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CRC Memorandum

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PUBLIC FUNDING FOR STADIUM CONSTRUCTION IN DETROIT

On March 19, 1996, two questions will appear on the Primary Election ballot in Detroit involving a plan to construct a new \$235 million stadium for the Detroit Tigers. A 1992 ordinance, passed by Detroit voters, prohibited the use of public tax subsidies for stadium construction. In October 1995, the State of Michigan, the City of Detroit, and the Detroit Tigers agreed to cooperate in constructing a new stadium in downtown Detroit. In December 1995, the Detroit City Council repealed the 1992 ordinance to allow public funding of stadium construction. Supporters of the 1992 ordinance collected signatures to force a March 19 referendum on the City Council action, Proposal A. This referendum is accompanied by an advisory question, Proposal B, more directly asking whether public funding may be used for stadium construction. These questions will appear on the ballot as follows:

Proposal A: To repeal the City of Detroit Ordinance 38-95, which repealed initiative ordinance 7-92 adopted by the citizens of Detroit on March 17, 1992, which provided that "no public tax subsidies shall be used for any stadium construction." Should this referendum be adopted? Yes or no.

Proposal B: May public tax funds be used to support stadium construction within the city of Detroit? Yes or no.

In Brief

Because Proposal A is a referendum on a City Council passed Ordinance and Proposal B is an advisory question, the City will be obligated to follow the outcome decided by the vote on Proposal A, regardless of the relative number of votes cast for Proposal B.

The \$235 million construction costs are to be financed by a \$55 million grant from the State of Michigan Strategic Fund; \$35 million from City of Detroit Downtown Development Authority (DDA); and, \$145 million from the Detroit Tigers.

The City share of the stadium construction costs is to be funded through tax increment bond sales issued by the Downtown Development Authority. Downtown Development Authorities were authorized in 1974 to give municipalities a tool to promote economic development and to address urban deterioration. Tax increment financing is the major revenue source and is the most important aspect of DDAs. Tax increment financing allows for the "capture" of revenues from the levy of non-debt property taxes on the increase of state equalized value in the district or development area over the base year in which the tax increment financing plan was approved. In Fiscal Year 1995, the Detroit DDA was able to capture \$13.9 million through tax increment financing.

The Ballot Questions

Proposal A, if approved, would repeal Ordinance 38-95, that had repealed Ordinance 7-92. Like a double negative, repealing a repeal would result in continuation of the previous policy. A yes vote on Proposal A would continue to prohibit public tax subsidies for stadium construction. A yes vote on Proposal B would show that public opinion is in favor of using public funds for stadium construction (See **Events Leading to**

the March 19 Ballot Questions on page 6).

Should Proposal A win a yes vote, the use of Detroit city tax dollars for stadium construction would be prohibited for at least one year. The Detroit City Charter specifies that an initiated ordinance cannot be amended or repealed for the year immediately following adoption by the voters. After that year, City

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Council may amend or repeal the ordinance.

A referendum on the December passage of Ordinance 38-95 is consistent with the original intent of the 1992 initiative. The petitions circulated to put the 1992 question on the ballot contained language providing that any changes, modifications, amendments, or abandonment of the present use of Tiger Stadium would be prohibited unless approved by a majority of the voters. While the Wayne County Circuit Court ruled several provisions of the proposed ordinance were not proper decisions to be made by the voters, over 11,000 city voters signed petitions that included these provisions.

In the Case of Conflicting Outcomes

Two questions relating to the same subject hold the potential for a conflicting outcome. What if a majority of voters vote yes on both Proposal A and Proposal B? Or if a majority votes no on both A and on B?

Currently, Tiger Stadium is owned by the City of Detroit and is leased to the Detroit Tiger, Inc. The lease extends to 2008, and does not require the Tigers to pay any rent. Upon completion of the stadium project, the Detroit DDA will own the new stadium, resulting in a tax-exempt facility, and the Tigers will enter into a new lease legally committing them to Detroit until the year 2033.

