is discussed below, success of the DDA must be weighed in light of the plight of the entire city. Downtown Detroit is the primary employment center for the city. A vibrant downtown should have spillover affects on the balance of the city. Therefore, the wellbeing of the city – employment and income levels, economic activity beyond the CBD, and fiscal sustainability – all must be taken into account.

In some ways, the success of the Detroit DDA must be judged on a tougher scale than DDAs and other TIF districts in southeast Michigan. As the downtown area in the region's anchor city, the economic and fiscal health of downtown Detroit affects more than just the City of Detroit. The Detroit DDA's success must be measured not only by how the CBD has changed, but also by how the city and region as a whole have changed.

Special Authority vs City Responsibility

Prior to enactment of the DDA Act in 1975, development of downtowns was a responsibility of the city government. City leaders had to decide how to allocate scarce resources to serve the downtown while also serving the needs of the balance of the city. City resources were not then and are not now spent evenly throughout the city. City governments provide services across the whole city, but it is conceivable that leaders may allocate more resources to the downtown than are dedicated to the residential neighborhoods.

In light of this historic responsibility, the question is not simply whether the Detroit DDA is a net positive. It is whether a different and potentially more effective policy could have been implemented to support revitalization of the downtown but allowed the city to fully collect all property taxes to benefit the whole city. It is not possible to know if the revitalization of downtown Detroit would have occurred without participation of the DDA and the resources made available to it through TIF.

As documented in **Table 1** (see page 9), the DDA played a significant role in attracting and retaining many businesses, but it was not until after the bankruptcy and the increased involvement of Bedrock Detroit that the downtown area really enjoyed revitalization. Is this because of the DDA or did the independent actions of several private businesses coincidentally happen alongside the DDA?

The answer to this question is not the DDA or Bedrock. It is both. The DDA helped to attract Bedrock downtown and it has partnered with the company for investments to rehabilitate old buildings and construct new ones. The DDA's investment in Bedrock has paid dividends, but the private sector investments were not experienced by other investments.

Wellbeing of the Downtown

For the first two decades of operation the DDA did not remarkably improve the condition of downtown. Forces bigger than that of the authority contributed to low demand for office space. Employment in the CBD was sparce. Hotels ended operations downtown. City and county offices were two of the major employers.

In the past decade the wellbeing of downtown Detroit has improved. Building vacancies are less common. Hotels book enough room nights to sustain operations. Foot traffic has increased and the news has been positive. Even with these positives, city leaders must continue to work to improve downtown Detroit.

Demand for Downtown Property

The Detroit DDA receives a mixed grade for driving changes in the demand for downtown property. The DDA has worked with many businesses over the past

47 years to facilitate the construction or rehabilitation of downtown properties. The glowing reviews following the recent National Football League draft provide evidence of success. Foot traffic was increased prior to the pandemic and is rebounding in the years since. The downtown nightlife has recovered. Hotels are economically viable with enough room night occupancy to be sustainable.

On the other hand, demand for space in the downtown area is not comparable to what it is in many other major cities. The demand for space in the city—as a whole, there are pockets of development earning higher rents—has not driven rents to levels those developers, and the banks financing them, can receive the incomes that will be necessary to repay the construction costs as well as the ongoing operating costs while still generating the expected rate of return necessary to undertake the development.

The post-pandemic trend toward remote work for at least part of the work week is lessening the need for office space. Even though Detroit is becoming more attractive in its post-bankruptcy recovery, the shrinkage of needed office space will do little to increase demand for space and increase rents.

The cost of being in Detroit is higher than in many other places, both for reasons the city can control and for reasons it cannot.[1] The anticipated return on investment for some businesses and for certain types of buildings does not yield revenues to provide profitability. Policymakers are therefore left with the decision to subsidize business costs, either with tax abatement or by funding improvements to meet the business needs, or letting the free market work with the realistic understanding that the city will not be able to compete for some development.

As a result, a substantial burden has fallen on the DDA to subsidize the construction and rehabilitation of properties downtown. The DDA has funded or participated in the funding of land acquisition; building demolitions to make room for new buildings; architectural, engineering, and construction management fees; improvement of existing space; and the construction of new facilities and rehabilitation of existing structures.

The list of properties and businesses that have benefited from the activities of the Detroit DDA in **Table 1** is impressive. As of 2017 the DDA had participated in more than 70 projects of various sizes. (Note that several new projects have occurred since 2017.) The fact that the Detroit DDA has participated in so many projects speak to its success in retaining and attracting businesses, but it also speaks to the economics of locating in downtown Detroit that the cost of construction or renovation cannot be justified by the rents or other measures of return on investment.

The DDA has funded or participated in the funding of the construction of parking garages, infrastructure for operation of the People Mover, Woodward Avenue streetscape and façade improvements, improvements around Huntington Place (formerly Cobo Hall), Comerica Park, Ford Field, and Little Caesar's Arena. Downtown Detroit has little tertiary development around or resulting from these investments in public facilities.

By the DDA's count, it has contributed 28 percent of the capital costs of improvements to downtown properties it has been involved with, other public agencies have contributed seven percent of the capital costs, and the remaining 65 percent has been privately funded.

1 See Citizens Research Council of Michigan, *An Assessment of Detroit's Economic Condition and a Critique of its Economic Development Efforts*, Memorandum 1177, February 2024, https://crcmich.org/publications/detroit_economic_climate_use_economic_development_tools

Table 1
Detroit DDA Estimate of Capital Costs of Improvements as of 2017
(Dollars in thousands)

	Costs Funded by the Authority	Costs Funded by Other Public Agencies	Funded Privately	Total Costs
WASHINGTON BOULEVARD AREA				
Wash. Blvd./Trolley Plaza	$ 6,843	$ 5,060	$ 18,966	$ 30,869
Book Cadillac - Phase I	5,000	500	16,000	21,500
Book Cadillac Hotel - Phase II	2,675		9,200	11,875
Book Cadillac Hotel - Phase III	8,000	93,000	82,500	183,500
150 Michigan Ave. Garage	23,430			23,430
Tuller Hotel/Grand Circus Park Improvements	2,470			2,470
Madison-Madison International	719		3,379	4,098
Ramada Downtown Hotel	980		13,766	14,746
RETAIL COMMERCIAL CORE AREA				
Monroe Cadillac Mixed-Use Development	10,704	1,434	8,000	20,138
One Kennedy Square Garage	1,800		4,737	6,537
Monroe/Cadillac Historic-Retail	1,040			
		1,040		
Annis Fur Building	950		2,205	3,155
Woodward/Kennedy Square Improvements	9,050	35,000	92,000	136,050
Quicken Loans Headquarters	39,000		310,000	349,000
Campus Martius Redevelopment Project	44,400	29,000	661,600	735,000
CONVENTION FACILITIES AREA				
Millender Center	23,096	16,945	52,383	92,424
Congress/1st St Hotel/Cobo Exp	26,207	8,000	37,500	71,707
Riverfront West Residential I @ ll		26,201	57,642	83,843
Riverfront West Residential II	9,250		30,600	39,850
Convention Facilities Area Public Improvements	5,560			5,560
150 Jefferson Ave. Development - Phase I	9,531		83,103	92,634
One Detroit Center - Sec 108	22,715	7,000	206,040	235,755
Lansdowne Restaurant	500		2,303	2,803
Rosetti Building	300		600	900
Ford Auditorium	10			10
East Riverfront District	15,000		85,000	100,000
Riverfront Promenade	1,000	8,000		9,000
EDS Relocation	9,000		20,000	29,000
GREEK TOWN AREA				
Trapper s Alley	2,490	6,546	11,937	20,973
BC./BS Development	2,000		34,800	36,800
Atheneum Hotel		4,800	23,854	28,654
GRAND CIRCUS NORTH DEVELOPMENT AREA				
Theatre District Acq/Improvements	22,648		13,200	35,848
Tiger Stadium	63,560	95,000	140,000	298,560
Lions Stadium	85,000	20,000	120,000	225,000
HARMONIE PARK AREA				
Harmonie Park Development	6,700	26,648	10,436	43,784
Music Hall Restoration	350		4,650	5,000
Detroit Opera House	1,500	2,500	23,200	27,200

