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Improving TIF Transparency and Accountability:

Towards a Consolidated View of TIF Activities in Michigan

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Improving TIF Transparency and Accountability: Towards a Consolidated View of TIF Activities in Michigan*

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Abstract

Tax increment financing (TIF) is one of the most popular funding mechanisms for downtown and other local economic development projects across municipalities in the United States. While California pioneered TIF to leverage federal funds for urban renewal projects during the early 1950s, the State's recent dissolution of redevelopment agencies has wiped out TIF from the toolkit of local public finance. The specter of legal challenges to TIF elsewhere in the country has unsettled the community of economic development practitioners. The Michigan Legislature is currently in the process of developing a series of reform proposals that potentially imply significant statutory changes in structure of TIF, possibly limiting the scope and application of this economic development option in Michigan. The opportunity costs of such modifications to TIF practice are not easily quantifiable for public policy makers or local economic development specialists because statewide data that could help analysts evaluate the extent and effectiveness of these tax capture tools simply does not exist. This paper seeks to contribute to the current policy discussion on TIF reform by proposing the blueprint for a comprehensive, state-level database on the scale, scope and structure of TIF activities in Michigan (Michigan Repository for TIF "MiRTIF"). Categorizing, classifying and standardizing the reporting on all TIF activities in the state, the MiRTIF is intended to provide a consolidated view for making meaningful fiscal comparisons at different levels.

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JEL classification: H7, R58, G38.

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1 Overview

Tax Increment Financing (TIF) is one of the most popular tools used to fund downtown and other local economic development projects in the United States.[1] However, California's recent dissolution of its over 400 Regional Development Authorities, many of which relied heavily on tax increment revenue to issue bonds that financed redevelopment activities, has caused considerable concern about the possibility of legal challenges across different communities of economic development practitioners. The Michigan Legislature is currently in the process of evaluating a series of state-level legislative proposals that potentially imply significant changes in the structure and participation of TIF, possibly limiting the scope of this economic development option or even rendering it effective for practice in Michigan. These legislative developments have given rise to an increased urgency for a careful evaluation of TIF as the funding mechanism of choice for state and local economic development practitioners.

While TIF authorities might divert tax revenues from schools and other critical public investments in infrastructure, public safety, and civic governance to private development, the opportunity costs of eliminating TIF in Michigan are not easily quantifiable for public policy makers or local economic development practitioners. One of the main reasons for this difficulty is the absence of standardized information for making meaningful fiscal comparisons at the municipal level or county level, particularly since TIF authorities are organized in different ways and in different municipalities across the state. In fact, while the Michigan Treasury attempts to compile or analyze TIF data on a statewide basis, our research shows that there is little compliance with the state-level regulatory reporting requirements. In turn, this means that there is little systematic information about the financial condition of tax capturing authorities or the debt they carry. While the purpose of these authorities is to attract new investment and to create jobs, statewide data that could help analysts evaluate the extent and effectiveness of these tax capture tools simply does not exist.

This paper contributes to the current discussion of TIF reform by developing the blueprint for a comprehensive, state-level database prototype on the structure and practice of TIF in Michigan (Michigan Repository for TIF, "MiRTIF"). Categorizing, classifying and standardizing the reporting on all active TIF in the state in a consistent manner, the MiRTIF is intended to provide a consolidated view for making meaningful fiscal comparisons at the municipal and county-level. In order to derive the field requirements for the MiRTIF, a meticulous analysis of the statutes in the Michigan Legislature governing each of the eight tax capture authorities is necessary. The second contribution of this paper provides a step-by-step orientation of each and every step required to implement and operate a TIF District in the state of Michigan. This seemingly elementary step is critical in order for actors involved in TIF use or reform to acquire a comprehensive understanding of the TIF process from start to completion. Any discussion that is not based on the fundamental principles of the TIF tool will result in eroding its effectiveness and in municipalities appropriating it for non-intended purposes.

Developing a streamlined reporting process based exclusively on the reporting requirements of the Michigan Legislature removes the barriers that have made it nearly impossible for authorities to report mandated information. As tax capture authorities across the state slip in and out of financial trouble, looking to taxpayers for help, MiRTIF would provide data that is systematically tracked and that can be reliably aggregated, providing a more complete picture of all aspects of TIF activities. As such, MiRTIF could serve as the basis for rigorous empirical

[1] See Briffault (2010) for a comprehensive discussion of TIF as a financing mechanism for local economic development in the United States.

policy analysis, much of which is currently difficult to achieve in the absence of transparent data on TIF activity in Michigan.

The remainder of this paper is structured as follows. Section 2 provides information on the historical context, current practices and policy challenges of TIF usage as an economic development tool. A brief summary of the relevant academic literature is discussed. Section 3 hones in on TIF use in Michigan. An in-depth account of the governing environment for TIF implementation and practice coupled with a series of flow-charts explaining the reporting and regulation process are provided. Section 4 begins with an explanation and analysis of the data gathering process. Section 5 introduces the MiRTIF, followed by a discussion of TIF reporting in Chicago as a specific instance of national best practice in section 6. This report concludes with a set of next steps to guide future research as well as policy recommendations and conclusions in section 7.

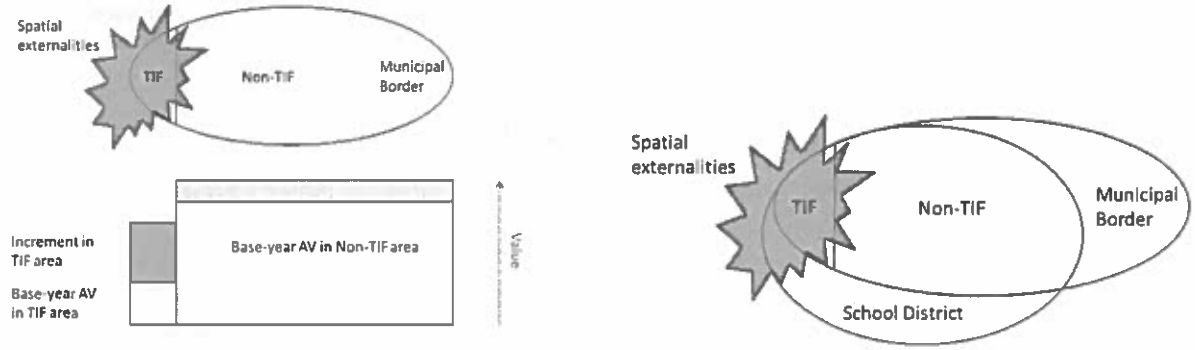
2 Current TIF practice and policy challenges

Tax increment financing was first used in California in 1952 as a way to match federal grants with local funds. With the shortage of federal funding characteristic of the late 20th century, municipalities increasingly relied on local financing tools to fund their redevelopment efforts. The laws governing TIF have undergone numerous iterations, but the general principle behind their use is similar. A municipality, or equivalent local governing body, can geographically demarcate an underperforming area for redevelopment via tax increment financing. The value of the property is assessed within this boundary and this assessment forms the base from which – after the base is frozen from a specific date onwards – any incremental tax revenue is measured against. During the lifespan of a TIF plan, incremental revenues that are gained through redevelopment are earmarked towards funding new development. Under a "pay-as-you-go" financing approach, the municipality would simply invest the additional tax revenues from increases in the assessed values directly back into the designated district. If, however, the capital requirements for redevelopment are large, municipalities are likely to engage in "pay-as-you-use" finance and issue bonds to fund initial construction and, as the property values rise, incremental tax revenues are used to pay off the debt over time. Once the TIF debt is paid off, all tax revenue is reverted back to the municipality.[2]

The basic mechanics of the TIF process are illustrated in figure 1, with the top part of panel (a) showing a land area view of a hypothetical municipality. The area on the western boarder is designated a TIF district and its assessed values are measured and provide a baseline against which future tax revenue increments are measures for as long as the TIF district is in existence. The lower part of panel (a) shows the base-year property values in the TIF and non-TIF areas. Panel (b) illustrates the incentive to "capture revenue" from growth that would have occurred in the absence of a TIF district when there are overlapping local governments. In this setting, localized public improvements are likely to be opposed by property owners outside the affected area, who pay higher property taxes with no offsetting benefits. By using tax revenue captured from overlapping jurisdictions, TIF may circumvent this opposition, allowing the city to implement the public improvement without an increase in its tax rate (Brueckner, 2001). However, when local government does not have a territorial monopoly, TIF can lead to inefficient economic development strategies due to a cross-subsidy of own-costs which induces

[2]The lifespan of a TIF is generally between 20 to 30 years. In Michigan, the general duration for project plan completion is 30 years.

Figure 1: **The basic mechanics of TIF**



(a) Textbook set-up

(b) Revenue capture with overlapping governments

Notes: Figure 1(a) the typical set-up of a TIF, with the top part of the figure showing a land area view of a hypothetical municipality. The area on the western border is designated a TIF district and its assessed value is measured. The lower panel of figure 1(a) shows the base-year property values in the TIF and the non-TIF areas. Figure 1(b) illustrates the incentive to "capture revenue" from growth that would have occurred in absence of TIF ("beggar-thy-neighbor" policies at the local level). This can lead to inefficient economic development strategies due to a "cross-district subsidy" of own cost ("moral hazard"). *Source*: Bieri (2013).

moral hazard.[3]

TIF was conceived as a way to facilitate place specific projects that would generate economic growth and development in places of low economic activity, low residential income, and a low or declining property tax base. Municipalities are required to demonstrate that the area designated for redevelopment meets what is known as the "but for" requirement, that is to make the case that development in the area would not happen "but for" the creation of the TIF district. In this manner, earmarking future growth in the area for private investment and new infrastructure and offsetting incremental revenue from public facilities, is justified because, arguably, without the intervention, the property value for the area would have remained constant, or perhaps stagnated.

In many ways, TIF appears to be a perfect closed system in local public finance (Youngman, 2011). From the perspective of intergenerational equity, borrowing against future tax revenues is an attractive tool because it can spread the costs of investing in an underperforming area that require financing massive infrastructure overhaul. From the perspective of the municipality, the tool is favorable because it does not require raising any new taxes for development. However, TIF investments do not guarantee immunization from adverse economic developments which exposes TIF districts, particularly those with debt servicing requirements, vulnerable to significant repayment risk.

Furthermore, a traditional principal-agent conflict arises due to the fact that appointed officials that usually are given the governance power to leverage financial capital through TIF, may have objectives that are inconsistent with the long-term fiscal objectives of the city. This ability to function like a bank to obtain financial backing and issue bonds without having the governance accountability of a financial entity (and its associated regulatory cost) can lead to

[3]See Foster (1997) and Frey (2001) on the political economy of functional, overlapping, competing jurisdictions.

overenthusiastic projections that result in debt (Pacewicz, 2012).

Overall then, TIF can be viewed as an effective way of earmarking property tax revenue for local redevelopment – shielding such revenue, in a sense, from the political idiosyncrasies of the local budgetary process that affect the use of other general fund revenues from own sources.

2.1 Establishing the development counterfactual

One of the more problematic aspects of TIF usage is in calculating the policy counterfactual. A statutory authority or a definitive case law on the "but for" condition does not exist (Weber, 2003). The reality is that any measure of a counterfactual is essentially a hypothetical. How can growth that would have happened in an area be accurately gauged "but for" the development of a TIF district? An incorrectly calculated counterfactual results in diverting tax revenues from schools and other critical public investments in infrastructure, public safety and civic governance to private development when the area would have been witness to this increase regardless of the TIF designation.

In recent work on TIF in Chicago, Lester (2014) demonstrates that Chicago's use of TIF does not actually pass the "but-for" test. By measuring employment growth and building permit activity in TIF districts and comparing these numbers to non-treated areas, the study concludes that evidence of jobs creation or for private investment that would not have happened without the TIF district designation does not exist.[4] It is thus not always enough to calculate the counterfactual within the district, as assessing the surrounding areas is equally as important. The difficulty is that these conclusions cannot be reached during the TIF designation process. Therefore, in the time that elapses between the declaration of the TIF zone and research declaring the inaccuracy of the "but for" justification, funds that would have been given to the public services in the district are diverted on account of the TIF designation.