Advisory Questions

There is no provision either in state law or in the Detroit City Charter specifically authorizing the City of Detroit to place advisory questions on general public policy issues on the ballot. Section 1 of Article 3 of the Detroit City Charter provides for the timing of regular and special city primary and general elections. The final paragraph of this section states:

A special election for the submission of a *proposition* may be called by a resolution of the city council adopted at least 60 days before the special election. [Emphasis added]

Despite the absence of a definition of a "proposition" in the City Charter, the City has included within that term advisory questions. Ballot questions that have a binding effect are specifically referred to as "initiative or referendum" in Article 12 of the City Charter. Without provision in state law or the City Charter, advisory questions have no binding effect on existing laws or on the persons elected to make the laws, either at the city or state level.

The Detroit City Charter provides that in instances when two or more initiative or referendum measures have conflicting provisions, or attempt to accomplish the same object, and more than one of these measures is approved by the voters, the measure receiving the highest number of affirmative votes shall prevail to the extent of their inconsistency.

However, in this instance, Proposal A is a referendum and Proposal B is an advisory question.

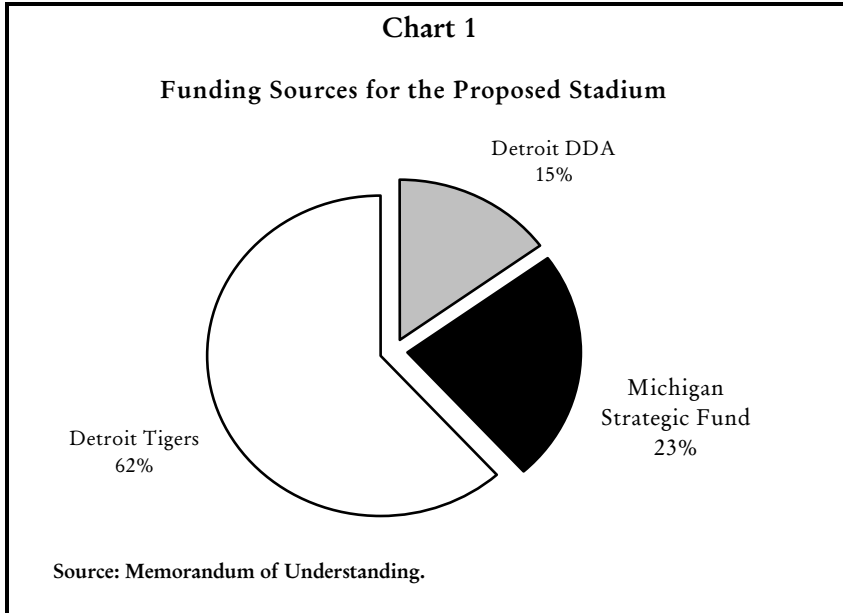
The only question of any binding consequence is the referendum, Proposal A, seeking to repeal an existing ordinance. As with the casino gambling issue, an advisory vote merely expresses the wishes of the electorate (See **Advisory Questions** on this page). As a result, even if the vote were to result in a substantial majority expressing an opinion on Proposal B while Proposal A receives a narrow majority in the opposite direction, only Proposal A would be of consequence.

Stadium Financing

In October 1995, the State of Michigan, the City of Detroit, and the Detroit Tigers agreed to cooperate in constructing a new stadium. The document outlining this agreement is referred to as the Memorandum of Understanding. This document calls for a stadium to be constructed in downtown Detroit. The \$235 million construction costs are to be financed by a \$55 million grant from the

State of Michigan Strategic Fund; \$35 million from City of Detroit Downtown Development Authority (DDA); and, \$145 million from the Detroit Tigers (See **Funding Sources for the Proposed Stadium** on page 3).

In addition, \$5 million will be placed in a contingency fund to cover unforeseen cost overruns for land acquisition and infrastructure costs by the Detroit DDA. The ex-



penditure of any additional money for construction costs would specifically go against the Memorandum of Understanding, which states as follows:

The maximum amount to be contributed by the DDA to pay the Costs of the Stadium Project shall not exceed the sum of (a) the DDA Contribution [\$35 million] and (b) the amount authorized to be expended from the Contingency Fund [\$5 million]...

Beginning in 1999, a \$250,000 annual deposit (a total of \$8.5 million) will be made in a major repair and replacement fund. In the event that the \$5 million in the Contingency Fund is not needed for stadium construction cost overruns, it will be deposited into the major repair and replacement fund.