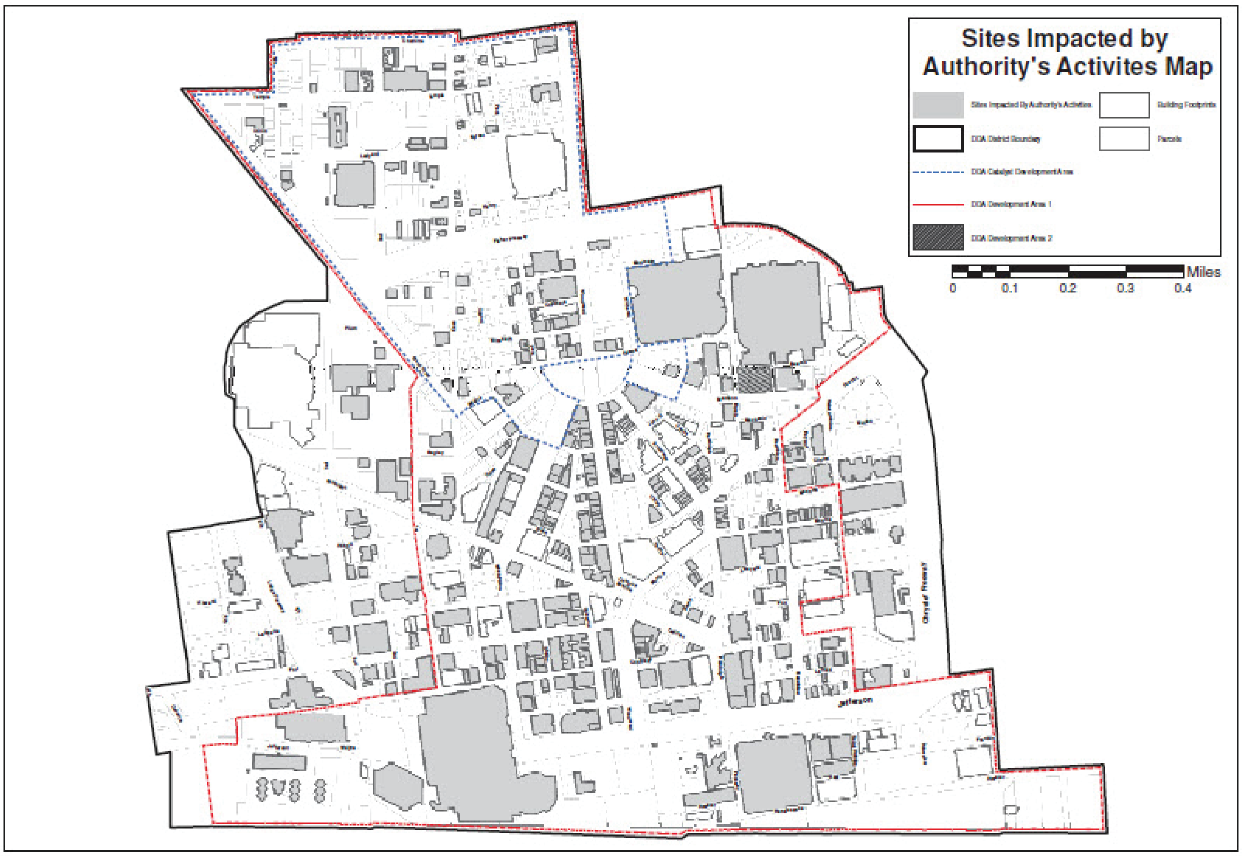
Table 1 (continued)

	Costs Funded by the Authority	Costs Funded by Other Public Agencies	Funded Privately	Total Costs
PEOPLE MOVER SYSTEM				
Skywalk Bridges Maintenance and Imp	550			550
People Mover Art	910			910
People Mover Route Enhancement	300			300
People Mover Support	24,400			24,400
LOWER WOODWARD IMPROVEMENT AGENDA				
Gap Financing Program	3,000	32,000	245,000	280,000
Facade Improvement Program	11,500		12,000	23,500
Streetscape Improvement Project	27,780	6,450	6,000	40,230
Demolition @ Redevelopment		10,000	10,000	20,000
LOAN & ABSORPTION PROGRAMS				
Development Financing SBLT	5,000		5,000	10,000
Housing/Office/retail Dev./Absorp. Program	265,680		438,750	704,430
VIDEO PATROL SYSTEM				
Downtown Dideo Patrol System	200	192	250	642
DOWNTOWN GENERAL DEVELOPMENT				
Downtown Development Planning @ Marketing	630			630
Land Assemblage	286,750		335,480	622,230
Blue Cross Blue Shield Relocation	30,000		38,000	68,000
Special Areas Maintenance	650			650
Building Demolition	8,000			8,000
Ally	11,630		38,370	50,000
CATALYST DEVELOPMENT AREA				
Events Center Project General Rev	64,500			64,500
EC Ancillary Development Project	74,000		185,000	259,000
EC Repair Fund	14,590		14,590	29,180
Closing Costs/Service Fees	18,460			18,460
Debt Service Reserve				-
Event Center Project	305,730		538,800	844,530
OTHER				
DDA Operating Fund	39,450			39,450
Closing Costs/Service Fees	7,460			7,460
Bond debt service reserve	300			300
City of Detroit TIFA #2	2,890			2,890
City of Detroit TIFA #2-Interest payment	420			420
OBLIGATIONS:				
Millender Center - Sec 108	22,490			22,490
One Detroit Center - Sec 108	22,576			22,576
One Detroit Center - Sec 108 Closing Fee	110			110
Advance repayment	14,400			14,400
Monroe Garage - Pension Fund	1,430			1,430
150 Michigan Ave. Garage Debt Service	15,420			15,420
Total Capital Cost	$1,744,684	$434,276	$4,046,841	$6,225,801

Source: Detroit Downtown Development Authority, *Restated City of Detroit Downtown Development Authority Tax Increment Financing Plan and Development Plan for Development Area No. 1*, last approved by City Council on June 20, 2017.

Map 2 shows that the DDA participation in business attraction has affected a majority of the downtown properties (the shaded properties in the map). As documented in Table 1, the amount of investment by the DDA is not even across these properties, but the preponderance of properties affected by DDA actions speaks to the vibrancy of the DDA but also that all corners of downtown have desired some form of public subsidy to make the economics of the private investments work.

Map 2
Detroit DDA: Sites Impacted by Authority's Activities



Source: Detroit Downtown Development Authority, *Restated City of Detroit Downtown Development Authority Tax Increment Financing Plan and Development Plan for Development Area No. 1*, last approved by City Council on June 20, 2017.

Jobs

The number of people employed in Detroit's CBD has decreased in the period in which the DDA has been promoting economic development.

The 1978 plan identified 105,000 people employed in the downtown area. Using the same employment classification system, the Southeast Michigan Council of Governments (SEMCOG) data identifies almost 80,000 people employed in the downtown area (see **Table 2**). Again, it must be recognized that things got worse before they got better. Decades of decline reached the nadir in the late 1990s and 2000s before showing signs of recovery in the decade since bankruptcy.

Some of this decrease can be explained by the changing nature of work and trade. The 1977 data included 9,300 people engaged in manufacturing. Beyond recognizing that fewer downtown businesses are engaged in manufacturing activities, it must be recognized that manufacturing businesses generally employ fewer people today to produce the same output because of advances in automation and robotics.

Similarly, nearly 10,000 people were employed in retail trade in 1977, but the loss of foot traffic downtown, the migration of retail trade from streetside store fronts to suburban shopping malls, and then the abandonment of brick-and-mortar stores for Internet shopping have hurt downtown shopping.

More downtown Detroit workers are engaged in service industry jobs and public sector jobs for the city, Wayne County, the state, and the federal government.

Population

It was estimated that just over 4,000 people lived in downtown Detroit in 1980, almost one-quarter of whom were living in institutions or other group quarters.[2] In 2020, 6,151 people lived in downtown Detroit, 1,528 (25 percent) of whom lived in group quarters.[3]

2 Detroit Downtown Development Authority, *Restated City of Detroit Downtown Development Authority Tax Increment Financing Plan and Development Plan for Development Area No. 1*, Effective Date July 6, 2017, p. 21.