Overall, an increasing body of statistical evidence indicates that property values of TIF-adopting municipalities grow at same rate as or even less than in non-adopting municipalities.[5] Common to all empirical studies on TIF effectiveness is the fact that the observation that TIF districts grow faster than other areas is unremarkable on its own and this does not permit any causal inference. Indeed, the empirical challenges for such work are threefold: First, ex-ante growth projections and ex-post growth attribution to TIF-related development activity are very complex (particularly since development spillovers do not stick to boundaries). Second, there is the issue of reverse causality: TIF might cause growth, but anticipated growth could cause TIF formation in the presence of municipal revenue capture (Anderson, 1990). Lastly, there is the empirical challenge of analyzing the evidence: TIF adopters might be fundamentally different from non-adopters. In other words, there is the need to address sample selection bias. All of which suggests that any evidence on the purported effectiveness of TIF requires careful

[4] In related research on the spillover effects of TIF districts on surrounding neighborhoods, Weber, Bhatta, and Merriman (2003) demonstrate that selling prices for single-family homes in the proximity of an industrial TIF districts are negatively affected.

[5] Using data for the Chicago metropolitan area that includes information on property value growth before and after TIF adoption, Dye and Merriman (2000) find evidence that cities that adopt TIF grow more slowly than those that do not. Similarly, using data on all Wisconsin municipalities during the period 1990-2003, Merriman, Skidmore, and Kashian (2010) find little evidence that TIF has led to significant increases in aggregate property values or that TIF increases the total value of residential and manufacturing property within a community. Surprisingly, they find positive impacts for commercial TIF districts.

analysis of the counterfactual, a point that is well established in the literature on program evaluation (Imbens and Wooldridge, 2009).

2.2 Public good provision and the blight requirement

Addressing the increasingly less stringent use of TIF designation, in 2000 Michigan legislation expanded TIF usage to incorporate non-"pure public good" infrastructure expenses such as land acquisition, private businesses, and incubators (Wisniewski, 2000). In practice, therefore the use of the term "public purpose" to define property value deterioration has increasingly become more widely interpreted as implying the promotion of economic growth which poses legal challenges to state enabling legislation for TIF.[6]

Historically, the main political and economic motivations for TIF have been anchored by the state-of-exception logic that justifies special budgeting and revenue earmarking in order to spur development in blighted areas. From 1983 until 1995, for example, Chicago used TIF designation to rebuild industrial corridors witness to derelict infrastructure. Chicago's first use of TIF was in its downtown core as a way to develop its commercial center and discourage residents from moving and/or shopping in the suburbs (Lester, 2014). Justifiably, in this manner the TIF designation helped to reinvigorate downtown, mediate sprawl, and encourage investment by consumers in the city center. Following 1995, however, TIF usage in Chicago accelerated significantly. This parallels the proliferating use of TIF in other US cities (Weber, 2010; Lester, 2014).

The increasingly lax interpretation of what qualifies as "blight" has implied that the criteria that are required to be met in order to form a TIF District are notoriously difficult to establish in an object and transparent manner. Briffault (2010) provides various examples of projects that were approved under the pretext of "blight" when in reality the term was appropriated to implicate "underdevelopment" rather than decaying deteriorated structures, economic distress, and unsafe and unsanitary conditions. For example, in a St. Louis suburb, TIF revenue was used to demolish a shopping mall on account of it not being able to compete with newer malls in the area despite the fact that it was considered the city's greatest economic asset. The blight factors included "obsolete platting in its current two anchor store configuration, limited space for small retail shops, improper subdivision and irregularly platted lots that constrained expansion" (Briffault, 2010, p.79).

Meeting the requirement for blight and for redevelopment to constitute a public purpose is treated as a matter to be disputed within the legislative determination but it is not regulated by the need to provide specific forms of evidence. The end result is the wide proliferation of TIF as justified by stimulating economic development, but not necessary in places that are in desperate need for publicly financed redevelopment.

2.3 Promoting tax base growth versus employment growth

Tax based growth is most likely to happen in locations where the property values are low, or growing at a slower pace, in comparison to other parts of the municipality. TIF is known to be effective for large, expensive projects that result in quick and significant spikes in tax increment because larger projects that generate substantial increments to meet the initial objectives

[6]According to the Michigan Downtown Development Authority Act of 1975, the legislature finds "[t]hat halting property value deterioration and promoting economic growth in the state are essential governmental functions and constitute essential public purposes" (§ 123.1651a Sec. 1.f.).

delineated in the Development Plan and TIF Plan required at the time of implementation can more quickly retire their TIF designation and revenues can be diverted back to municipalities. By comparison, smaller projects, such as the construction of a small parking lot or a new roof would not justify the high transaction costs of implementation or meet the minimum requirement for new bond issues.

The use of TIF has proven effective in cases where it is directly tied to the creation of new jobs. When developing a TIF Plan, an authority is required to estimate how many jobs will be created. For example, Weber (2003) discusses how the Local Economic Employment Development (LEED) organization in Chicago played an active role in helping secure $1.4 million in TIF funds for Federal Express. As part of the agreement, Federal Express would hire its employees through LEED placement services and invest in their career development by ensuring they advanced to higher-paying jobs. This is an example of a one-time allocation of TIF that proved successful.

However, tension exists between job creation and property value increase, despite the fact that these two goals are usually treated as linked (Weber, Bhatta, and Merriman, 2007). Industry-oriented development is more likely to witness an increase in jobs. Development that is focused on commercial or mixed-used development, while succeeding in raising the tax base growth, is not as likely to generate the same results. Because of the structure of the tool, that is, the need to generate the revenue to finance ongoing projects and pay back bonds, development that increases property values and the tax base more often trumps the objective of creating jobs.[7]

This is further complicated by the fact that reporting on the creation of jobs is not a simple task. The statutes governing tax capture authorities do not specify the type of employment that it seeks to increase. As a tool that was designed to target blighted areas, it would be reasonable to assume that the tool must target structural unemployment. This logic could be extended to assume that the primary target for job creation would be local residents, as opposed to new immigrants to the area. Specifications on the distribution of employment are not primary considerations in the literature or the state enabling legislation governing the tool. Rather, reporting requirements simply state that authorities should report on the number of jobs created and, as is discussed below, this reporting requirement is rarely, and arguably cannot be, met.

2.4 Fiscal federalism and the fragmentation of local public finance

The process of developing a tax capturing authority is representative of the fiscal decentralization of power from the state level, to the municipal level, and even further to the board of members governing the powers of the authority. Though it is the municipality that must approve the creation of an authority and its jurisdictional boundary by the governing body of the municipality, once the decision is approved, all powers are vested to the authority with little oversight from higher levels of government (Berry, 2008). This means that the authority is given the ability to function like a financial entity capable of engaging in lending operations

[7] In 1999, the Kellogg Corporation announced the possibility of closing its aging plant located in Battle Creek, Michigan. This set off a wave of alarms for the Battle Creek Downtown Development Authority because the Kellogg plant is located within their designated TIF district. In 1997, around $60 million of bonds were issued by the DDA to finance investments in the district. In addition to possible defaulting of the bonds, the closing of the plant would mean a loss of 700 jobs (Ward, 1999). As of the publication of this document, the Kellogg Corporation remains in Battle Creek. However, they are slowly moving their operations to other cities and reducing the capacity of their aging plant in Battle Creek.

in that it can finance bonds, as well as like the state and municipal government, in that in can make land use planning and zoning decisions. This level of power should warrant stringent oversight, yet mechanisms for enforcement or for penalty are not in place at the legislative level.

Another problematic issue that has emerged is the role of private real estate consultants hired by municipal bureaucracies to assist in the process of securing developers. In a series of interviews with these agents and through the review of primary material, Weber and O'Neill-Kohl (2013) uncover how certain strategies are employed to lure in new development resulting in shifting the primary focus of job creation to real estate development. Tax capture authorities have come under scrutiny for receiving payments from the incremental fund rather than the municipal fund, thereby, opening the door for corrupt practices. The lack of uniform guidelines and transparency contribute to the abuse.

2.5 Accountability, governance and reporting

This last point contributes to perhaps the most problematic issues regarding TIF use regulation. Because of the dual character of TIF as both a financial instrument and an economic development tool, the perimeter of regulatory oversight must be broad and deep, encompassing both financial stability considerations and traditional accounting disclosure standards stipulated in the uniform reporting format for financial statements for local governments under GSAB Statement No.34 (GASB, 1999).

To date, however, such a broad regulatory treatment of TIF remains elusive and, despite extensive regulatory reform in the wake of the financial crisis, this issue seems by and large not on the radar of policy makers who have almost exclusively focused on reform and oversight at the federal level. For example, a consolidated national registry of TIF districts does not exist. TIF usage could be aided by transparency, evaluation, and a more finely controlled reporting process. The lack of transparency, as well as penalty for negligent use, has resulted in examples of TIF revenue used for funding projects that are not legally approved by the statute, such as, for example, golf courses, marketing efforts, luxury car dealerships or festival promotion (cf. Weber, 2003).

The focus here is to highlight the common implementation practices and policy challenges that characterize TIF usage across a multitude of different applications. As we discuss in detail below, it is not currently possible to make any meaningful fiscal comparisons at the municipal level or county level for Michigan because of the absence of information. Careful evaluation of TIF as the funding mechanism of choice for Michigan and local economic development practitioners is necessary. This can only be completed through a detailed reporting of the practice of TIF in Michigan. We will demonstrate how a consolidated repository for TIF in Michigan will improve the effectiveness of TIF and mitigate potentials to abuse a tool that could actually prove beneficial for communities and could serve as a model for future local development efforts. In many instances, this lack of visibility of TIF activity is accompanied by lax regulatory enforcement, which reinforces the public accountability deficit of TIF as a financing tool. Indeed, concerns about TIF governance currently pose the greatest challenge to the continuation of viability of TIF as a feasible option for financing local economic development.

Table 1: **TIFA factsheets for Michigan**

TIF authority type	*Web resource*
Brownfield Development Authority (BDA)	Fact Sheet
Corridor Improvement Authority (CIA)	Fact Sheet
Downtown Development Authority (DDA)	Fact Sheet
Historic Neighborhood Financing Authority (HNFA)	Fact Sheet
Local Development Financing Authority (LDFA)	Fact Sheet
Neighborhood Improvement Authority (NIA)	Fact Sheet
Water Resource Improvement District (WRID)	Not available
Tax Increment Finance Authority (TIFA)	Closed to new applicants since 1987 and replaced by LDFAs in 1986.

3 TIF governance in Michigan

Tax increment financing is used in 49 states and the District of Columbia. Legislation governing TIF usage is decided at the state level and, therefore, varies widely across states. According to the Department of Treasury's Executive Budget Appendix on Tax Credits, Deductions, and Exemptions for Fiscal Years 2014 and 2015, tax capturing authorities in Michigan are expected to capture $280 million in TIF revenues this year. This represents an increase of about $150 million since 2006, an 86 percent increase.[8] Yet, our research suggests that these figures are grossly underestimating the true magnitude of TIF revenue capture, largely as a result of poor reporting coverage on local TIF activities. Instead, our best estimates imply that the actual magnitude of TIF revenue capture is much closer to $500 million, possibly as much as $1.2 billion or just under 10% of total property tax revenues from own sources by local governments in Michigan.

There are eight established authorities for the state of Michigan that can utilize TIF to fund their projects. Tables 1 and 2 list the names of each of the tax enabling legislation for these eight authorities and the year they were established. In addition, there are two acts in the Legislature that allow for tax increment financing that do not appear in the table because they do not require the formation of an authority in the same manner as the others. These are Private Investment Infrastructure Act (2010 PA 250, MCL 125.1871 to 125.1883) and Nonprofit Street Railway Act (1867 PA 35, MCL 472.1 to 472.27).

In Michigan, municipalities (cities, villages, or townships) are given the power to determine the need for an authority and to delineate the geographical boundary within which it will operate. Once this is established, authorities are able to enact a TIF district to fund development for projects within those boundaries. Because each authority targets different types of redevelopment, Michigan law allows municipalities to designate overlapping authorities to meet their economic development goals.

The Michigan Legislature details the legal precedent for the establishment of a tax capturing authority, governance of the authority, reporting protocol, and financing mechanisms.

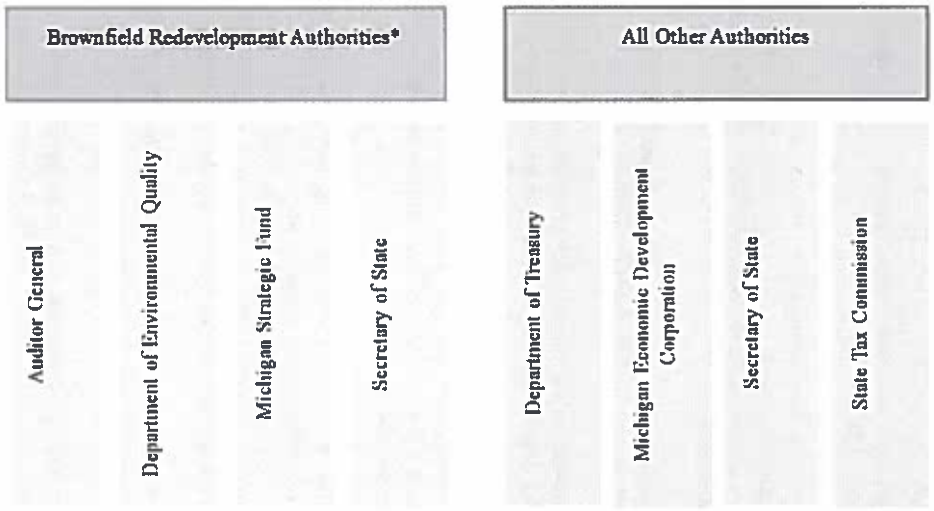
[8] Adjusted for inflation to 2012 figures, the increase is about 65 percent.