The Michigan Strategic Fund grant will be used to pay the costs of land acquisition, site development, and improvement of publicly owned infrastructure. The DDA funds can be used for any

stadium construction costs except those specifically allocated to the Tigers. The Detroit Tigers are responsible for all costs not paid from the Michigan Strategic Fund grant, the DDA contribution, or the contingency fund, including cost overruns, the cost of designing the new stadium, liabilities under the construction contracts, and the cost of operation, maintenance and repair of the stadium complex.

Michigan Strategic Fund

The Michigan Strategic Fund was created in 1984 to foster greater coordination of state policies and to make available public and private development finance opportunities to businesses and communities within the state.

Should Detroit voters decide to permit public funding for a new stadium, an obstacle may still stand in the way of using the Michigan Strategic Fund for state funding. In 1993, the Governor was sued by several Indian tribes because the state had not negotiated an Indian gaming compact. The Legislature gave its consent to gaming com-

pact, but the consent decree, and thus, the flow of a percent of casino winnings into the Michigan Strategic Fund, was never consented to by the Legislature.

The grant to the stadium project includes revenues from Indian gaming winnings paid to the state due to the consent decree. A court challenge has been filed contesting whether the Strategic Fund Board had the constitutional right to spend revenues from the consent decree. It is alleged that Section 17 of Article IX of the State Constitution has been violated. This Section states:

No money shall be paid out of the state treasury except in pursuance of appropriations made by law.

The Downtown Development Authority and Tax Increment Bonds

The City share of the stadium construction costs is to be funded through tax increment bond sales issued by the Downtown Development Authority. Downtown development authorities (DDAs)

Impact of New Sports Facilities

Studies differ on the extent to which spin-off economic development occurs as a result of investment in sports facilities. Clearly, gains are experienced in employment during construction. Gains more easily attributable to investment in sports facilities are found in the form of aesthetic and psychological value. In the case of Detroit, because a stadium already exists, and economic activity currently surrounds this stadium, the gains are more likely to relate to civic image than if the City did not all ready have a stadium in the first place.

were authorized in 1974 to give cities, villages, and townships a tool to promote economic development and to address deterioration in urban areas. These authorities are public bodies, created by a resolution of the governing body of a municipality and encompassed in a district. A DDA is controlled by a board of directors appointed by the chief executive officer of the municipality, with the consent of the legislative body. While the authority does not have the power of eminent domain, a municipality may take private property and transfer the property to the authority. The Detroit DDA may impose a property tax of one mill on the district properties and create special assessment districts. As of June 30, 1993, some 276 local governments in Michigan had created DDAs.

Tax increment financing is the major revenue source and is the most important aspect of DDAs. All other functions and powers are also functions and powers of local governments. Tax increment financing allows the DDA to "capture" the revenues from the levy of non-debt property taxes on the increase of state equalized value in the district or development area over the base year in which the tax increment financing plan was approved (See **Tax Increment Financing** on this page).¹ DDAs may sell reve-

¹ Legislation resulting from Proposal A of 1994 specified that revenue from school millages is not available to new DDAs or *for the financing of new economic development projects in existing DDAs*. Downtown development au-

Tax Increment Financing

The concept of tax increment financing assumes that all growth in property values since the establishment of a downtown development authority is due to the actions of the authority. Accordingly, the authority "captures" all of the increase in state equalized value (SEV) of properties in the district since the establishment of the authority to finance its economic development efforts.

The DDA tax base consists of the difference, or increment, between the current year SEV and the base year SEV. The base year SEV of the Detroit DDA was \$204.3 million.² Several governmental units levy property taxes on properties within the DDA district, including the City of Detroit, the City of Detroit Public Schools, Wayne County, and the State of Michigan. These taxing authorities continue to receive the revenues from taxes levied against the base year SEV. In Fiscal Year 1995, the value properties in the district had grown to \$427.6 million. The difference between the base year value and the current value, "the increment," was \$223.2 million. Taxes levied against the increment in FY1995 generated \$13.9 million in captured revenues. The DDA uses this money for current operations and investment in economic development projects.