3 Southeast Michigan Council of Governments, *2050 Southeast Michigan Regional Development Forecast*, https://maps.semcog.org/forecast/?geoid=508&geotype=detroit_neighborhood&ind=jobs_total_change

Table 2
Trends in Detroit CBD Employment, 1977 to 2019

1977

2019
Change 1977-2019

	Number	Percent	Number	Percent	Number	Percent
Natural Resources & Construction	400	0.4%	772	1.0%	372	93.0%
Manufacturing	9,300	8.9%	1,075	1.3%	(8,225)	-88.4%
Wholesale Trade	2,700	2.6%	272	0.3%	(2,428)	-89.9%
Retail Trade	9,700	9.2%	664	0.8%	(9,036)	-93.2%
Transportation and Utilities	12,600	12.0%	2,677	3.4%	(9,923)	-78.8%
Information & Financial Activities	25,200	24.0%	17,361	21.8%	(7,839)	-31.1%
Services	30,400	29.0%	40,385	50.7%	9,985	32.8%
Public Administration	14,700	14.0%	16,502	20.7%	1,802	12.3%
Total	105,000		79,708		(25,292)	-24.1%

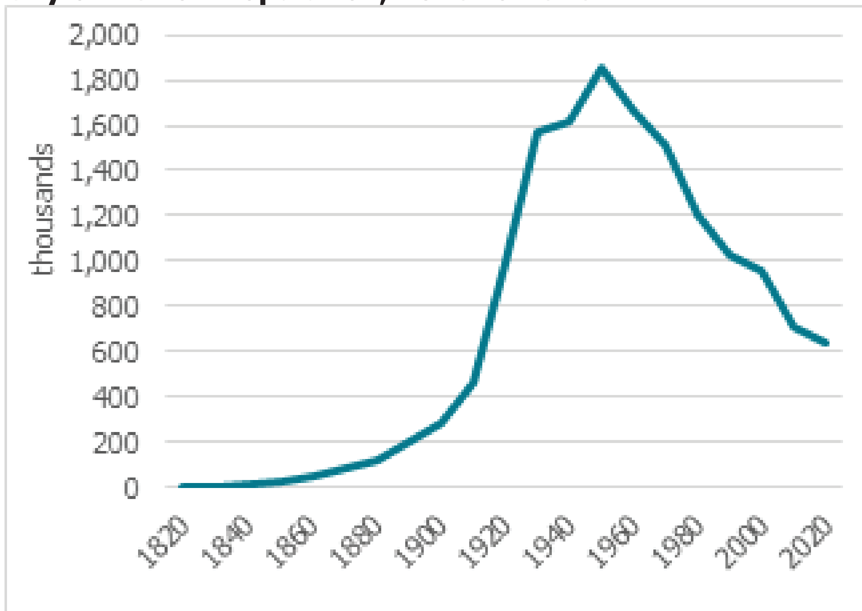
Sources: 1977 from Hammer, Siler, George Associates, Economic Consultants, 1977 as cited in Detroit Downtown Development Authority, *Restated City of Detroit Downtown Development Authority Tax Increment Financing Plan and Development Plan for Development Area No. 1*, Effective Date July 6, 2017. 2019 from Southeast Michigan Council of Governments, *2050 Southeast Michigan Regional Development Forecast*, https://maps.semcog.org/forecast/?geoid=50

The population not living in group quarters tends to be in the 25-to-64-year-old working age population and most of them live in one-person households.

Of course, the goal of the economic development activities engaged in by the DDA was not solely to increase the population within the CBD. Downtown development should attract people and families hoping to live close to their places of employment. While there are signs of this occurring in Midtown and in other areas near downtown, on the whole it must be said that the efforts failed in this regard. As is evident in **Chart 2**, Detroit's population was decreasing before creation of the DDA and continued unabated as the DDA was recruiting businesses and supporting their needs.

Chart 2

City of Detroit Population, 1820 to 2020



Source: U.S. Census Bureau

Wellbeing of the City

The idea of "two Detroits" is rooted in part in the perception that the CBD (and midtown) has prospered by channeling property tax revenue back into economic development activities while the balance of the city, including the neighborhoods, have suffered from the lack of investment and economic struggles. This narrative existed before bankruptcy but has become more acute since.

It is clear that downtown and midtown have fared better than many of the neighborhoods. While abandoned houses have been demolished throughout the city, new buildings have been constructed downtown. Downtown has had a level of vibrancy that is not present in many other parts of the city.

Likewise, it is clear that investments in the downtown have not lifted the city to share in any levels of prosperity. Hopes that investments in downtown would lead to housing nearby and throughout the city have not been experienced except for anecdotal recent developments. It is not the DDA's duty to save the whole city and many factors contributed to the exodus of people, including crime, auto insurance rates, the struggling school system, and the high cost of construction throughout the city.

The first paper published on this issue in February[4], evaluated Detroit's economic competitiveness and ability to attract businesses. Using income, poverty, and educational data, it is established that there are substantial socioeconomic problems for Detroit to overcome, even for localized competition between the city and nearby suburbs. For all the many attributes that make Detroit a place where businesses and people would prosper, it is a market where the clientele is poor relative to comparative jurisdictions, and where the local labor pool is less well educated.

It documented Detroit's population loss. The city's population peaked in 1950 at 1.8 million people. Its population has declined each decade since, by 1.2 million people between 1950 in the most recent census conducted in 2020, a 65.4 percent decline.

It documented the city's population having a relatively low level of educational attainment. Relatively few city residents have a bachelor's or higher degree from a college or university.

4 See Citizens Research Council of Michigan, *An Assessment of Detroit's Economic Condition and a Critique of its Economic Development Efforts*, Memorandum 1177, February 2024, https://crcmich.org/publications/detroit_economic_climate_use_economic_development_tools.

It documented a 22.4 percent increase in per capita personal income for Detroit residents. That increase, unfortunately, masked deep racial disparities among city residents. Uneven growth in income levels by white and black residents make development that evenly benefits residents across the income distribution hard to achieve, in the continuation of isolated and concentrated poverty and unemployment more likely.

It documented an improvement and the percentage of Detroit residents living in poverty, but also that far too many Detroit residents continue to live in poverty. In 2022, 31.5 percent of Detroit residents were living in poverty.

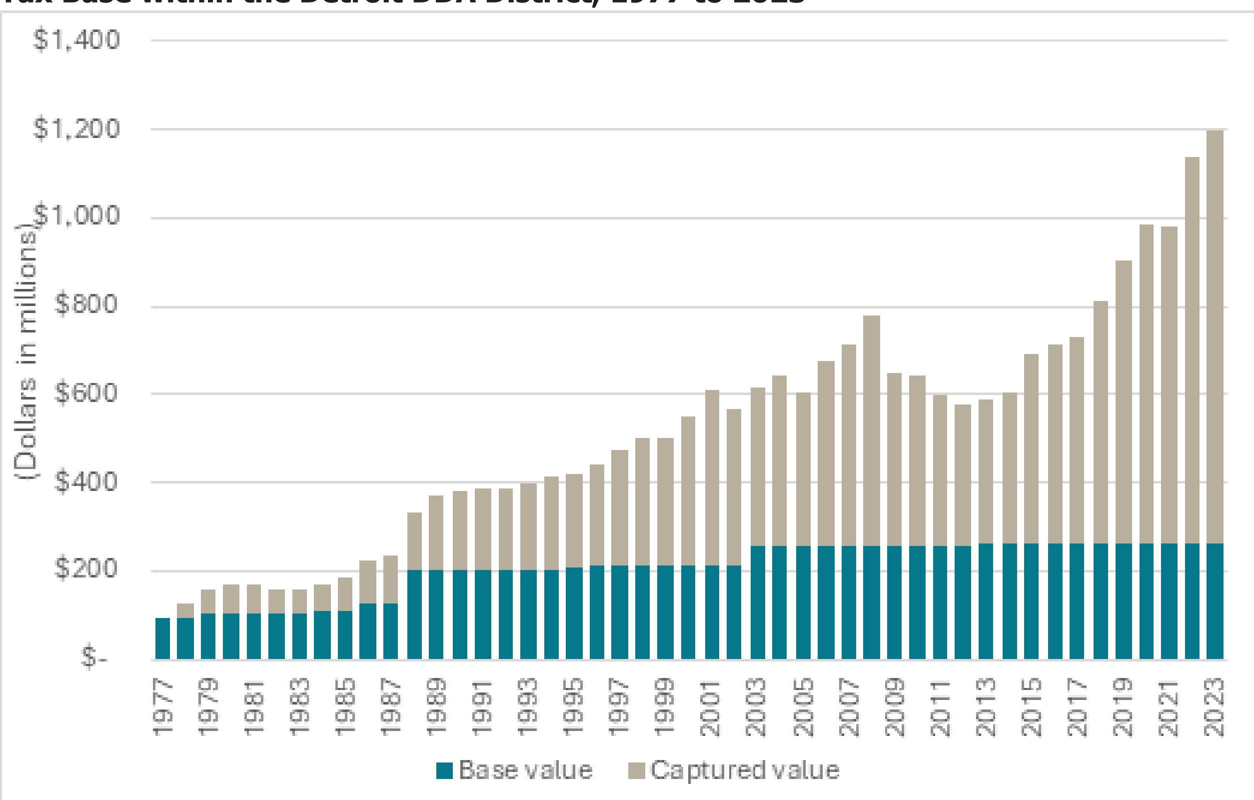
It documented the persistent problem of unemployment. While the unemployment rate nationally, in Michigan, in southeast Michigan, and in Detroit is down significantly from what it was in the 1970s, Detroit's unemployment rate is consistently worse than the overall region, state, or nation.