Table 2: **TIFA enabling legislation for Michigan**

Authority	*Year*	*Legislation*	*Amendments*	*Description*
DDA	1975	Public Act 197, Mich. Comp. Laws Ann. §125.1651 et seq.	2004 PA 158, 2004 PA 521, 2005 PA 15, 2006 PA 279	Finances downtown development by halting property value deterioration
TIFA	1980	Public Act 450, Mich. Comp. Laws Ann. §125.1801 et seq.	1986 PA 280	Finances development that prevents deterioration. These authorities were not allowed after 1987. Established boundaries became permanent after 1987 and could not be expanded.
LDFA	1986	Public Act 281, Mich. Comp. Laws Ann. §125.2151 et seq.	2000 PA 248	Finances development of manufacturing, agricultural processing, high-technology industries.
BRA	1996	Public Act 381, Mich. Comp. Laws Ann. §125.2651 et seq.	2000 PA 145, 2002 PA 727, 2003 PA 259, 2003 PA 277, 2005 PA 101, 2006 PA 32	Finances environmental remediation on brownfield sights and development to blighted and functionally obsolete property.
HNFA	2004	Public Act 530, Mich. Comp. Laws Ann. §125.2841 et seq.		Finances development to improve streets, pedestrian malls, and other public improvements in historic neighborhoods
CIA	2005	Public Act 280, Mich. Comp. Laws Ann. §125.2871		Finances business districts along main thoroughfares and encourage historic preservation
NIA	2007	Public Act 61		Finances development to encourage residential and economic growth and to prevent neighborhood deterioration.
WRID	2008	Public Act 94, Mich. Comp. Laws Ann. §§125.1771-.1794 (West 2008).		Finances projects focused on protecting inland lakes from invasive species and pollution.

Notes: BRA: Brownfield Redevelopment Authorities; CIA: Corridor Improvement Authority; DDA: Downtown Development Authority; HNFA: Historic Neighborhood Financing Authority; LDFA: Local Development Financing Authority; NIA: Neighborhood Improvement Authority; TIFA: Tax Increment Finance Authority; WIRD: Water Resource Improvement District.

Figure 2: **Institutions involved in oversight of tax capture authorities**



Notes: The Department of Environmental Quality and the Michigan Strategic Fund combine annual reports they receive from brownfield redevelopment authorities and submit an annual report to the Michigan Legislature (BRA Act 502, 2012). The Department of Treasury; Michigan Economic Development Corporation; State Tax Commission; and Secretary of State do not work together to submit reports to the Michigan Legislature. * The Michigan Economic Development Corporation is not mentioned in PA 502 as an institution that is involved in the oversight of brownfield authorities; however, it is mentioned as an administrator of brownfield tax increment financing work plans in a document on incentives (Michigan Economic Development Corporation, 2014). *Sources*: BRA Act 502, (2012); CIA Act 280, (2005); DDA Act 197, (1975); HNTIFA Act 530, (2004); and LDFA Act 281, (1986); Michigan Economic Development Corporation, (2014); NIA Act 61, (2007); TIFA Act 450, (1980); and WRITIFA Act, 94 (2008).

Minus minor discrepancies, the governance of all eight tax-capturing authorities is similar. In addition to the Michigan Legislature, the Michigan Department of Treasury and its branch arm, the State Tax Commission, the Michigan Strategic Fund, the Department of Environmental Quality, and the Michigan Economic Development Corporation are all institutional bodies involved in the implementation and oversight process TIF application. Figure 2 demonstrates the role that each of these institutions play in the process of tax increment capture.

3.1 Establishing a tax capture authority

A municipality must first create a resolution of intent to be adopted by the elected governing body with legislative powers of the municipality. This intent must include a date for a public hearing on the resolution creating an authority and the boundary within which the authority can exercise its powers (authority district). Public hearing announcements must be published twice in a newspaper of general circulation in the municipality. The statute pursuant of each authority-enabling act has a specific time period for how many days before the hearing the announcement must be made. A notice must be mailed to property taxpayers of record in the proposed district.

In addition, municipalities are required to mail by certified mail notice of the hearing with the proposed boundaries of the TIF district to the governing body of each taxing jurisdiction

levying taxes that would be subject to capture if a TIF were established. Notice of the hearing must be made visually available to the public in at least 20 places in the proposed district not less than 20 days before the date of the hearing. The minimum amount of days fluctuates depending on the type of authority the municipality intends to create. A hearing is held and the governing body takes comments. Not less than 60 days following the public hearing the governing body may adopt the resolution.[9] The resolution is then published in a newspaper of general circulation and filed with the Secretary of State.

Once the resolution is filed with the Secretary of State, the municipality can appoint members to a governing board. These board members become the official authority. Specific guidelines are detailed in the statute for each authority on who is and who is not eligible to serve on the board. Once the authority is established, the authority now has the legal right to issue bonds to fund infrastructure and other property improvements in the designated authority district.

3.2 Development plan and TIF plan

After the authority and the authority district is approved by the elected governing body of the municipality, and analysis for necessary development of the designated area is completed, the authority can develop a Development Plan (DP) and a TIF Plan. The difference between the DP and the TIF Plan is that the DP serves as a reporting mechanism to assess the current physical characteristics of the designated area, whereas the TIF Plan is a financial tool focused on financing future development of the area. The authority is not obligated to develop a DP or a TIF Plan. In fact, some municipalities in Michigan have succeeded in creating an authority, but the authority never proceeded in developing a DP or a TIF Plan. According to the Tax Commission's Frequently Asked Questions, some municipalities are surprised to find that they have inactive authorities in their jurisdiction. However, even inactive authorities must submit all required reporting forms. If the local unit has decided to dissolve the authority, it must submit this information to the Tax Commission.

The DP is required any time an authority decides to finance a project through the use of revenue bonds, which is almost always the case for TIF districts. The DP must detail the following information: *a*) Highways, streets, streams, and other public facilities within the development area; *b*) Location and character of the public and private land uses in the area including legal descriptions of the commercial, educational, industrial, recreational, residential, and any other uses; *c*) Time required for completion of existing projects such as improvements in the development area to be demolished, altered, or repaired, a statement of the construction stages of construction planned, and the estimated costs of rehabilitation contemplated for the development area; *d*) Information on parts of the development area to be left as open space, portions that the authority desires to sell, exchange, donate, or lease, zoning and infrastructure changes; *e*) Estimate of the cost of development and how it will finance the development; *f*) Information on the number of persons residing in the development area and project how many families and individuals the plan will displace, as well as information on their socio-economic status such as income, racial composition; *g*) Housing information to be collected including: (i) Number of public and private units, (ii) Owner-occupied versus renter-occupied, (iii) Annual rate of turnover, (iv) Range of rents and sale prices; *h*) Estimate of private and public housing available should families and individuals be displaced. In the case that displacement will happen, a plan must include *a*) Provision for development of new housing in the area to

[9]Unlike the time period for publication and announcement of the intent, the 60 day time period before adoption is consistent across all tax capturing authorities.

accommodate people displaced *b*) Provisions for the costs of relocating displaced persons.

As stated above, the TIF Plan details the financial components of new development. The authority must first provide a statement detailing how the TIF Plan will result in generating the declared assessed value that could not be expected before the formulation and adoption of the plan. For each year of the TIF Plan, the authority must report specific information. These specifics are discussed in the following section.

3.3 Reporting protocol

Assuming that the DP and the TIF Plan are accepted by the local governing unit through the hearing process detailed above and development in the area begins, on an annual basis, the authority is then subject to specific reporting requirements. At the municipal level, the local governing unit is responsible for overseeing the reporting. At the state level, the Department of Treasury for the state of Michigan is responsible for overseeing the reporting process. A language discrepancy occurs between the Michigan Legislature and the Michigan Tax Commission. Though the statutes governing authorities detail the required information to be reported, the names of the forms created by the Treasury do not appear in the wording of these statutes.

For this reason, reporting requirements for this report are based on the legal mandates specified by the Michigan Legislature but we also adopt the language and incorporate the reporting requirements that must be filed annually to the Michigan Treasury. According to the Michigan Treasury, tax capturing authorities are legally required to submit three forms on an annual basis. The first form is the Tax Increment Financing Plan Report for Capture of Property Taxes and State Reimbursement Amount.[10] TIF Plan directors must fill out one form for each plan under their supervision. The cover sheet of the form includes basic information including the name of the country, school district, contact information of the person filing the report, and confirmation of whether or not the TIF plan captures K-12 school taxes. If the TIF Plan does capture school taxes, then the entire form must be filled out. The form is in an Excel sheet format that allows for easy transfer of data, however, there are multiple line items within each of the tabs of the worksheet that need to be filled out.[11]

The second report is an annual report (AR). The State Tax Commission Bulletin 9 of 1997 describes the AR in detail. The AR does not exist in a form format, rather it is included in the form 2604/2967 instructions as appendix A.2.[12]

The final reporting requirement is a copy of the assessor's or treasurer's worksheet (ATW), which is used to calculate how much money needs to be sent to the authority. Like the AR, the ATW is not an official form. According to the Question and Answers section on TIF on

[10]See appendix A.2. This is known as Form 2604, if the TIF Plan incorporates one school district, or 2967 if the TIF Plan incorporates two or more school districts.

[11]The cover sheet states that there are eight steps in the entire form. This is incorrect. In actuality, there are five steps to the Form 2604 Line Items, namely *a*) millage report, *b*) calculation of captured value, *c*) eligible obligations and eligible advances, *d*) other protected obligations, *e*) capture of school taxes.

[12]AR report line items are: *a*) amount and course of revenue in the account, *b*) amount in bond reserve account, *c*) amount and purpose of expenditures from the account, *d*) amount of principle and interest on any outstanding bonded indebtedness, *e*) initial assessed value of the project area, *f*) captured assessed value retained by the authority, *g*) tax increment revenues received, *h*) number of jobs created as a result of implementing the plan, *i*) any additional information required necessary by the state tax commission or the governing body, . For an example of an AR, see section A.4 in the appendix. This report comes from the Detroit Economic Growth Coalition. It is the AR for the Downtown Development Authority, Development Area No. 2. Line items for each of the required fields and corresponding data are included in this form.

the Michigan Tax Commission's website, this form is a copy of the report that was used by the tax capture authority's to determine the TIF Plan's tax increment revenue. It can be submitted in either handwritten or computed, and it should include *a*) millages, *b*) initial, current, and captured values by property tax roll, *c*) source of tax increment revenue, subdivided by each millage levied.

3.4 TIF process governance and regulatory oversight

For more streamlined and intuitive understanding of the regulatory framework of the TIF process, each of the steps detailed above are graphed out for every tax capture authority into two sets of flow charts. First, the left hand side panels of figures 3 through 5 provide a detailed schematic of the implementation process from the creation of an authority to the approval of TIF as a revenue source. The processes each municipality and authority must undergo in order to reach the final step of implementing a TIF Plan and remaining in good operating standing are broken down into color-coded boxes. Boxes highlighted in blue represent the steps that need to be met in order to form an authority. Boxes highlighted in green represent the steps that need to be met in order to establish a DP.