² This value represents the SEV of district property in FY1978 and the value of property amended to the district in FY1984, FY1986, FY1989, and FY1995.

nue and tax increment bonds anticipating the capture of future tax increment revenues. While neither type of bond is considered a debt of the municipality, the municipality may pledge its full, and in some cases, limited faith and credit to support the bonds. Only through tax increment financing can the increase in property tax revenues resulting from economic development be directly funneled back into the creation of incentives for additional economic development.

Because the City has opted to have a DDA and utilize tax increment financing, the tax base is

thorities may finance only economic development projects begun after August 19, 1993, from the capture of non-school property taxes.

reduced by \$223.2 million and the tax yield of all taxing authorities is reduced by \$13.9 million. Because the City has a DDA, and tax increment financing will be used to fund the stadium project, general fund money is not reallocated from other city functions and additional taxes are not necessary to fund the City share.

DDAs are restricted by state law to economic development projects only within the district. Until December of 1995, the DDA district did not encompass either the present Tiger Stadium or the land proposed for the new stadium. It was necessary for the City Council to amend the district in December 1995, to include the area of the new stadium.

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Construction Cost Comparisons

Construction Funding for Recent Stadium Projects is a list of the construction costs of facilities built since 1975. This table

should be used more for comparing the split between public and private funding than the actual construction costs. Construction

costs may or may not reflect the costs of land acquisition, site development, or public infrastructure improvements.

Table 1
Construction Funding for Recent Stadium Projects
(dollars in millions)

Facility	Construction Cost		Year Built	Participation	
	Nominal \$	1995 \$		Public	Private
Arrowhead (Kansas City)	\$127.0	\$134.0	1983	0%	100%
Joe Robbie Stadium (Miami)	102.0	136.8	1987	0%	100%
Palace of Auburn Hills	70.0	90.2	1988	0%	100%
Kiel Center (St. Louis)	135.0	138.8	1994	0%	100%
FleetCenter (Boston)	160.0	160.0	1995	0%	100%
Bradley Center (Milwaukee)	106.0	136.6	1988	6%	94%
United Center (Chicago)	188.0	193.3	1994	7%	93%
Target Center (Minneapolis)	103.0	120.1	1990	18%	82%
Delta Center (Salt Lake City)	94.0	105.2	1991	21%	79%
Charlotte Coliseum	247.0	247.0	1995	24%	76%
Arlington (Texas)	189.0	189.0	1995	27%	73%
Proposed Tiger Stadium	235.0	N/A	1998	38%	62%
America West (Phoenix)	100.0	108.6	1992	47%	53%
Gateway Arena (Cleveland)	136.0	147.7	1992	48%	52%
Gateway Stadium (Cleveland)	165.0	169.6	1994	48%	52%
Metrodome (Minneapolis)	77.0	121.6	1982	73%	27%
Georgia Dome (Atlanta)	214.0	232.4	1992	75%	25%
San Jose Arena	163.0	171.9	1993	82%	18%
Coors Field (Denver)	215.0	215.0	1995	85%	15%
Miami Arena	53.1	68.4	1988	87%	13%
Comiskey Park (Chicago)	143.0	160.0	1991	99%	1%
Pontiac Silverdome	58.0	164.2	1975	100%	0%
Louisiana Superdome	163.0	461.5	1975	100%	0%
Kingdome (Seattle)	60.0	160.7	1976	100%	0%
Indianapolis RCA Dome	82.0	129.5	1982	100%	0%
Orlando Arena	101.0	124.2	1989	100%	0%
Thunderdome (St. Petersburg)	138.0	160.9	1990	100%	0%
Alamo Dome (San Antonio)	196.0	206.7	1993	100%	0%
Camden Yards (Baltimore)	131.0	138.2	1993	100%	0%
St. Louis Football Stadium	276.0	276.0	1995	100%	0%