It is less clear how neighborhoods would have fared without the TIF-driven investments in the CBD and the income tax revenues derived from the business locations and jobs brought to the CBD. Downtown Detroit is a major employment center in Southeast Michigan and the wages paid to workers that call the CBD their employment home base are a major driver of city income tax revenues.

Property Tax Revenues

Governments engage in economic development for many reasons. Business attraction provides job opportunities to city, county, and state residents. Attracting core industries may attract additional suppliers and tangential businesses seeking to be located nearby the factories and brain trusts of the core industries. Fundamentally, government leaders justify these efforts because they will expand the tax bases to support the services provided to businesses and residents.

Chart 3
Tax Base within the Detroit DDA District, 1977 to 2023



Source: Continuing Disclosure of the City of Detroit Downtown Development Authority filed with Municipal Securities Rulemaking Board.

The question then must be posed, how has the Detroit DDA affected property and income tax revenues?

Overall Property Tax Base. The economic development activities of the Detroit Economic Growth Corporation, the DDA, and non-governmental organizations such as Bedrock Detroit have succeeded at growing the tax base in the CBD.

Chart 3 illustrates the growth of the property tax base in the Detroit DDA district since its creation in 1978. The teal segments of each bar reflect the initial assessed value—the portion of the tax base not captured. Taxes applied to this segment are distributed to the city general fund, Wayne County, Wayne RESA, and the other taxing jurisdictions (see Chart 9). This portion of the tax base has remained unchanged except when the footprint of the DDA was amended in 1986, 1989 and 2003.

The tan segments of the bars reflect the portion of the tax base captured for TIF. Taxes applied to this segment by each of the taxing jurisdictions is captured for the financing of principal and interest on bonds issued against the increased tax revenue and for other economic development purposes.

In 1994, 17 years after the DDA was created, the value of the tax base subject to capture for the first time exceeded the value of the frozen value. The segment subject to capture was double the value of the segment not captured by 2018 and is now close to four times the value of the initial assessed value—the non-captured segment.

In 2022, the Detroit DDA captured more than $63 million of property tax revenue from the expansion of this tax base. The value of downtown Detroit to the city and region stands above that of any of the suburban communities, both economically and symbolically, but it must be recognized that this is an incredible concentration of tax resources in a relatively small geographic area. The tax capture for economic development in the Detroit DDA is roughly equal to the total tax levy for city operations in cities such as Lansing, Troy, Royal Oak, and Livonia.[5]

Components of Property Tax Base. More so than for most jurisdictions in Michigan with a tax increment finance district, the presence of the Detroit DDA has greatly affected the property tax as a revenue source for the city.

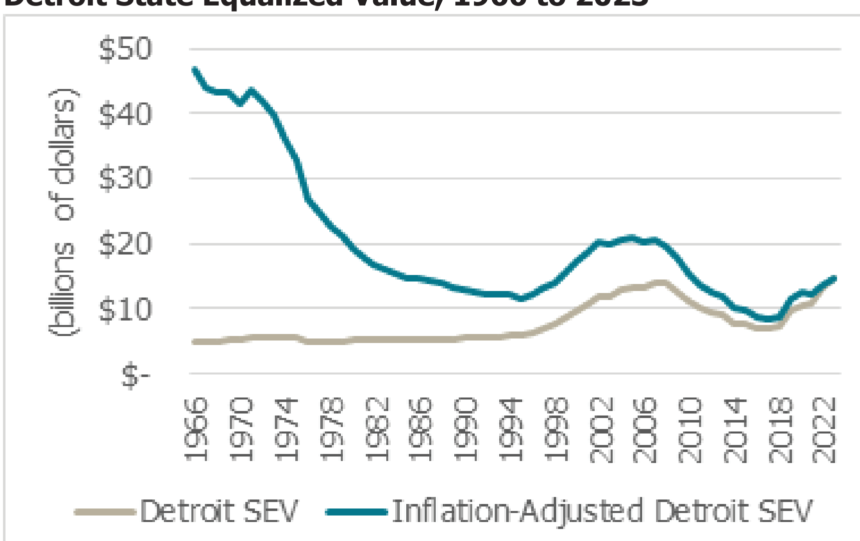
The value of Detroit property was fairly consistent from the 1960s until the early 1990s. It experienced some growth from the mid-90s to the 2008 beginning of the Great Recession. The value of property in Detroit then declined significantly from 2008 until 2018 and has rebounded since then.

However, adjusting the value of Detroit property for the rate of inflation tells a different story. The period from the mid-1960s until the early 1990s, when the nominal value of Detroit property was fairly constant, the revenues generated from this tax base lost purchasing power. The inflation adjusted value of Detroit's state equalized value declined 74 percent from 1966 to 1994. Property values increased faster

5 Michigan State Tax Commission, *2023 Ad Valorem Property Tax Report*, https://www.michigan.gov/taxes/-/media/Project/Websites/taxes/Tax-Levy-Reports/2023-Ad-Valorem-Tax-Levy-Report.pdf?rev=83eced2479064dc49d1022f40d113541&hash=253C87E5A2BA312C2C66FD63726C7A02

Chart 4

Detroit State Equalized Value, 1966 to 2023



Source: Michigan State Tax Commission

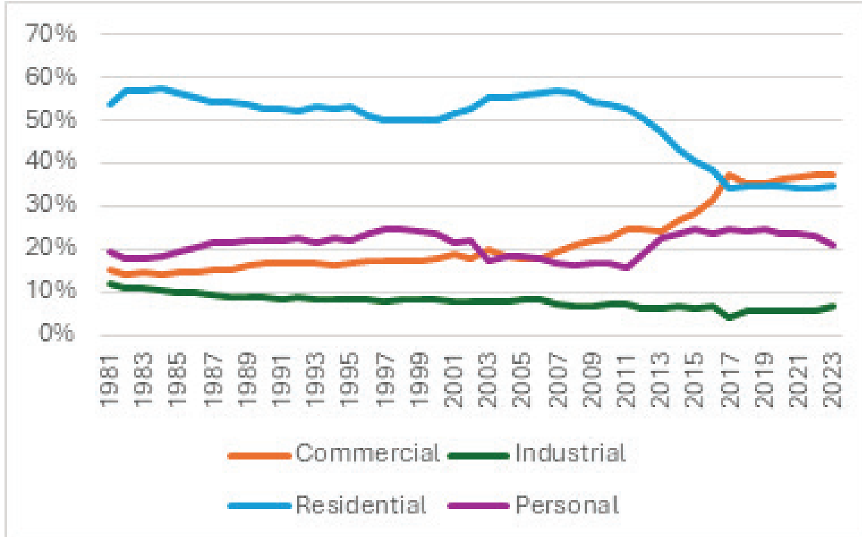
than the growth in inflation from 1994 to the Great Recession. The recent increase in values has been significant but has not yet returned the city to the inflation-adjusted value of property in the early 2000s. The inflation adjusted value of Detroit's 2023 state equalized value was still 69 percent less than it was in 1966 (see **Chart 4**).

Michigan uses several classifications as part of the property tax system. The residential, commercial, industrial, and personal property tax classifications are most significant for analysis of Detroit's property tax base. As is the case for total state equalized value in Chart 3, there was little change in the relative role that the value of each classification played from 1981 until the mid-2000s.

Since the early 2000s, a remarkable change has been occurring with residential property declining as a percent of the whole and the value of commercial property increasing. This was driven largely by 1) the spikes in mortgage and tax foreclosures that removed many residential properties from the tax base and decreased the value of those properties that remain; and 2) the post-bankruptcy revitalization of the city that was largely driven by investments in commercial properties downtown, in the midtown area, and in other select parts of the city.