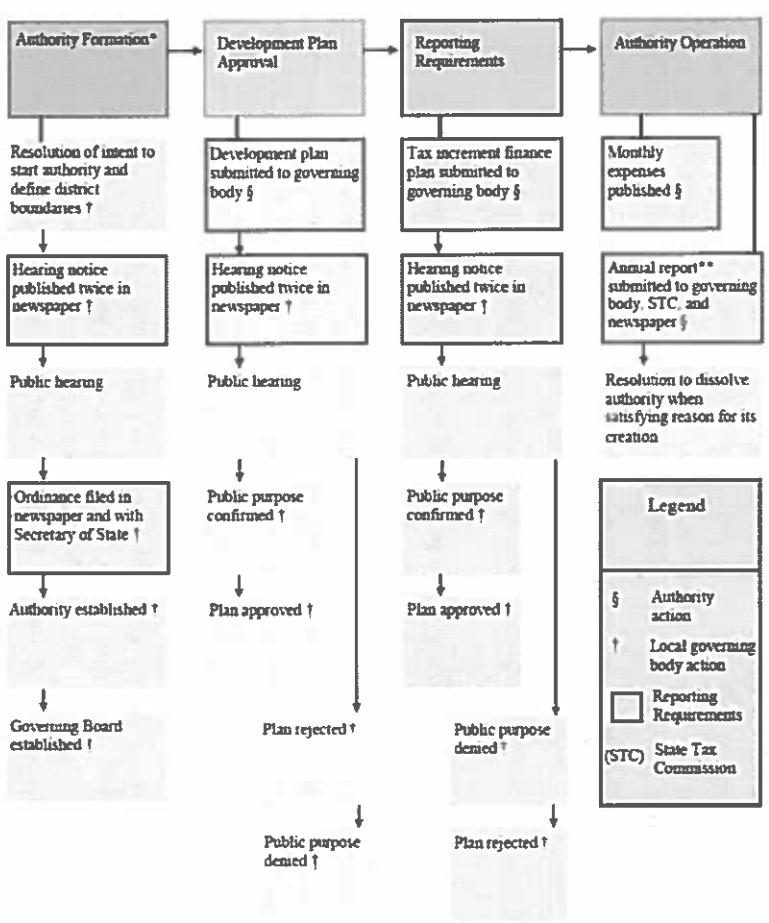
Boxes highlighted in purple represent the steps that need to be met in order to establish a TIF Plan. Boxes highlighted in orange represent reporting requirements for the duration of the TIF District's existence. Similarly, any boxes highlighted in red that fall below each of their respective colors represent the steps that need to be met by the municipality or authority, but in addition, they highlight the reporting requirements that the municipality or authority is obligated to meet. In theory, these prerequisites are in place in order to inform the public of new activity within their jurisdiction and they also assist regulating bodies in enforcing regulation and capturing information.

The right hand side panels in figures 3 through 5 demonstrate the role of the various entities involved in the regulation of TIF. The process each regulating institution takes in ensuring that authorities meet guidelines is broken down in color-coded boxes. Because the regulating entities vary by authority, their colors subsequently vary. All charts include the State Treasury, the local governing body, and the Authority Board. In addition to those mentioned above, the BRA chart in panel (b) of figure 4 includes the Department of Environmental Quality, as well as the Chairperson of the Michigan Strategic Fund and the LDFA chart in the lower part of panel (b) of figure 5 includes the Michigan Economic Development Corporation.

3.4.1 Recent changes regarding Brown Field Redevelopment Authorities

The Michigan Legislature and the Department of Treasury are the principle governing bodies for TIF usage in Michigan. A third organization, the Michigan Economic Development Corporations (MEDC), is the state of Michigan's marketing arm responsible for attracting economic growth through the use of economic development strategies and services that aid in their implementation. MEDC is a discretely presented component unit of the state of Michigan created as a public body corporate under Article VII, Section 28 of the Michigan Constitution and Act 7, P.A. 1967. The Michigan Strategic Fund and public agencies across Michigan created the MEDC through an Interlocal Agreement. The Interlocal Agreement went into effect on April 5, 1999, giving the MEDC the ability to jointly exercise powers with public agencies to provide services and share resources. The MEDC oversees the money and administers programs that the MSF board approves. As of April of 2014, the MEDC is responsible for collecting tax information for Brownfield Redevelopment Authorities instead of the Michigan Department

Figure 3: **TIF governance and regulatory oversight for DDAs, HNIFAs and TIFAs**

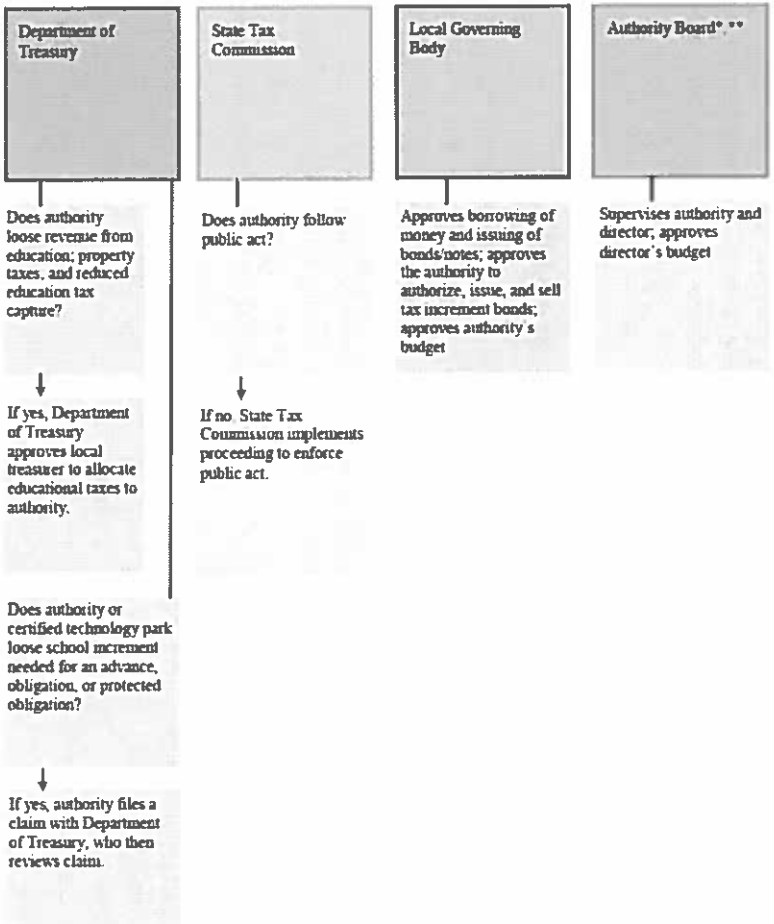


*The creation of TIFAs were no longer allowed after 1987

**Financial reporting requirements include: (i) amount and source of received increment: (DDA, HNTIFA, TIFA); (ii) amount in bond reserve account (DDA, HNTIFA, TIFA); (iii) amount and reason for increment expenditures (DDA, HNTIFA, TIFA); (iv) amount of principal and interest on bonded debt (DDA, HNTIFA, TIFA); (v) development area's initial assessed value (DDA, HNTIFA, TIFA); (vi) captured assessed value authority retains (DDA, HNTIFA, TIFA); (vii) number of jobs created (DDA, HNTIFA, TIFA), and (viii) additional requested information (DDA, HNTIFA, TIFA)

Sources: DDA Act 197, (1975); HNTIFA Act 530, (2004); and TIFA Act 450, (1980)

(a) Process and reporting requirements



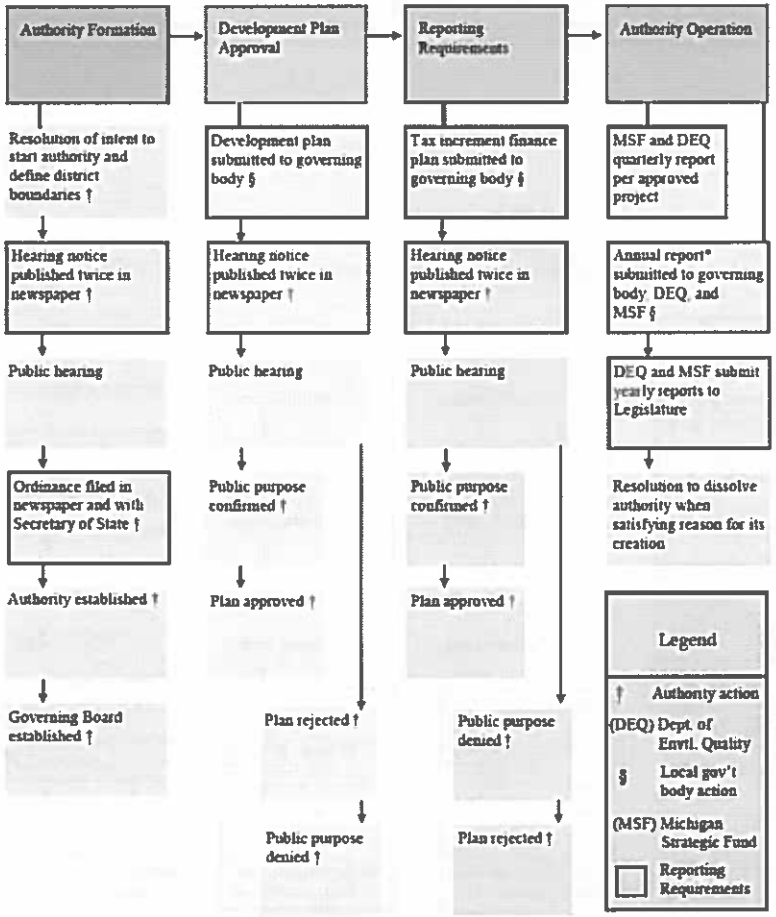
*The creation of TIFAs were no longer allowed after 1987

**The board may contain the following: the director of a local economic development corporation, authority board of trustee members, urban redevelopment corporation board of trustee member, members of the commission, and the planning commission if the municipality has less than 5,000 resident: (DDA). *The board contains the following: individuals who have an interest in downtown district personal property (TIFA).

Sources: DDA Act 197, (1975); TIFA Act 450, (1980)

(b) Regulatory process (DDAs and TIFAs only)

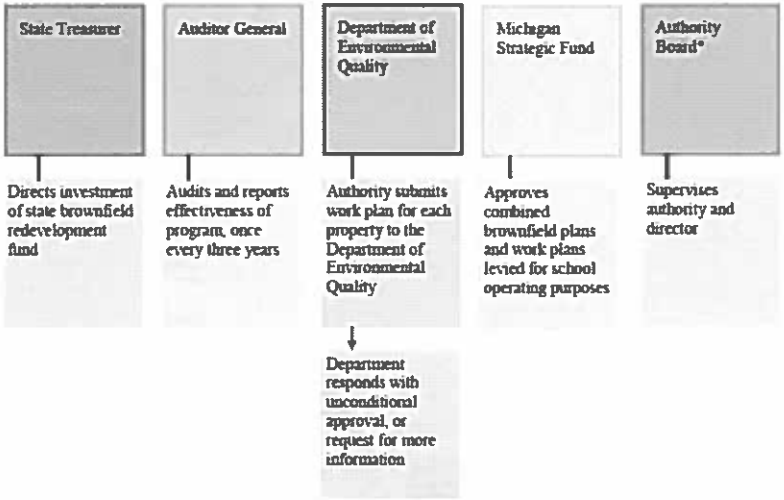
Figure 4: **TIF governance and regulatory oversight for Brownfield Development Authorities**



*BRA financial reporting requirements include: (i) amount and source of tax increments received, (ii) amount in bond reserve account; (iii) amount and purpose of increment expenditure; (iv) amount of principal and interest on bonded debt; (v) initial assessed value of the development area; (vi) captured assessed value authority retains; (vii) and number of created jobs.

Source: BRA Act 502. (2012)

(a) Process and reporting requirements

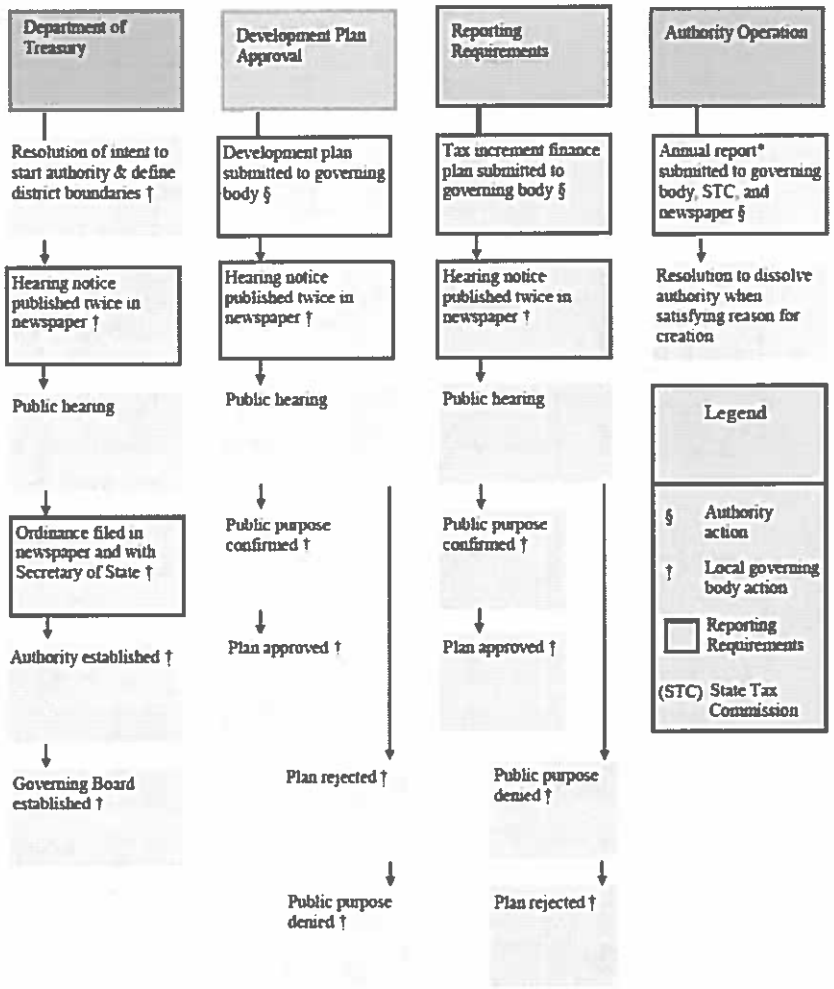


*The board includes the following: (i) at least one member that has ownership or business interest in development area property and (ii) one member must be a resident of the development area or live within ½ mile of any portion of the development area.