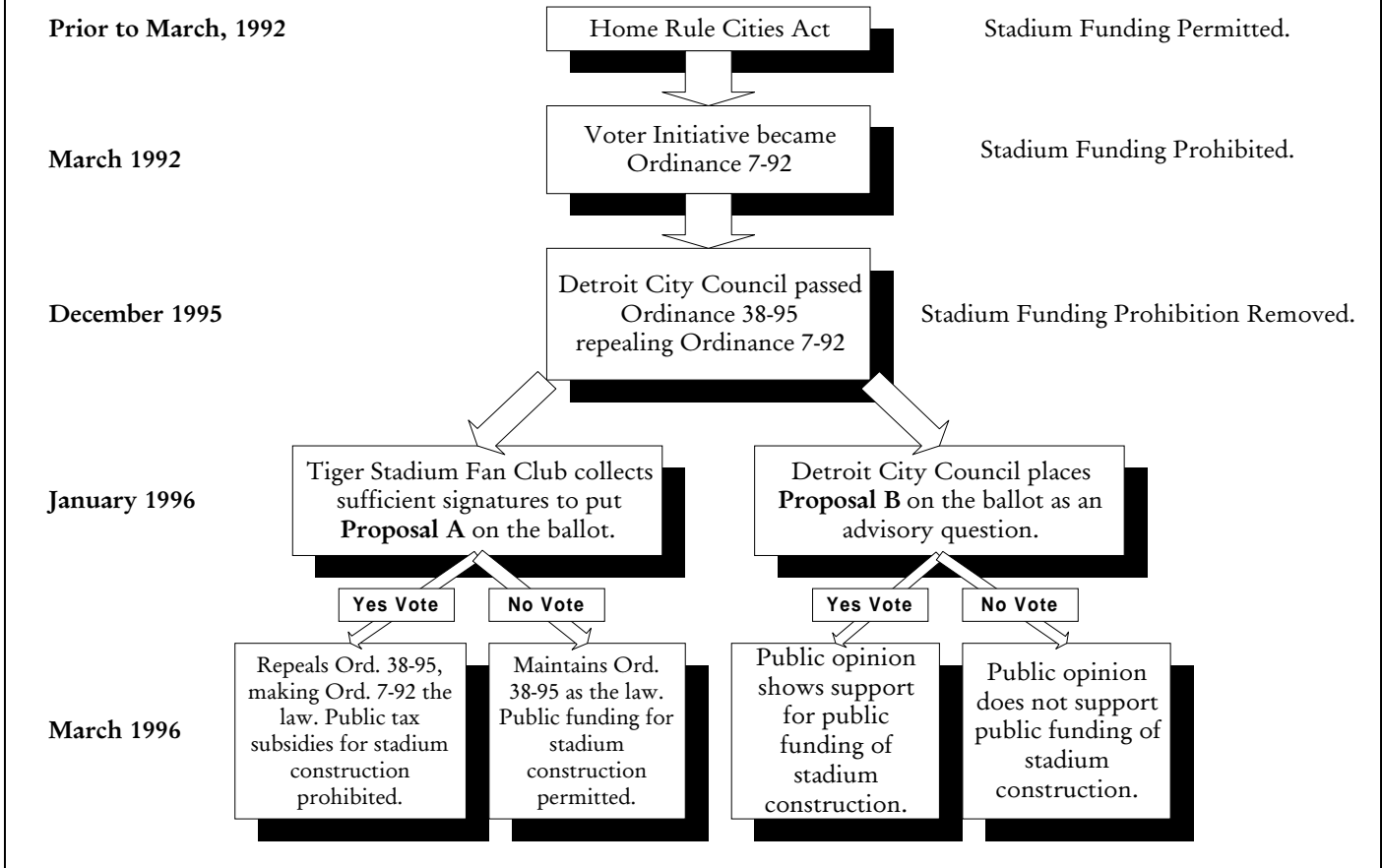
N/A – Not Applicable

Source: Metropolitan Sports Facilities Commission and “Stadium Comparison” worksheet provided by Marketing Resource Group, Inc.

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Chart 2

Events Leading to the March 19 Ballot Questions



Meet the *CRC Memorandum*, the first in a series of publications embodying a “new look” for the Citizens Research Council of Michigan. *CRC Memorandum* replaces the *Council Comments*, which has served CRC well since 1951. Other publications planned in the series at present include *CRC Reports*, longer, more detailed analyses of state and local government organization and finance, and *CRC Notes*, two-page briefs on various issues of interest.

Our goal is to produce understandable analyses of issues of significance to state and local government organization and finance in Michigan. To that end, we are redesigning our publications to make them more attractive and readable, with greater use of graphics to convey sometimes complicated concepts. We hope you find them more useful and enjoyable.