Since 2017, the value of commercial property has been the largest share of Detroit's property tax base (see **Chart 5**). The value of commercial property increased from 18 percent of the total in 2006 to 37 percent in 2023. In 2006, the value of residential property comprised 57 percent of the total, in 2023 it comprised only 35 percent.

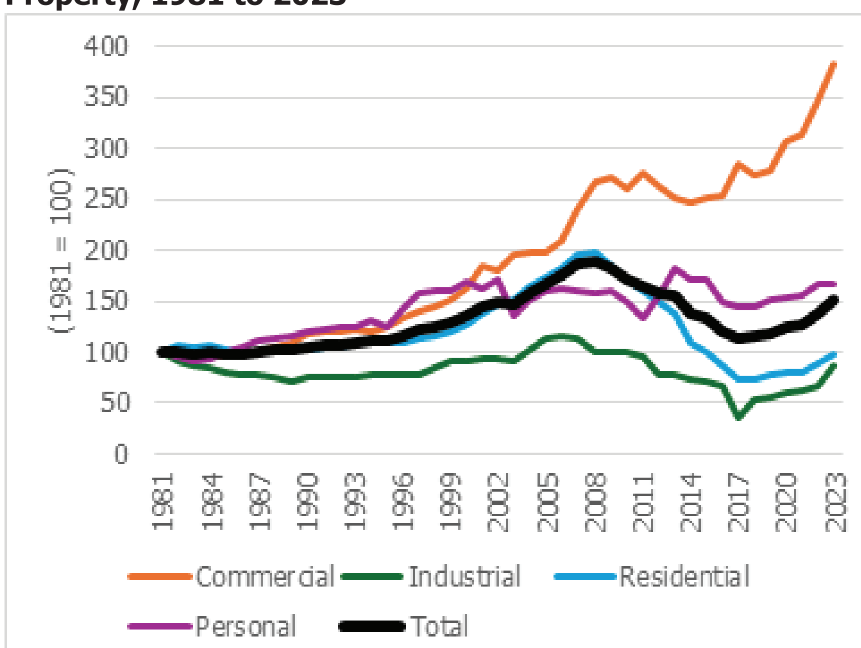
Chart 5
Composition of Detroit's Property Tax Base by Classification, 1981 to 2023



Source: Michigan State Tax Commission

The increasingly important role of commercial property value as part of the total property tax base is readily apparent in **Chart 6**. The recent reports of gains in housing prices are encouraging, but the net gains to the city's tax base are negligible in a histori-

Chart 6
Growth of Detroit's Property Tax Base by Classification of Property, 1981 to 2023



Source: Michigan State Tax Commission

cal context. While the value of residential property in 2007 was nearly double its 1981 value, it fell sharply and it only recently rebounded to come close to its 1981 value again.

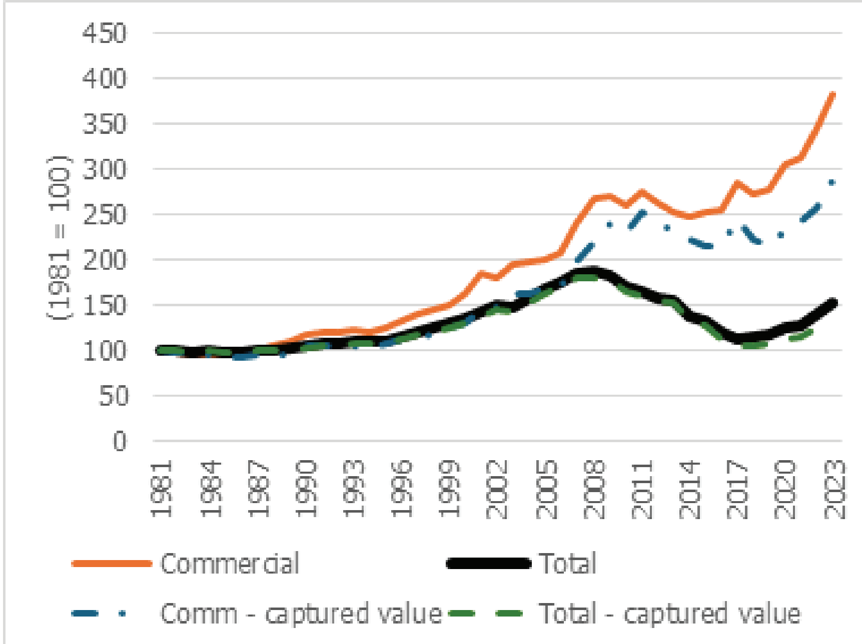
The city's tax base has gained much more from growth of the commercial sector. While taking an uneven path, the value of commercial property has increased most years since 1981 and is now more than four times its 1981 value.

However, the growth of commercial property value is not benefiting the entire city. Detroit's CBD is primarily comprised of office and retail commercial properties. While **Chart 7** does not tell the full story because it does not account for the residential apartment buildings in the CBD, it is clear how diverting revenues from the growth in value to the DDA affects the city's property tax base. The orange line reflects the growth of commercial property values since 1981. The dashed blue line immediately beneath it reflects the commercial property values available to the city after the DDA captures tax revenue. Roughly 30 percent of the growth in property tax revenues from commercial properties are being captured by the DDA.

The dark black line reflects the growth of total property tax base since 1981. The dashed green line reflects the total property tax base after the DDA tax capture. The DDA is capturing 12 percent of the growth in property tax revenues.

More specifically, in Fiscal Year (FY)2024 Detroit is expecting to collect $130 million for general operations. If the Detroit DDA captures about $18 million of this levy, it will leave the city with about 14 percent less revenue for city services.

Chart 7
Growth of Detroit's Total and Commercial Property Tax Base with and without the DDA District Property Value, 1981 to 2023



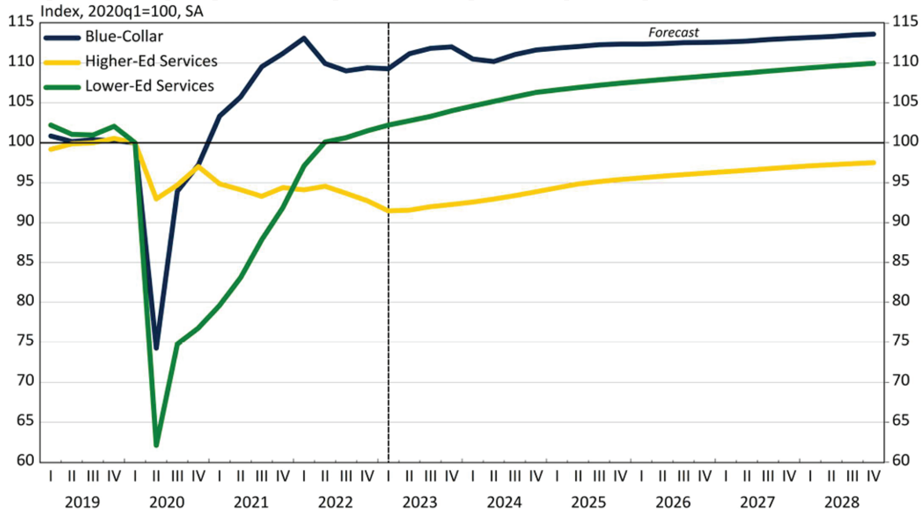
Source: Michigan State Tax Commission and Continuing Disclosure of the City of Detroit Downtown Development Authority filed with Municipal Securities Rulemaking Board.

Higher Wages Supporting Income Tax Revenues

The city's foregone property tax revenues are offset to some extent by city income tax revenues. The city did not provide data for the amount of income tax revenues generated from CBD employment, but it is possible to quantify the significance to the city with other data. As part of the University Economic Analysis Partnership, the University of Michigan tracks and forecasts employment and wage changes for service jobs requiring higher levels of education and skills, service jobs requiring less education, and blue-collar jobs.[6] The February forecast shows that lower education service jobs (green line) and blue-collar jobs (blue line) have rebounded from the COVID-19 drop and now exceed pre-pandemic levels (see **Chart 8**). Higher skilled jobs (yellow line) are taking longer to rebound, largely because many of them provide the luxury of working remotely at least part of the time. Successful economic development efforts and the pandemic have caused a shift in the composition of the Detroit workforce.