Source: BRA Act 502. (2012)

(b) Regulatory process

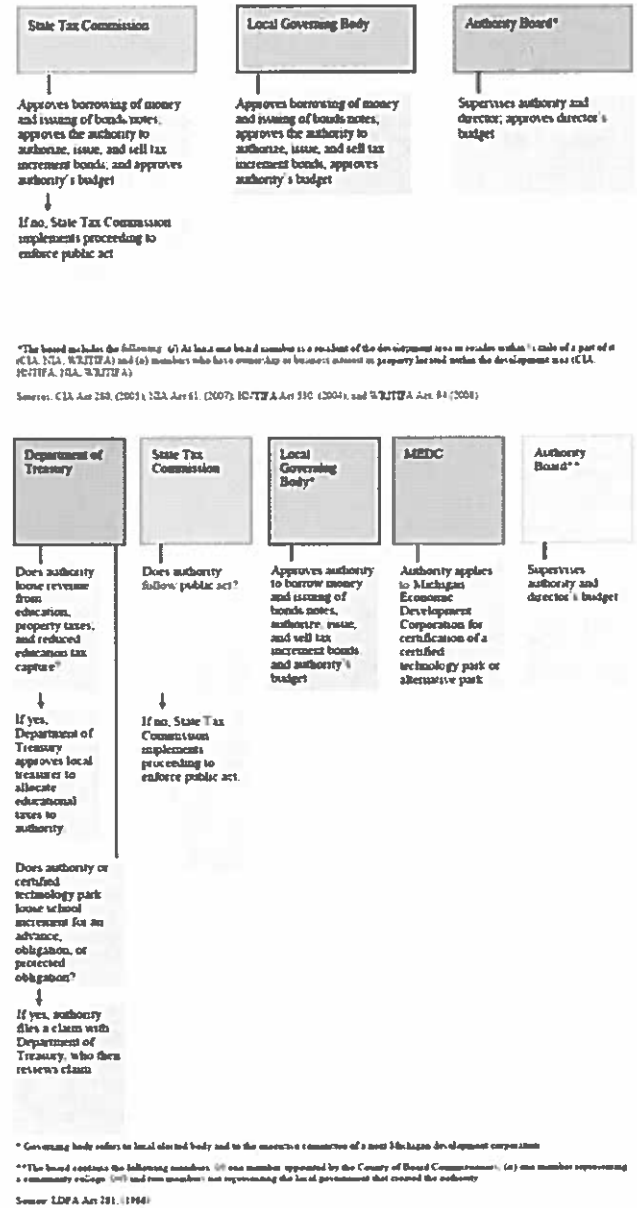
Figure 5: **TIF governance and regulatory oversight for CIAs, NIAs, LDFAs and WIRTIFAs**



* Financial reporting requirements include: (*i*) amount and source of increments received (CIA, LDFA); (*ii*) amount in bond reserve account (CIA, LDFA, NIA); (*iii*) amount and reason for increment expenditures (CIA, LDFA, NIA); (*iv*) principal and interest on bonded debt (CIA, LDFA, NIA); (*v*) development area's initial assessed value (CIA, LDFA, NIA); (*vi*) retained captured assessed value (CIA, NIA), (*vii*) number of jobs created (CIA, LDFA, NIA); (*viii*) TIF's plan effect on increase in state equalized evaluation (CIA), (*ix*) type and amount of capital improvements (CIA), (*x*) amount and source of increments received (LDFA); (*xi*) captured assessed value returned by authority (LDFA); (*xii*) amount and source of tax increment in account (NIA), (*xiii*) increment revenues received (NIA); (*xiv*) number of developed public facilities (NIA); (*xv*) number of public housing developed redeveloped (NIA); and any additional requested information (CIA, LDFA, NIA).

Sources: CIA Act 280, (2005), LDFA Act 281, (1986); and NIA Act 61, (2007)

(a) Process and reporting requirements



(b) Regulatory process (top panel: CIAs, HNIFAs, NIAs, WIRTIFAs – bottom panel: LDFAs)

of Treasury. The MEDC recently launched an online portal to streamline this process and will not be accepting the AR in paper format.

3.4.2 Tax collection process

The approval of the TIF plan sets the tax base at the initial assessed value. This value is the county equalization director's determination of equalized assessed value of all property in the development plan. At the present time (Year 0), the tax base is frozen and municipal and county treasurers will transmit tax increment revenues (in following years) to all Michigan tax capture authorities. County treasurers or assessors calculate the amount of tax increment to transmit to the authorities through an ATW worksheet that one of them fills out.

This tax increment can sometimes be modified if the authority will lose permissible education tax capture. If the authority specifically loses tax increment revenues from the Revised School Code, State Education Tax Act, and the General Property Tax Act, while reducing allowable school tax capture, through the Department of Treasury's permission, the authority can request the local tax collecting treasurer to allocate education taxes to the authority itself.

Following tax increment calculation, municipal and county treasurers send revenues to tax capture authorities that reside in their jurisdiction's borders. Most public acts do not specify the number of days municipality and county treasurers must transmit tax increment to the authorities. However, PA 502 (the public act for BRAs), requires that BRAs must receive their tax increment within thirty days after their tax increment is collected. LDFAs are also different because they receive their tax increment from schools in addition to municipality and county treasurers.

3.4.3 The opt-out process

A governing body of a taxing jurisdiction can choose to not have its taxes apportioned to a tax increment finance authority-or to "opt-out". After a specified number of days following a public hearing to implement or amend a development plan, the governing body of a jurisdiction can adopt a resolution to exempt its taxes from capture. BRAs, WRITAs, LDFAs, and CIAs can all opt-out within sixty days of the public hearing. DDAs and HNTIFAs must do so within ninety days. Following the decision to opt-out, the authority files a copy of its resolution with the clerk of the municipality that contains the authority, thus putting its decision to opt-out into effect.

3.5 Financing of development plans

To illustrate the process of tax increment capture, here we demonstrate how this process works with a DDA. The following are the two steps of tax capture. First, the DDA's municipal and county treasurers calculate the tax increment that should go to the DDA through the ATW worksheet. Second, the municipal and county treasurers send the tax increment to the authority. Depending on whether the authority's development project has a general obligation or general revenue bond, the authority will use the tax increment it receives to directly pay its bond (if it is a general revenue bond) or to reimburse the municipality for the bond payments it makes (if it is a general obligation bond).

A DDA has three ways that it can finance a project that is connected to its development plan. In the first instance (a pay-as-you-use bond), a municipality will first approve, issue, and sell general obligation bonds to finance a DDA's development project in the municipality's

borders. The municipality is responsible for bond payments and the authority's tax increment reimburses the municipality. Additionally, a DDA has the option of issuing a revenue bond (also a pay-as-you-use bond), where its projected tax increment is securitized for bond payments. In the first example, the municipality will be responsible for bond payments if the projected tax increments are not enough to pay the bond payments. In the second example, the DDA itself will be responsible if its tax increments are not enough to pay the bond payments.

If the hypothetical DDA finances the development project through a general obligation bond (as in the first example), the DDA will use its tax increments to pay back the municipality for the bond payments it makes. If it does not have enough tax increment to pay back the municipality, the municipality will be responsible for the bond and the bond payments. If the hypothetical DDA finances the development project through a revenue bond (as in the second example), the DDA will use the tax increments to pay the bond payments it makes. If it does not have enough tax increment to make its bond payments, it will be responsible for them-not the municipality in which it resides (as is the case with the first example).

A third method of financing a project, which the Downtown Development Authority Act does not mention, is directly through tax increments as they accrue (pay-as-you-go). In this instance, the municipality would not borrow any money and would fund the DDA's development project through its capital reserve. After Year 0, tax increments begin to reimburse the municipality's capital reserve account. If the DDA does not have enough tax increment to pay back the municipality as agreed, the municipality will lose its investment.

4 The lack of TIF transparency in Michigan

Our initial goal was to understand the status of TIF usage in Michigan. We were interested in knowing how many TIF authorities exist, if they developed a TIF district, their reporting consistencies, and any outcomes or deliverables. We utilized three main sources for obtaining our information. First, we performed an extensive literature search and review of existing publications, both in the professional and academic literature. Second, we collected data from web resources such as state and individual municipalities' websites and authority websites. Finally, we engaged in a broad variety of communications with administrators at the State Tax Commission, the Michigan Treasury, the Citizens Research Council of Michigan (CRCM), representatives from the MEDC, representatives from the Michigan Land Bank, and several faculty members from Michigan State University and the University of Michigan. We were also invited to participate in workgroup in Lansing dedicated to TIF reform.

4.1 Publications and academic literature

Existing publications suffice for providing an overall idea of number of authorities in Michigan, but the fact that they are published reports means that they are not continuously updated. The most recent and comprehensive report we found is the CRCM's (2007) Survey of Economic Development Programs in Michigan report. This report should be noted for its outstanding job of providing an in depth overview of the definitions, public acts, and laws governing financing programs and tax authorities as well as collecting information on how many authorities existed in Michigan as of 2007.

When it can, the CRCM report provides information on how many municipalities have authorities. Unfortunately, what the report fails to do is include information on whether or not

the authorities have enacted their powers to create a tax capturing district or if certain authorities have more than one plan under their jurisdiction. For example, as of 2007, the CRCM report specifies that the number of municipalities with Historic Neighborhood Tax Increment Finance Authorities (HNTFA) was unknown. Our most recent report from the CRCM, as well as communications with a representative from the MEDC, verifies that HNTIFAs are not in operation. If they are in operation, they are not reporting their figures to the Tax Commission. As of 2005, Michigan has 63 communities with Historic District Commissions. These communities are pursuant to Michigan's Local Historic Districts Act (1970 PA 169) delineating what constitutes a historic district. According to the legislation governing HNTIFAs, only cities and townships with historic districts are eligible for HNTIFAs, but multiple HNTIFAs can exist inside the boundaries of the historic district.

We also surveyed the academic literature on the practice of TIF in Michigan to gain a better understanding of the process governing TIF usage in the state. Most of the literature that covers this topic approaches the use of TIF from a theoretical perspective and does not provide us with data on the number of municipalities with established authorities or tax capturing districts. The one exception is a recent article analyzing the effectiveness of combining multiple economic development incentives, one of which is TIF, into a package of economic development tools (Sands, Reese, and Trudeau, 2007; Reese, 2014). Similar methods for collecting information on authorities using TIF were followed including snowball sampling as part of a statewide population survey which only permits partial coverage to state-wide TIF activities.

4.2 Web resources

We found that select municipalities report TIF Plans and make them available online. When this is the case, the plans themselves often contain maps, though this is not completely consistent throughout. Some have histories of the districts, including legislative process, important dates, and intended land uses within the districts. Reports also contain goals, specific policies for the districts, and expected impacts. However, not many reports have employment estimates.[13]

Unfortunately, most municipalities do not publish an annual report in a readily accessible manner online. Of those that do, we have not found any municipality that includes consecutive year reports online. For those that we did find, most reporting years begin in 2010, with a few reports for 2004-2005, and an established pattern cannot be found for the years that are reported. There are tax capture authorities that generate reports on a monthly basis, but this appears to be very rare. The reports that are filed generally adhere to the statutory requirements laid out in Bulletin 9 of 1997. Typically they contain all of the line items requested by the Tax Commission. This includes tax increments received, bond reserve account, amount and purpose of expenditures, amount of principal and interest on outstanding debt, initial assessed value of area (one of the least frequently reported items), captured assessed value, number of jobs created (also one of the least frequently reported items).

The larger municipalities with authorities tend to have websites for their various authority types, but these websites are not always up to date, and many include only board member in-

[13] An exemplar for reporting is Bellevue. Similarly, Battle Creek DDA is an example of a municipality that includes a map of the proposed DDA and the district within which the authority can operate. This simple color-coded map clearly designates the boundaries of the DDA and street names, major avenues and thoroughfares, railroad, parcels, and water features. A legend is included to assist the reader in distinguishing the features that are captured in the proposed DDA district, as well as a scale and a north arrow compass rose.

formation. The most consistently updated information appears to be board members, meeting dates, and meeting agendas. Some DDAs have their own websites because they are larger organizations, but this is rare. Some authorities have put together their own factions that provide information on the activities of the authorities.[14] In most cases, the only published data on the authorities is contained within the municipalities' larger comprehensive financial report.

Between the Michigan Treasury, the Michigan Legislature, and the MEDC, the MEDC does the best job of providing information on their website in a friendly, easily understood manner, for the layperson attempting to understand the process of establishing an authority district and a TIF Plan. On their website they provide "Fact Sheets" with the rules and regulations for authorities. These fact sheets, available in the appendix, correspond to the reporting requirements detailed above.

4.3 Reporting Requirements, compliance and enforcement

Our initial goal was to introduce a mostly completed comprehensive, state-level database on the structure and practice of TIF in Michigan (Michigan Repository for TIF "MiRTIF"). The MiRTIF was to provide an essential database for making meaningful fiscal comparisons at the municipal and county-level by categorizing, classifying and standardizing the reporting on all active TIF in the state in a consistent manner. However, our investigation demonstrated that current data collections mechanisms are not sufficient for compiling the data we need.

We did not succeeded in finding some of the required reporting information as specified by legal statutes governing TIF usage and authority practices in Michigan because the majority of the authorities are not doing an adequate job of reporting mandated requirements and a system is not in place at any level of government to penalize those that do not comply with their statutory obligations.

Our investigations have produced overwhelming evidence that authorities fail to comply with the requirement of publishing their AR in a publication of general circulation. While we have found specific instances of TIF information embedded within a municipalities' audited financial statement, reporting requirements for an AR and the yearly audited financial statement differ. For this reason, authorities are required to report their AR to the Treasury as a separate form. Indeed, conversations with representatives from the Michigan Treasury conclusively suggest that compliance with the reporting requirements is very low on account of the lack of an enforcement mechanism.

In particular, with the virtual collapse of intergovernmental revenue sharing in Michigan over the last two decades, the Michigan Treasury does not possess any meaningful incentive mechanism to increase TIF reporting. In the post-crisis environment and with real estate prices in Michigan still at secular lows, many TIF entities might experience negative tax capture which acts as a further disincentive to disclose detailed financial statements on TIF activities. Indeed, our most recent estimates suggest that reporting compliance currently is as low as 20% with only roughly 200 districts submitting reports on a regular basis.

The best-tracked districts are the DDAs, LDFAs, and TIFAs. If/When reports are submitted, they are received by the state in paper form. From there, it is up to the administrators at the Tax Commission to decide what to do with the information. We succeeded in receiving a spreadsheet containing financial information for DDAs, TIFAs, and LDFAs from 2002 through 2011. It also includes information from 2012, but the reporting is not complete. Budget cuts have resulted in a shortage of personnel required to maintain regular reporting and transparency

[14] Kalamazoo is a good example of this.

precedents. We do not criticize the Tax Commission for not making the information available to the public, but we do want to emphasize that the reporting process could be simplified with a streamlined electronic submittal system.

In addition to structural and institutional factors, the nature of some of the mandated data is in and of itself likely to provide a reporting disincentive. For example, TIF reporting requires authorities to report the number of jobs, a reporting requirement that – while intuitive and consistent with popular logic – is both difficult to quantify and not necessarily consistent with economic theory (Courant, 1994). In many cases, authorities are not reporting the amount of jobs created. When they are reporting this information, it is unclear if the number reported stands for full-time employment, part-time employment, hours employed, duration, etc. This is controversial in that it is nearly impossible to standardize a figure for the number of jobs created.[15] In discussing job reporting for tax abatements and Renaissance Zones, economic development tools used by localities that also require this figure to be reported, Reese (2014) discusses how these numbers are generally estimates and that in most cases the data for these measures do not exist.

4.4 Data on TIF authorities in Michigan

Table 3 is a compilation of data on the number of authorities in Michigan from the various reports we obtained. The top row lists the source for our data, the type of authority that is counted within the source, and eight tax capturing authorities. HNTIFAs are absent from this group because none of the sources report the existence of an HNTIFA. Also, the M1 Railroad TIF has a column because it appears in the Michigan Treasury Report (2014). In the first column, under the "Sources" heading, we list the names of the six reports from which we obtained our data. In the following row, under the "Type" heading, we define the terminology that the reports use when reporting their data. In other words, if the report specifies, or if we can reasonable conclude, that the data displays the existence of an authority district, we use the term "authority district (AD)". If we are uncertain, we use the term "authorities (A)" or "municipalities with authorities (M)". Similarly with "Municipalities with TIF districts (MT)" and "cities with TIF districts (C)". The remainder of the rows list the number for each authority, authority district, or TIF district as reported in the report. On account of the reporting inconsistencies between the reports, many cells remain blank.

What is readily apparent from table 3 is the complexity and large uncertainty that exists in reporting TIF activity in Michigan. The major discrepancy we found is that distinctions are not made between the existence of an authority versus authorities that utilizing tax increment financing to fund their projects. In some cases, a database may list a municipality and associate multiple authorities of one type to it. For example, in the Revenue Report from the Tax Commission, Bay City is listed as having twelve DDAs. According to the statute, in order to establish an authority, the municipality must approve a boundary within which the authority can exercise its power (authority district). Boundaries between similar authorities cannot overlap. In other words, the assumption is that Bay City has twelve boundaries within which the DDA can exercise power. However, what is uncertain from the way the information is presented is if the authority is utilizing tax increment financing (or, in other words, has an

[15]The Revenue Report we received from the Tax Commission does not include a column for jobs created, despite the other information that is captured. We cannot be sure if this is because authorities are not reporting the information at all or if it is because of the lack of consistency with how this line item is reported. Representatives at the DEGC simply stated that they do not report this information because deriving this information is essentially "voodoo magic".

Table 3: **Estimating the activities of TIF authorities in Michigan**

Source	*Type**	*BRA*	*CIA*	*DDA*	*LDFA*	*MI RR*	*NIA*	*TIFA*	*WIRD*	*Total*
CRCM (2007)	A	261	–	–	–	–	–	–	–	261
	M	–	–	370	98	–	–	87	–	555
MI Tax Commission (2012)	A	–	–	361	66	–	–	57	–	484
	D	–	–	441	87	–	–	88	–	616
Authority Districts in MI		–	–	417	–	–	4	139	–	560
Authority summary†	M	215	–	416	103	–	–	–	–	734
	MT	12	–	110	13	–	–	–	–	135
Reese (2014)	C	132	4	203	–	–	–	91	–	430
MI TIF Working Group (2014)	M	500	30	380	110	1	–	95	3	1,119

Notes: BRA: Brownfield Redevelopment Authority; CIA: Corridor Improvement Authority; DDA: Downtown Development Authority; LDFA: Local Development Financing Authority; NIA: Neighborhood Improvement Authority; TIFA: Tax Increment Finance Authority; WIRD: Water Resource Improvement District. * "A": authorities; "D": authority districts; "C": cities with TIF districts; "M": municipalities with authorities; "MT": municipalities with TIF districts (see text for more details). † Summary of BRAs (2011), DDAs (2011), LDFAs (2014).

established TIF District) within any of the twelve boundaries.

This same issue presents itself when authority districts overlap multiple municipalities. For example, as CIAs are used for revitalization along corridors, a corridor TIF District may span three municipalities. In a case such as this, three municipalities would be listed as having an authority district, but in reality, only one authorizing entity exists. This can easily complicate the data because if municipalities do not make this distinction, then each municipality would be counted as having an authority district and each municipality would be counted as having an authorizing entity. As we are interested in the governance of TIF usage, it makes the most sense to only calculate the existence of one authorizing entity rather than marking three municipalities as having an authority. We cannot state with any certainty that the reports we received make this distinction. For this report, if an authority is listed as spanning more than one municipality, we count this as one authority district and, in the case that we are reporting municipalities, the total number of municipalities it spans.

In the CRCM (2007) report, we find that for BRAs, the information is presented as whether or not an authority exists, whereas for DDAs, LDFAs, and TIFAs, the names of the municipalities with authorities are listed. Presenting the information in this manner does not provide an accurate figure on the number of authority districts, much less, those using TIF to fund projects.

The Michigan Treasury Summary for BRAs, DDAs, and LDFAs is perhaps the starkest in comparison to the figures in the other tables. This document reports filings activities documented by BRAs, DDAs, and LDFAs in Michigan. We combed through these extensive documents and marked down how many times a municipality filed for an authority and how many times it filed for the development of a TIF District. According to this report, there are only 135 documented districts that use TIF to fund projects.

Finally, the Reese (2014) report specifies that data collection come from individual websites, the CRCM (2007) report, reports from the Michigan Treasury as well as a snowball sampling that was part of a state-wide survey. Despite the overlapping use of resources, quite a bit of information on some of the authorities is missing and is not consistent with other reports.

We attribute this to the fact that it is one of the few reports that is looking for data beyond the establishment of an authority to those that utilize TIF.

Building a database that reflects the accuracy of the total authority districts and TIF districts is the first step in understanding how authorities utilize TIF to fund their projects. Only once an accurate database of tax capture authorities for the state of Michigan utilizing TIF revenue is established can we advance to the next step of collecting revenue calculations and engaging a discussion on the effectiveness of TIF usage for the state of Michigan. In the next section we propose the creation of an online database that can be sent to all the authorities in Michigan using TIF.

5 Introducing the MiRTIF prototype

The MiRTIF prototype is a draft of our recommendations for a comprehensive database that stores information regarding TIF Authorities in Michigan. The fields for the prototype are derived strictly from the legislation governing the use of TIF by tax capture authorities in the state of Michigan. In addition, as the Michigan Treasury creates forms based on the requirements listed in the statutes, we also incorporate the annual reporting requirements of Form 2604/2967 and the AR forms from them. Lastly, we included additional fields we believe essential in order to create a clean, simple, and organized data repository.

Currently, the MiRTIF prototype exists in an Excel format (see appendix). Our recommendation is that the fields within the prototype are used to create an online portal to capture this information. Creating one website location for the collection of data not only streamlines the process for reporting individuals, but the data can then be manipulated and presented in a friendly, yet accurate, fashion that allows the public access to the information.

5.1 Data dictionary

We derived a total of 62 fields based on the annual reporting requirements of Form 2604 and Bulletin 9, and included additional fields that we found useful. The data dictionary, fully displayed in the appendix, outlines the field names, the description of the fields, the number of characters for each field, the field type (dropdown menu, text field, number), and the different values or range of numbers for each field.

The structure of the data dictionary is straightforward and follows standard conventions for the record layout that is commonly used for data available in flat-file format:

- The "D" in the first row of each field represents the field description, including the field name, the size of the field, and the type of field.
- The "T" in the second row provides the English description of the field name.
- The "R" in the third row provides the range for fields that are numbers. The upper and lower bounds are separated with "..." and are followed by a description of the units.
- Finally, the "V" in the third row and beyond provides the values for the fields. The value code is placed to the left of the "." and the description is placed to the right. Additionally, we included columns indicating if the field was derived from either the Annual Report or Form 2604.

The data dictionary is divided into the following sections:

- Basic information, which contains fields reporting basic information about tax capture authorities such as location, and information about the board and reporting process;
- TIF Plans, which contains fields reporting information about a tax capture authority's TIF Plans; and
- DPs, including information about a tax capture authority's DPs, including a DPs start and end date, the initial assessed value of the DP area, and fields for annually reported information about the DP.

As this is a prototype, it is possible to adjust the number of characters in any of the fields. For example, one may find some of the value fields containing dollar amounts might need space for more digits than outlined in the data dictionary. Each tax capture authority is assigned a unique identifier that will link the authority to the TIF Plan and DP record. For the construction of unique IDs, we recommend that all authorities within the same type (DDA, TIFA, etc.) begin with the same code (`001`, `002`, etc.) for simpler sorting. Each TIF Plan and DP is also assigned a unique identifier, as tax capture authorities may have more than one TIF or DP.