Chart 8

Payroll Employment by Industry Group, City of Detroit



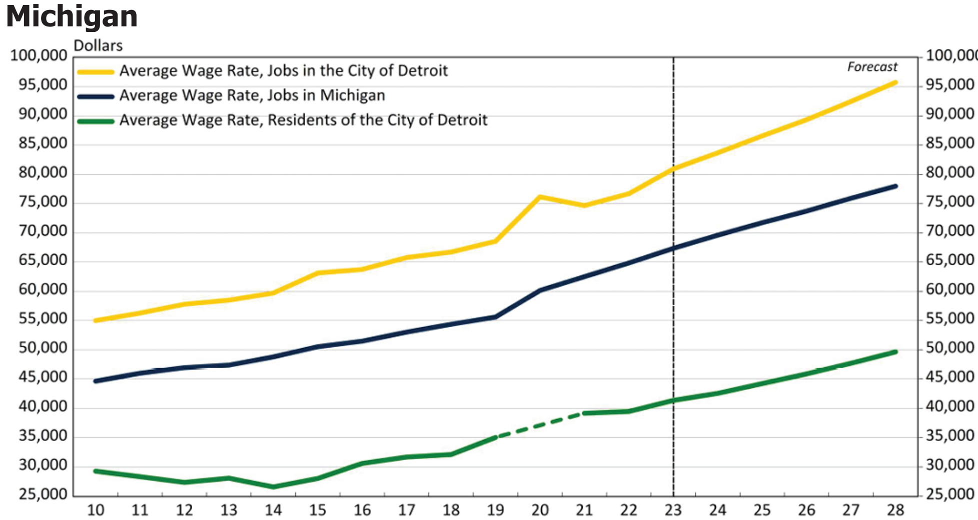
Source: University of Michigan, Research Seminar in Quantitative Economics, *The Detroit Economic Outlook Update for 2023–2028 Executive Summary: February 2024*, https://lsa.umich.edu/econ/rsqe/forecasts/city-of-detroit-forecast.html

And yet the wages paid to the higher skilled workforce continues to drive wages paid in the city. The UM forecast looks at average wage rates for jobs in Detroit, jobs held by Detroit residents, and jobs in Michigan as a whole. The trends and forecasts illustrate the importance of the jobs with higher education skills in driving city income tax revenue (see **Chart 9**). The average wage of jobs in Detroit (yellow line) exceeds the state average (blue line) even though the average wage rate of city residents (green line) is significantly less than the state average.

All of Detroit benefits from Detroit's CBD serving as a jobs' hub where many businesses, law and accounting firms, city, state, and federal government offices, and others have chosen to locate. All of Detroit benefits from the city income taxes these workers

Chart 9

Annual Wage and Salary Income per Worker, City of Detroit and Michigan



Source: University of Michigan, Research Seminar in Quantitative Economics, *The Detroit Economic Outlook Update for 2023–2028 Executive Summary: February 2024*, https://lsa.umich.edu/econ/rsqe/forecasts/city-of-detroit-forecast.html

6 University of Michigan, Research Seminar in Quantitative Economics, https://lsa.umich.edu/econ/rsqe/forecasts/city-of-detroit-forecast.html

pay. Detroit benefits from the jobs that support these workers in restaurants, parking facilities, security, and other professions.

Wellbeing of Southeast Michigan

Downtown Detroit's role as a hub for highly paid workers in Southeast Michigan benefits the whole region, but the benefits are less tangible and more diffused throughout the region.

As seen in **Chart 10**, 24 percent of the $63 million of tax revenue captured by the Detroit DDA would otherwise flow to the city's general fund and 11 percent would be used to finance Detroit's debt. This is an off-budget set aside of city resources for economic development in the CBD.

However, in recognizing that 35 percent of the captured revenue relates to city taxes it must also be recognized that 65 percent relate to taxes levied by overlapping jurisdictions. Each of these jurisdictions must operate with millions of dollars less in property tax revenue because of the Detroit DDA tax capture (in addition to the millions more captured by other TIF districts in Wayne, Oakland, and Macomb counties).

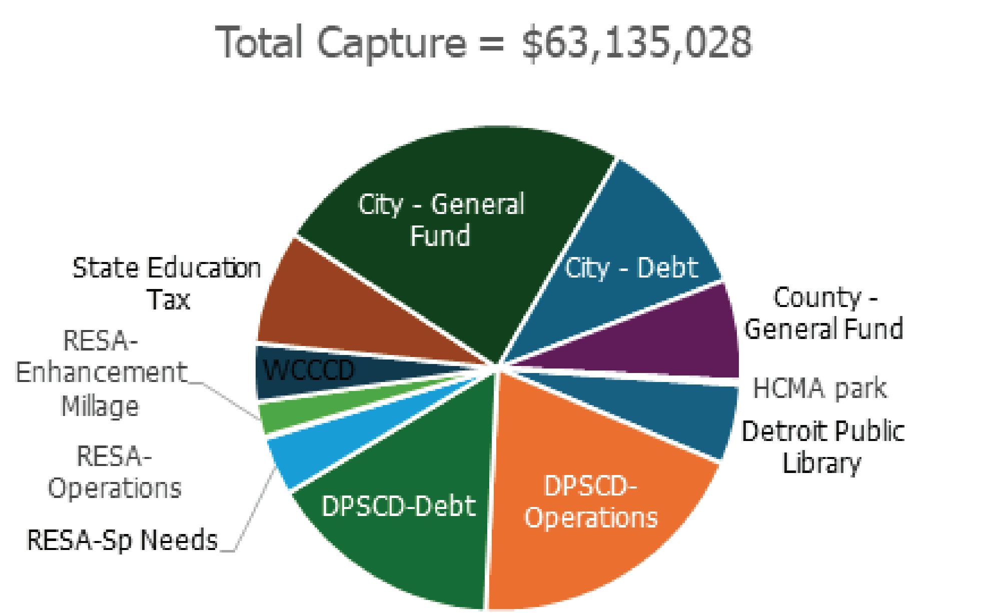
In the absence of tax increment financing, it is not clear if governments would lower their tax rates, enhance services with more resources available to them, or a combination of the two.

These other jurisdictions, as a whole, do benefit from a prospering downtown Detroit. It is not the jobs center that it once was, due to urban sprawl and the development of office, retail, industrial, and manufacturing sites throughout Southeast Michigan, but it is still one of the primary jobs centers in the region. Workers filling jobs in downtown Detroit own or rent houses, condos, townhouses, and apartments throughout the region. They pay property taxes to the city or township in which they live, as well as to Wayne County (as well as Macomb, Oakland, and Washtenaw Counties), the local and intermediate school districts, and other taxing jurisdictions. They shop at retail outlets throughout the region, and those business owners pay taxes.

Unlike the City of Detroit, these other jurisdictions do not directly benefit from the level of wages paid to workers in downtown Detroit. Local-option income taxes in Michigan are available only to cities, so the counties, libraries, intermediate school districts, and others do not have an immediate source of revenue to offset the captured property tax revenues.

Except for the school district that is made whole by the state, these governments have to levy taxes at artificially higher rates to account for the portions of their tax levies captured for economic development by the Detroit DDA and all of the other TIF districts. Elected leaders of these governments have to balance setting a tax rate that will keep the city, village, township, county, school district, or special authority competitive while still generating sufficient revenue to provide the services they are statutorily charged to provide or charged by their electors to provide.

Chart 10
Detroit Downtown Development Authority, Property Tax Capture by Levying Jurisdiction, 2022



Source: Detroit Downtown Development Authority.

Address Detroit's 2020s Problems

This report has documented the amount of past, present, and future resources flowing to the Detroit DDA. With a scarcity of resources, Detroit city leaders must soon have hard conversations about when "enough is enough." When is it necessary to direct the attention and resources to meet other economic needs?

Although the problems of the 1970s are largely the same problems that continue to plague Detroit in the 2020s, the focus in the 1970s was on revitalization of the downtown area. There is still work to be done, but it can be argued that revitalization of the downtown area is no longer Detroit's biggest issue.

As documented above, the city continues to suffer relative to the balance of Southeast Michigan on issues of population loss, income, poverty, educational attainment.

Also, the Altarum and Citizens Research Council's series of papers published last year[7] and the Governor's Growing Michigan Together Council[8] highlighted several policies that could accelerate the attraction of businesses, young families, and general development. Primary among those investments is the development of robust, meaningful public transportation. This is an issue much bigger than just the City of Detroit, but the city must be a meaningful participant for development of a vibrant system and zoning changes friendly to public transportation to take hold.

Not all of these issues are within the realm that can be directly affected by city policy, but the city can affect policy to at least indirectly affect many of these issues. Doing so requires determination and resources. As a whole, the current administration and City Council appear focused on many policies that will affect these issues. To that end, the city has benefited from federal funding made available as pandemic relief. That funding is limited in amount and duration. Available funds must be spent within another two years. City efforts must extend far beyond that.