The data dictionary specifies which fields relating to TIF Plans only apply to certain types of tax capture authorities. The enabling acts require that LDFAs and TIFAs report more items regarding their TIF Plans than the other types of authorities. Most TIF authorities produce one DP, however, a number of authorities produce multiple DPs over time or concurrently.

6 Elements of TIF reporting best practice

6.1 Rules versus discretion

The city of Chicago is known for its prolific TIF usage. Perhaps because of this heavy usage, Chicago has been the subject of multiple studies on the use of TIF as a local economic development tool. The specific case of Chicago and Illinois generally are useful to us because they demonstrate two critical efforts by government to increase transparency. The first major effort was an ordinance established by the Chicago City Council in 2009 called the Tax Increment Financing Sunshine Ordinance. This ordinance mandates that active TIF districts make specific information publicly available on the Department of Community Development data portal for the City of Chicago. Prior to the Sunshine Ordinance of 2009, anyone interested in obtaining detailed information on TIF usage in Chicago had to submit a Freedom of Information Act application. The required information to be posted online includes:

- The ordinances establishing each TIF district, including all attachments, and any amendments thereto;
- The ordinances authoring each TIF redevelopment agreement, including any attachments, any amendments thereto and accompanying Economic Disclosure Statements;
- Written staff reports presented to the Community Development Commission related to TIF-funded projects;
- TIF overviews prepared by the Department of Community Development and annual reports prepared pursuant to 65 ILCS 5/11-74.4-5 (d)
- City-issued Certificates of Completion and any required annual employment certifications prepared pursuant to TIF redevelopment agreements (Meiffren, 2011).

In May 2011, Mayor Rahm Emanuel announced the formation of a TIF reform panel. The panel included elected and appointed officials, finance experts, small business leaders, and urban policy leaders from academia, think tanks, and foundations with Carol Brown appointed as chair of the committee. The committee met on a regular basis for three months. On August 23, 2011, the final report (Chicago TIF Reform Panel, 2011) was submitted, highlighting six major recommendations:

TIF goals Establish the city's TIF goals whereby the Mayor's Office develops a multiyear plan that guides all future TIF district designations and project allocations;

Allocation The city should create a multi-year capital budget that details the funding of infrastructure needs and all TIF infrastructure allocations and porting decisions should be made in accordance with the capital Budget;

Monitoring Establish metrics for its use of TIF to benchmark TIF district and project performance in aggregate and alignment with the Economic Development Plan;

Accountability Increase accountability by justifying public funding of private projects more explicitly, monitor projects more systematically to ensure recipients of TIF funding meet obligations;

Action The city should set and manage to performance thresholds for districts and projects;

Oversight Enhance oversight and administration by empowering an internal body with clear accountability for all aspects of TIF.

After determining how much money was allocated to private development; public works; and small business, workplace, and property owner programs, the data allowed for graph on TIF allocations by project type. Within each allocation, further analysis could be made (i.e., how much allocated for residential, mixed use, commercial, industrial, institutional, schools, parks, infrastructure, public buildings, etc.). Other data include a geographic representation of TIF usage, porting funds (the ability for municipalities to use funds from the TIF district in surrounding districts that may benefit from the project).

6.2 Minor critiques

The Illinois Comptroller website reports that as of August 2013, TIF compliance for the state of Illinois is at 93%. This does not mean that the reporting is easily accessible. Issues have been reported regarding the complication of making the information searchable (i.e., a streamlined manner for searching through the numerous documents uploaded to the website), missing information, specifically the fact that 0% of the TIF projects include information on annual employment positions created and retained, and the lack of a web tool that connects individual expenditures with specific projects. This final critique is important because it allows the pubic to track where the money is going and where it is spent (Meiffren, 2011).

6.3 City of Chicago TIF Portal

Perhaps one of the most advanced features, and arguable the most visibly accessible nationwide, is a publicly accessible online map-based view of all TIF districts in the city of Chicago (see Figure in appendix A.3). The map includes three layers that can be added or removed at the viewer's discretion. The first layer is called the TIF Layer. When only this layer is highlighted, the map of Chicago is populated with every single TIF District delineation. When the

cursor is scrolled over a TIF District, a window pops up within the map with information on the name of the district, the total project cost, and council approved TIF investment.

The next layer is called the Ward Layer. There are 50 wards in the city of Chicago. The advantage of this layer is the ability for people to see which districts exist in their wards. The final level is called the Project Layer. When selected, the map is populated with a series of red circles and yellow squares. The red circles are redevelopment projects and the yellow squares are infrastructure projects. Each time a user clicks on a project, an external pop-up window is generated including general information about the project. Information includes the description of the project, the address, the name of the developer, the total project cost, the council-approved TIF payment, and links to documentation related to the project. Yellow squares generate a similar pop-up window listing information on the name and ward location of the project, the address, the total amount of TIF investments, and the total amount of non-TIF investments.

In addition to these map features, the portal includes a series of search fields allowing users to search specific information by the name of the district, the type of project or ward (these are drop down functions), and/or by address. The TIF Portal is an awesome example of the power of data collection and transparency. For all the reasons listed above, Chicago is arguably the best exemplar on which to model reporting protocol and transparency for the state of Michigan.

7 Outlook and future research

The rationale for financial regulation ultimately rests on two objectives: the desire to maintain financial stability by mitigating systemic risk and the desire to protect economic agents (Bieri, 2010). In the case of TIF, the perimeter of regulatory oversight must be broad and deep, given the dual character of TIF as both a financial instrument and an economic development tool. As such, TIF regulation thus encompasses both financial stability considerations and traditional accounting disclosure standards. Indeed, in light of the public good nature of financial stability, state government should impose strong regulatory safeguards that ensure that TIF projects are implemented through a transparent, accountable process. Yet, regulation without universal compliance is meaningless. Kerth and Baxandall (2011) provide the most comprehensive and systematic coverage on the need for increased transparency and accountability in TIF governance. One of the main conclusions of this report is that strong rules should ensure that applications of TIF are transparent, accountable, and efficiently governed.

While this paper has focused on meticulously scrutinizing the state-enabling legislation to understand the process of developing a TIF Plan and delivered a streamlined prototype, the MiRTIF, in this section we also suggest a series of policy recommendations that can be taken to strengthen the use of the tool. First and foremost, the enforcement of regulatory compliance for TIF, above all via accountable reporting on TIF activities, is the policy remit of the Michigan State Treasury. Measures must be taken at the state level to ensure that tax capturing authorities are accurately submitting their reporting requirements on an annual basis. Failure to comply with mandated requirements should result in a severe penalty, perhaps even one that would strip the authority of its ability to capture incremental revenues.

In order for the Michigan State Treasury to effectively enforce TIF reporting, it is necessary to determine the exact number of tax capturing authorities in existence and, furthermore, the exact number of those using TIF. As a one-off exercise, deriving these numbers would not be an easy endeavor, as we have seen from previous attempts at snowball sampling, internet searches, and reviewing the academic literature, but with enough time, funding, and human

power, individuals could be sent to each and every county, or municipality for more targeted accuracy, to inquire about the existence of tax capturing authorities.

Localities must revisit and internalize the original intention behind the creation of a tax revenue increment capturing tool. This would require implementing a systematic approach to meeting the "but for" requirement. Tightening the definition of what constitutes blight and ensuring that the designated area is indeed in need of public funding to attract private investment will limit the use of a tool to areas that are in serious need of attention. Improving the tax base in locations such as these and increasing opportunities for employment will bring economic vibrancy to pockets of the city stripped of these resources rather than further concentrate development in areas of less need and eliminate situations in which authorities squander excessive funds on repaving streets within their districts because they are not allowed to spend the money on other locations or because they simply sit on large sums of accrued revenues from tax increments but do not want to retire their TIF Plan. Furthermore, case study research analyzing how locations using TIF fare in comparison to those without would help clarify the effectiveness of the tool and begin the foundation for determining specific site variables as indicators for establishing a TIF Plan.

The adoption of the use of TIF to fund economic development and its proliferation across the states is indicative of the increasing fragmentation of the budgetary process of local governments. While recognizing that TIF is an attractive tool for municipal actors because of its flexibility, there is some agreement among economists that a certain amount of pull-back on the level of earmarking for tax revenues is desirable; in part, this would restore the long-lost sanctity of the local budgetary unity – the requirement that the budget should not be divided into independent parts. Indeed, the validity of the principle of budgetary unity has long been recognized to depend upon the significance attributed to the particular type of information which the unitary budget supplies and upon the planning efficiency which it permits (Musgrave, 1939). Requiring stringent reporting and transparency will reform unregulated TIF usage in a way that ought to diminish abuse, putting a much needed break on further uncurbed fiscal splintering and special districting.

Sound public policy needs to be based on objective measures and reliable data. If implemented, the MiRTIF would be precisely a step in this direction, providing a critical tool for analyzing the ongoing practice of TIF in Michigan and generating an overview of meeting statewide and local development goals. MiRTIF could form the basis for a more comprehensive system of policy decision support tools that would help to ensure that policy makers can base their decisions on future TIF reforms on solid facts, and not the speculative extrapolations of special interests.

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A Michigan Repository of Tax Increment Finance

A.1 MiRTIF prototype and data dictionary

Click on this link to download the fully functioning MiRTIF prototype database and the corresponding data dictionary.

A.2 Department of Treasury Form 2604

See Michigan Department of Treasury website for the complete form.

A.3 City of Chicago TIF portal

A.4 Example of TIF annual report

Annual Report
City of Detroit Downtown Development Authority, Development Area #2

	FYE 2007
Revenue:	
Property Taxes	801,911
Interest	-
Total Revenue	801,911
Bond Reserve	
Expenditures	
Eligible Obligations:	
Madison Center Project	801,911
Total eligible obligations:	801,911
Outstanding bonded indebtedness	
Principal	-
Interest	-
Initial Assessed Value	
Ad valorem non-homestead	335,900
Commercial Facilities Tax-New	-
Commercial Facilities Tax-Restored	-
Total	335,900
Captured Value	
Ad valorem non-homestead	9,808,297
Commercial Facilities Tax-New	-
Commercial Facilities Tax-Restored	-
Total	9,808,297
Tax Increment Revenue Received	
City of Detroit	340,939
School	293,427
SET	56,841
Wayne County	53,152
WCCC	23,157
RESA	32,389
Huron-Clinton	2,006
Total	801,911
Number of Jobs Created	N/A
Additional Information	None

B TIF factsheets for Michigan

BROWNFIELD REDEVELOPMENT AUTHORITY

Under the Brownfield Redevelopment Act PA 381 of 1996, as amended, a municipality may create a Brownfield Redevelopment Authority (BRA) to develop and implement Brownfield projects. A BRA is a resource that may use Tax Increment Financing (TIF) as a tool for property redevelopment.

WHO IS ELIGIBLE TO HAVE AN AUTHORITY?

Any city, village, township or county may create a BRA. A county BRA may be involved with eligible property throughout the county, but may not include a project in their Brownfield Plan unless the affected municipality concurs that the site in their community may be included in the county's plan.

HOW DOES IT WORK?

Once created, a BRA reviews proposals for the redevelopment of eligible property and determines what financial incentives are necessary to assist the redevelopment. The Authority prepares a plan that identifies the Brownfield projects. Each project section of the plan includes the description of the eligible property, the eligible activities, the TIF approach to be taken and other issues related to the subject parcels. The Authority then recommends to the governing body of the municipality (city or village council, township board or county commission) that the decision-making body holds a public hearing regarding the plan and subsequently acts to approve with modifications or deny the plan. The Authority would recommend revisions to the plan as new projects are submitted or revisions are requested on existing plan projects.

WHAT IS THE PROCESS?

The municipality may hold informational meetings to explain the purpose, powers and benefits of a BRA. In order to create an authority, the municipality must do the following:

1. The governing body of the municipality may adopt a resolution of intent to create an Authority that includes a date for holding a public hearing on the adoption of a proposed resolution creating an authority.
2. The notice of the public hearing to create a BRA must include a date, time and place of the hearing.
3. The governing body holds a public hearing.
4. Not more than 30 days after the hearing the governing body adopts a resolution creating the BRA. A copy of the resolution must be filed with the Michigan Secretary of State promptly after its adoption.
5. The governing body designates the members of the Authority. The Authority members may be chosen from an existing Downtown Development Authority (DDA), Local Development Financing Authority (LDFA), Tax Increment Financing Authority (TIFA), Economic Development Corporation (EDC) or appointed at-large by the chief executive officer of the municipality.

Subsequently, the Authority can hold meetings in order to elect officers of the board, to adopt by-laws of the Authority and to adopt governing rules.

WHY WOULD A COMMUNITY WANT TO CREATE THIS AUTHORITY?