Deciding Detroit's highest economic development priorities does not need to be an either-or decision. It is possible and necessary to continue to support downtown and engage in other activities nurturing the neighborhoods and commerce centers outside of downtown. Being able to tap into some or all of the tax revenue captured by the Detroit DDA offers one path for securing resources to continue to tackle these issues.

7 Altarum and Citizens Research Council of Michigan, *Michigan's Path to a Prosperous Future: Challenges and Opportunities*, May – October 2023, https://crcmich.org/publications/prosperous-future.

8 Growing Michigan Together Council, https://growingmichigan.org/.

Evaluating the TIF Model

The Detroit DDA is performing tasks authorized by the Downtown Development Authority Act. Part of the critique, therefore, needs to be about the act.

Unending Tax Capture

The most significant criticism of the DDA Act and the tax increment finance laws in general is that tax capture is permitted without end. In 2024, the Detroit DDA, one of the first created after the law was enacted, has been in operation for 46 years and capturing taxes generated from property value growth since 1978. Except in the period following the Great Recession when property values in Southeast Michigan were especially hard hit, it has captured increasingly larger amounts of property tax revenue every year.

The city has the latitude to make changes, but thus far policies have favored the DDA above the city as a whole or the other, overlapping governments. The DDA does not have the latitude to make changes unilaterally. It works with the mayor's office, holds public hearings, and ultimately must submit plan amendments or expansions of the district boundaries to city council for approval. Nonetheless, it must be recognized that the permissiveness of the authorizing law allows tax captures to continue in perpetuity if the case is made that deterioration and economic decline continue.

As will be discussed below, the Detroit DDA has debt outstanding. Under the current payment schedules the last payment should be made in 2042. At that time the Detroit DDA will have been in operation for 64 years, capturing tax revenues.

Will the city's economic development interventions ever be sufficient to make further government intervention unnecessary? Does there ever come a time when Detroit can rely on its own competitiveness and the value of being in the city to attract and retain businesses?

On this account, the law works against any DDA ever fully achieving its purpose so that it becomes no longer necessary. For the role of DDAs is not only to correct past deterioration, but also to make investments to prevent future deterioration. The law provides that the mission of DDAs is:

> "… to correct and prevent deterioration in business districts; to encourage historic preservation; to authorize the acquisition and disposal of interest in real and personal property; to authorize the creation and implementation of development plans in the district; to promote the economic growth of the district …"

It is possible to compare conditions in the Detroit CBD today to that that existed in 1977 and document the successes brought about by investments of the DDA, through TIF and other investment means. As witnessed by the recent NFL Draft in downtown Detroit, the CBD has come a long way and there is much to be proud of. Few would say that work is finished. There is still work to be done. But the CBD is much improved.

Advocates for maintaining the operation of the Detroit DDA can make the case for its continued operation. As long as people and businesses continue to migrate away from central cities, as long as the money continues to move away from manufacturing, as long as the business climate in Detroit includes cost that are higher than in suburban communities or in many other larger Midwest cities, the risk of deterioration in property values in the CBD remains and a case can be made to continue operations of the Detroit DDA.

But at what cost? The goal of the economic development activities that a DDA can finance through TIF is to eliminate the causes of property deterioration and increase property valuations for tax purposes.

The goal should not be to promote economic growth for the sake of growth alone. Without an end to tax capture, or at least periodic resets, the investment in economic development is occurring only for the benefit of the DDA to fund future economic development activities.

Development is meant, at least in part, to increase the tax revenues of the governments serving the downtowns thus enabling them to provide services to everyone residing within their jurisdiction. This is not occurring with the unending capture of tax revenues.

The downtown area should not and cannot be thought of as a standalone entity. Downtowns are concentrations of commercial properties. They require relatively few government services compared to residential areas, but the revenues from taxes levied upon them are important to support the services provided to residents.

Generally, revenues generated by taxes on residential properties tend not to be sufficient to fund the services provided residential properties, but the total revenues generated from taxes levied on the mix of properties provides needed revenue. Without taxes levied on the commercial downtown properties in the mix, the tax burden for general government services falls predominantly on the residential and industrial properties outside of TIF districts. This is the case at the city level, and the same holds true for countywide taxes (Wayne County has its tax levy captured by more than 60 tax increment finance districts) on a larger scale.

A Competitive Advantage to All is an Advantage to None

It is beyond the city's control, but it should be recognized that the way the Downtown Development Authority Act was drafted does not create any advantages for the economically distressed communities it was designed to assist. Michigan's law was written in such a way that most local governments, whether experiencing fiscal distress or not, are able to create these special authorities and engage in TIF.

The legislative findings section in the DDA law says that conditions of property value deterioration are detrimental to the state economy and economic growth of the state and its local units of government. The legislature found that these government programs are desirable and necessary to eliminate the causes of property value deterioration thereby benefiting the economic growth of the state.

The implementation of the act was not consistent with the legislative findings. Certainly, some Michigan local units of government suffered property value deterioration. That deterioration can be traced to many causes, including the deindustrialization of the economy and the exodus of business and people from Michigan cities. By no means can it be said that <u>all</u> local governments in Michigan suffered property value deterioration.

And yet, the laws authorizing TIF are available to all cities, villages, and townships in the state. The law was not written to suggest that it would be available only to governments that have suffered property value deterioration. More than 800 DDAs, TIFA districts, and LDFAs have been created throughout Michigan. For that reason, TIF districts in communities that legitimately suffered property value deterioration, such as the Detroit DDA, have little to offer relative to neighboring communities or peer cities throughout Michigan or the Midwest.

One troubling aspect of this proliferation is the constitutional justification for allowing tax capture. Tax capture allows the special authority to redirect for economic development purposes taxes levied for the general operation of cities, counties, and other units of government as well as specific taxes levied to fund public safety, education, parks, and other services.

When asked to opine on the constitutionality of tax increment financing, the Michigan Supreme Court signed off on it with the reasoning that each of the taxing jurisdictions is not losing tax revenue but foregoing new tax revenue that would not occur "but for" the economic development intervention.[9] That logic might hold up if TIF districts were confined to places with property value deterioration, but it is unreasonable to assume that economic growth would not occur in any of the more than 800 districts without the activities of these special authorities.

9 *Advisory Opinion on Constitutionality of 1986 PA 281*, 430 Mich 93; 422 NW2d 186 (1988) addressed the Local Development Finance Authority Act, an economic development tool similar to the Downtown Development Authority Act.

No Truth in Taxation

Michigan has statutory provisions that can be considered "truth in taxation." Local governments are required to include the purpose of tax levies when asking voter authorization to levy the taxes. Whether the tax is for general operation, public safety, library operations, mosquito control, or one of the many other purposes local governments levy taxes, this information provides accountability for how taxes are spent.

It is contrary to the intent of this requirement then to tell voters that a millage is for county general operations, park operations, or library services, but in the end a portion of the tax revenue was captured and used for economic development purposes that were not included in the ballot language.

The justification accepted by the courts has been that the taxing jurisdictions are not losing out on anything because this is tax revenue that would not be received without the economic development activity.

While there is something to this argument, it presupposes that no development would occur without the economic development activity. It also presupposes that existing properties would not appreciate in value without economic development activity. While the Detroit downtown area was in decline and government intervention was justified to get things turned around, property values appreciated, and businesses invested in downtown Detroit before the DDA was created and have done so since without government assistance. It is fallacious to assume that all growth in property values is a direct result of economic development activity.

Policy Recommendations

The root of Detroit's concern (and those of most jurisdictions that have created tax increment finance authorities) is that an authority was created, and economic development activities were engaged in, but the resulting economic growth minimally benefits tax revenues. Whether to direct more resources to activities that would improve the issues identified above or simply used to improve and enhance city services to all residents and businesses, one goal of economic development and reform of the system has to be to allow the governments engaged in economic development to benefit from its success.

Repay Outstanding Debt As Soon As Possible

To be clear, it is not a recommendation of this paper that Detroit end its DDA. The condition of the CBD has come far since its inception in 1978 but the work of improvement and business attraction should not be seen as complete. The DDA provides some level of certainty to businesses that they are moving into an area that is a focus of attention with a dedicated funding stream for future care. Also, the certainty of the revenue stream has afforded the DDA better interest rates in bond markets than the city enjoys generally.

Table 3
Maturities of the Detroit DDA's Long-Term Liabilities as of July 1, 2024

	Serial Bonds		Accelerated Amortization Bonds		
	Principal	Interest	Principal Redeemed via Special Mandatory Redemption	Interest	Series 2024 Bonds Net Debt Service
2025	$ 3,765,000	$5,502,214	$10,000,000	$4,550,000	$ 23,817,214
2026	4,065,000	5,253,500	$10,000,000	4,000,000	23,318,500
2027	4,270,000	5,050,250	$10,000,000	3,500,000	22,820,250
2028	4,485,000	4,836,750	$10,000,000	3,000,000	22,321,750
2029	4,705,000	4,612,500	$10,000,000	2,500,000	21,817,500
2030	4,940,000	4,377,250	$10,000,000	2,000,000	21,317,250
2031	5,190,000	4,130,250	$10,000,000	1,500,000	20,820,250
2032	5,450,000	3,870,750	$10,000,000	1,000,000	20,320,750
2033	5,720,000	3,598,250	$10,000,000	500,000	19,818,250
2034	6,010,000	3,312,250			9,322,250
2035	6,310,000	3,011,750			9,321,750
2036	6,625,000	2,696,250			9,321,250
2037	6,955,000	2,365,000			9,320,000
2038	7,300,000	2,017,250			9,317,250
2039	7,665,000	1,652,250			9,317,250
2040	8,050,000	1,269,000			9,319,000
2041	8,455,000	866,500			9,321,500
2042	8,875,000	443,750			9,318,750

Source: City of Detroit Downtown Development Authority, *June 30, 2024 Audit.*

It is recommended that the Detroit DDA plan not be amended further, that tax capture continue as needed to repay outstanding debt, and in reaction to future development needs a new plan be drafted with a new initial assessed value established for future tax capture. This would continue work to improve betterment of the CBD and serve the original purpose of rewarding the city and overlapping jurisdictions for their policy decisions to forego property tax revenues for a time to achieve long-term development.

The Detroit DDA has borrowed against future revenue to fund projects with significant price tags. Bonds were sold with future TIF revenues pledged for the payment of principal and interest. Over the next 18 years, the Detroit DDA is required to pay more than $280 million in principal and interest on the 2018 bond issuance (see **Table 3**).

The DDA has taken actions in the city's best interest to retire bonded indebtedness early. It recently refinance debt to retire about $24 million of the remaining 1996, 1998, and 2018B bonds. It also retired about $76 million of the 2018A bonds. The remaining $198 million was structured so that the DDA can pay an additional $10 million a year (above and beyond scheduled debt service) without penalty starting July 1, 2025.

The mayor's office and city council, in collaboration with the DDA Board, should avoid the issuance of any new debt until this is repaid and plan to work within the available captured tax revenue limits to fund new and existing projects to the extent possible.

End the Unending Tax Capture

It is an interesting conundrum that city residents do not feel that they benefit from the Detroit DDA. It is interesting that the DDA board (through many iterations over the years) appointed by the mayor (several mayors over the years), approved by city council (several city councils over the years), and answerable to them both would not take action to benefit the whole city. While the mayor and council are responsible for the betterment of the whole city, that responsibility has not been carried out by the mayor's surrogates on the board.

By amending the 1978 DDA plan more than 30 times over the past 47 years, the DDA board has prolonged and grown the tax capture to the detriment of the city and overlapping governments. City leaders are leaning into foregoing property tax revenue as a means of growing city income tax revenues, but that has not always been the strategy. This practice deprives the city of the benefits of the DDA's successes and of precious resources needed to make Detroit attractive for future business and family location decisions. And it does not help the overlapping governments.

The DDA Act does not stipulate that the plan created at the adoption of any DDA is to serve for the lifetime of the DDA. Any DDA board can act unilaterally to balance the activities and wellbeing of the district that it is charged with enhancing with the wellbeing of the whole governmental unit. That is not happening so a statutory remedy may be necessary.

The DDA Act should allow for minor amendments to the plan and should provide flexibility so that DDA boards in cities and townships throughout Michigan have the ability to meet the needs of their downtowns.

The act should be amended to make clear that tax increment financing based on an initial assessed value may be carried out until the activities described are completed and the borrowing undertaken to finance those activities is repaid. It should not allow new activities unless they can be carried out with the resources generated by the initially planned tax capture. It should not allow the boundaries to be expanded. With its completion, tax capture should end and the city general fund and all overlapping jurisdictions that have been subject to tax capture should resume full receipt of the taxes levied.

New activities and new borrowing should require a new plan with a newly established initial assessed value. If the boundaries of the district need to be altered, this would be the opportunity to do so. A new plan would begin a process wherein each overlapping jurisdiction has the capacity to examine the proposed nature and purpose of the new plan to decide whether to participate in tax capture.

In the absensce of such provisions, a band-aid approach has been adopted to allow overlapping local governments to opt out of the tax capture when plans are amended or district lines redrawn. This played out recently with the Detroit Public Library opting out of the DDA tax capture. A simpler, more transparent fix is to amend the law so that local governments are rewarded for their participation in tax capture with expansions of their tax bases on a more frequent basis.

Do Not Change Use of Captured Tax Revenue

Other cities, when confronted with the continuous tax capture and their DDAs possessing resources beyond their immediate needs, have made a bad situation worse by diverting captured tax revenues to the city to fund specific services that can be said to relate to economic development. Beyond funding infrastructure and similar costs, these communities have justified using TIF revenues to fund public services provided in the downtown area. Commonly, they contribute to the cost of police and fire services in the DDA district.

Because the Detroit DDA is capturing property tax revenue from all taxing jurisdictions that levy taxes on properties in the CBD, sending that money to the city's general fund would amount to using the taxes meant to fund services for all Wayne County residents (and to some extent all Oakland and Macomb County residents) to fund Detroit's services.

The idea of using that captured tax revenue to fund city services gets more complicated when considering this question in the context of all of Wayne County or in context of the whole state. Although Wayne County levies almost eight mills of property tax (one mill is equal to $1 of tax for every $1,000 of taxable value), it does not fully benefit from the levy because the Detroit DDA and more than 60 other tax increment finance districts are capturing the portion of Wayne County taxes levied in those districts. This also is the case for the other taxing jurisdictions listed above.

Taken to an extreme where all cities, villages, and townships that create TIF districts use captured tax revenues to fund their core governmental services, local government finances will become a jumbled, unaccountable mess.

Other reforms should be pursued rather than using captured tax revenue to fund city services.

Governance

The DDA act currently empowers the mayor (chief executive officer) to appoint the governing board of the DDA, subject to approval by the city council (legislative body). A majority of the governing board must have an interest or be part of a legal entity that has interest in property in the downtown district.

The legislature might want to revisit these provisions to empower city councils to play a more prominent role in appointing board members. A major issue with TIF is that spending of revenues generated by tax levies is moved off budget. The decision to support business attraction with site development or construction of a parking deck is not weighed against the city's needs to purchase new fire apparatuses or employ more police officers.

Amending the act to empower the council president to play a role in appointment of a portion of the DDA board would provide a path to better involve the city council in decision making processes for the DDA.

Conclusion

For 47 years the Detroit DDA has been actively engaged in economic development activities in the CBD. Funding for the economic development activities primarily has come from the DDA's capture of property tax revenues levied by the city, county, intermediate school district, and other taxing jurisdictions.

Clearly downtown Detroit is in better shape now than it was at the time that the DDA was created, but it is fair to ask at what cost. The city and the other local governments have foregone hundreds of millions of dollars of tax revenue because of the tax capture. The city has benefited from increased income tax revenues related to business activity downtown, but the other local governments can only indirectly trace benefits related to the income of downtown workers.

The primary critique of the Detroit DDA, and other TIF districts in Michigan, is that they have failed to fulfill their purpose because they continue to capture property tax revenue without end, thus fueling more economic development but not enhancing the capacity of taxing governments to expand or improve government services.

Justification of the continued operation of the Detroit DDA is not difficult – for all of its successes, the economics of locating in downtown Detroit do not work for many businesses. However, the operations of the Detroit DDA should not be put on autopilot for the indefinite future.

Recommendations in this report are geared toward rewarding the local governments that have endured decades of stagnant property tax revenue growth to fund economic development. The Detroit DDA should not issue new debt until the current debt is repaid. It should end the capture of property taxes once the current debt is repaid. When that happens, Detroit city leaders should evaluate the needs of the downtown versus the needs of the balance of the city, and if continued investment in the downtown is warranted start with a clean slate and new plan for tax capture.

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