The creation of a BRA allows local decision-making in the various aspects of Brownfield redevelopment. Through redevelopment, a municipality can:

- Focus development in existing service areas.
- Enhance tax base through private development.
- Receive multiple taxing jurisdiction participation in redevelopment financing.
- Provide reimbursement for eligible Brownfield activities. A BRA provides a municipality with the opportunity to create a local Brownfield financing resource, enhance local economic development capacities and market difficult sites based on the private investment incentives.

SUPPORTING STATUTE

Public Act 381 of 1996

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CORRIDOR IMPROVEMENT AUTHORITY

The Corridor Improvement Authority (CIA), Public Act 280 of 2005, is designed to assist communities with funding improvements in commercial corridors outside of their main commercial or downtown areas.

WHO IS ELIGIBLE?

Any city, village or township may establish an authority.

HOW DOES IT WORK?

The provisions of the CIA generally mirror those of the Downtown Development Authority (DDA) Act, Public Act 197 of 1975. The authority would be created and operated in a similar manner to a DDA. Once created, a Corridor Improvement Authority may hire a director, establish a tax increment financing plan, levy special assessments and issue revenue bonds and notes.

A corridor, as defined as a development area, must comply with the following criteria:

1. The corridor must have at least 51% of existing first floor space classified as commercial.
2. The corridor must have been in existence for the past 30 years.
3. The corridor must be adjacent or is within 500 feet of a road classified as an arterial or collector according to the Federal Highway Administration.
4. The corridor must contain at least 10 contiguous parcels or at least five contiguous acres.
5. The corridor must be zoned to allow for mixed-use and high density residential.
6. The corridor must presently be served by municipal water or sewer.
7. The municipality must also agree to expedite the local permitting and inspection process in the development area and to modify its master plan to provide for walkable non-motorized connections, including sidewalks and streetscapes throughout the area.

WHAT IS THE PROCESS?

***Note:** The following steps are offered as general guidelines only and the legislation should be reviewed by local officials prior to starting the designation process.*

1. Municipalities may have multiple authorities and an authority may contain multiple municipalities.
2. The governing body determines that it is necessary in the best interests of the public to redevelop its commercial corridors and to promote economic growth.
3. The governing body sets a public hearing, based upon its resolution of intent, to create a CIA.
4. Notice must be given of a public hearing by public posting, publication and mail to taxpayers within a proposed district and to the governing body of each taxing jurisdiction levying taxes that would be subject to capture of tax increment revenues.
5. Public hearing is held.
6. Not less than 60 days following the public hearing, the governing body may adopt by resolution the creation of the CIA and designate the boundaries of the development area.
7. The resolution must be published at least once in the local newspaper and filed with the Secretary of State.
8. The governing body of the municipality that has created an authority may enter into an agreement with an adjoining municipality that also has created an authority to jointly operate and administer those authorities under an interlocal agreement.

OTHER IMPORTANT NOTES

While this program is similar in nature to a Downtown Development Authority, differences between a DDA and Corridor Improvement Authority include:

- More than one authority is permitted within a municipality.
- A Corridor Improvement Authority cannot levy an ad valorem tax.
- A Corridor Improvement Authority may enter into interlocal agreements with adjoining municipalities.

SUPPORTING STATUTE

Public Act 280 of 2005—Corridor Improvement Authority

CONTACT INFORMATION

For more information contact the Michigan Economic Development Corporation℠ Customer Contact Center at 517.373.9808.

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DOWNTOWN DEVELOPMENT AUTHORITY (DDA)

The Downtown Development Authority (DDA), Public Act 197 of 1975 as amended, is designed to be a catalyst in the development of a community's downtown district. The DDA provides for a variety of funding options including tax increment financing mechanism, which can be used to fund public improvements in the downtown district and the ability to levy a limited millage to address administrative expenses.

WHO IS ELIGIBLE?

Any city, village or township, that has an area in the downtown zoned and used principally for business, is eligible.

HOW DOES IT WORK?

Once established, the DDA is required to prepare a development plan and may create a tax increment financing plan to submit for approval to the local municipality. A development plan describes the costs, location and resources for the implementation of the public improvements that are projected to take place in the DDA district. A tax increment financing plan includes the development plan and details the tax increment procedure, the amount of bonded indebtedness to be incurred, and the duration of the program.

Financing Options for DDA Activities:

- Tax Increment Financing (an annual report must be submitted to the municipality and to the State Tax Commission)
- Millage (up to two mills for municipalities with population of less than one million; up to one mill for municipalities with population over one million)
- Special assessments
- Revenue bonds
- Revenues from property owned or leased by the DDA
- Donations and grants to the authority
- Contributions from the local unit of government

WHY WOULD A COMMUNITY WANT TO ESTABLISH A DDA?

The DDA financing mechanism allows for the capture of the incremental growth of local property taxes over a period of time to fund public infrastructure improvements. A community can capture property taxes which would have otherwise been paid to entities such as the library, community college and county, and instead use them for public improvements in targeted areas. By borrowing against the future tax increments, the DDA is able to fund large-scale projects, which can lead to new development opportunities within the downtown. In addition to the financing mechanism, the DDA structure results in the creation of a public board dedicated solely to the improvement of the downtown.

WHAT IS THE PROCESS?

Note: The following steps are offered as general guidelines only and the legislation should be reviewed by local officials prior to starting the DDA District designation process.

1. The governing body finds that it is necessary for the best interests of the public to do the following related to the defined business district:
   - To halt property value deterioration
   - Increase property tax valuation
   - Eliminate the causes of deterioration
   - Promote economic growth
   - Create and provide for the operation of the DDA
2. The governing body sets a public hearing, based upon its resolution of intent, to create a DDA.
3. Notice is given of a public hearing by publication and mail to taxpayers within a proposed district and to the governing body of each taxing jurisdiction levying taxes that would be subject to capture of tax increment revenues.
4. The governing body takes comments at the public hearing.
5. Within 60 days, the governing body of another taxing jurisdiction may, by resolution, exempt its taxes from capture and file the resolution with the clerk of the municipality.

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HISTORIC NEIGHBORHOOD TIFA

Through the provisions of Public Act 530 of 2004, a Historic Neighborhood Tax Increment Financing Authority (HNTIF) may be established. An HNTIF may use its funds, including tax increment financing, to fund residential and economic growth in local historic districts. An authority may also issue bonds to finance these improvements.

HOW CAN THIS TOOL BE USED?

Improvements to public facilities such as housing, a street, plaza, pedestrian mall and any improvements to a street, plaza or pedestrian mall including street furniture and beautification, park, parking facility, recreational facility, right of way, structure, waterway, bridge, lake, pond, canal, utility line or pipe or building, including access routes designed and dedicated to use by the public generally, or used by a public agency.

WHO IS ELIGIBLE TO CREATE AN HNTIF?

Any city or township may establish an HNTIF, if that city or township contains a local historic district.

HOW DOES IT WORK?

Once established, the HNTIF prepares a development plan and a tax increment financing plan to submit for approval to the local municipality. A development plan describes the costs, location and resources for the implementation of the public improvements that are projected to take place in the HNTIF district. A tax increment financing plan includes the development plan and details the tax increment procedure, the amount of bonded indebtedness to be incurred and the duration of the program. After adoption of the two plans, the development plan is implemented and the tax increments, which occur as a result of improvements in the eligible property, accrue to the HNTIF to be used as required by the development plan. The activities of the HNTIF may be financed by:

1. Donations to the authority
2. Revenue bonds
3. Revenues from buildings or property owned or leased by the HNTIF
4. Tax increments
5. Special assessment
6. Grants

WHAT IS THE PROCESS?

1. Municipalities may have multiple authorities.
2. The governing body finds that it is in the best interests of the public to:
   a. Halt property value deterioration
   b. Increase property tax valuation where possible in a residential district
   c. Eliminate the causes of property value deterioration
   d. Promote residential growth
   e. Promote economic growth
3. The governing body sets a public hearing, based upon its resolution of intent, to create a HNTIF.
4. Notice must be given of a public hearing by publication and mail to taxpayers within a proposed district and to the governing body of each taxing jurisdiction levying taxes that would be subject to capture of tax increment revenues.
5. Public hearing is held.
6. Not less than 60 days following the public hearing, the governing body may adopt by resolution the creation of the HNTIF and designating the boundaries of the HNTIF district.
7. The resolution must be published at least once in the local newspaper and filed with the Secretary of State.
8. The governing board of the HNTIF shall consist of a chief executive officer of the municipality or his or her designee and between five and nine members.
   a. Members shall be appointed by the chief executive officer of the municipality, subject to approval by the governing body of the municipality.
   b. Not less than a majority of the members shall be persons having an ownership or business interest in property located in the development area.
   c. At least one of the members shall be a resident of the development area or of an area within ½ mile of any part of the development area.

OTHER IMPORTANT NOTES ON TIF CAPTURE

- School and library millages are exempt from capture.
- All other taxing jurisdictions have the opportunity to negotiate the terms of, or opt out of capture, within 60 days of the public hearing establishing the TIF plan.
- An annual report must be submitted to the municipality and to the State Tax Commission on the status of the tax increment financing plan.

SUPPORTING STATUTE

Public Act 530 of 2004

CONTACT INFORMATION

For more information, contact the MEDC Customer Contact Center at 517.373.9808.

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LOCAL DEVELOPMENT FINANCING ACT (LDFA)

The Local Development Financing Act (LDFA), Public Act 281 of 1986, as amended, allows a city, village or urban township to utilize tax increment financing to fund public infrastructure improvements. The tool is designed to promote economic growth and job creation. Communities across Michigan have utilized this tool to extend sewer and water lines, construct roads, service manufacturing, agriculture processing or high technology operations.

WHO IS ELIGIBLE TO APPLY?

Any city, village or urban township, is eligible to create an LDFA district. An urban township is defined as any of the following:

Option 1 (all of the following):

- Has a population of 20,000 or more, or has a population of 10,000 or more but is located in a county with a population of 400,000 or more.
- Adopted a master-zoning plan before February 1, 1987.
- Provides sewer, water and other public services to all or a part of the township.

Option 2 (all of the following):

- Has a population of less than 20,000.
- Is located in a county with a population of 250,000 or more, but less than 400,000 and that county is located in a metropolitan statistical area.
- Has within its boundaries a parcel of property under common ownership that is 800 acres or larger and is capable of being served by a railroad and located within three miles of a limited access highway.
- Established an authority before December 31, 1998.

Option 3 (all of the following):

- Has a population of less than 20,000.
- Has a State Equalized Value (SEV) for all real and personal property located in the township of more than $200 million.
- Adopted a master zoning plan before February 1, 1987.
- Is a charter township under the charter township act, Public Act 359 of 1947.
- Has within its boundaries a combination of parcels under common ownership that are 800 acres or larger, immediately adjacent to a limited access highway, capable of being served by railroad and are immediately adjacent to an existing sewer line.
- Established an authority before March 1, 1999.

Option 4 (all of the following):

- Has a population of 13,000 or more.
- Is located in a county with a population of 150,000 or more.
- Adopted a master zoning plan before February 1, 1987.

The townships listed on the third page of this document are eligible to be categorized as "urban" based on both their and their respective county's population as of the 2000 Census. These townships must still meet the other required criteria to be considered "urban."

HOW DOES IT WORK?

Once established, the LDFA prepares a development plan and a tax increment financing plan to submit for approval by the municipality following a public hearing. After the municipality adopts the two plans through a resolution, the development plan is implemented and the tax increment, which occurs as a result of improvements in the eligible property, accrue to the LDFA to be used in accordance with the development plan.

Financing Options for LDFA Activities:

- Tax Increment Financing revenues from eligible properties (an annual report must be submitted to the municipality and to the State Tax Commission on the status of the tax increment financing plan).
- Contributions to the LDFA from the local unit of government.
- Revenues from ownership of property.
- Proceeds of revenue bonds.
- Donations and grants to the authority.

Eligible Activities for Funding:

- Public infrastructure improvements that directly benefit the district, including a street, road, bridge, storm water or sanitary sewer, sewage treatment facility, water line, water tower, etc. Railroads and utility lines (electric and telecommunication) are also eligible.
- Acquisition of land, demolition, site preparation and relocation costs.
- Administrative costs.
- Certified alternative energy parks and certified technology park development.

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NEIGHBORHOOD IMPROVEMENT AUTHORITY (NIA)

Through the provisions of Public Act 61 of 2007, a Neighborhood Improvement Authority (NIA) may be established. An NIA may use its funds, including tax increment financing, to fund residential and economic growth in residential neighborhoods. An authority may also issue bonds to finance these improvements.

HOW CAN THIS TOOL BE USED?

For residential neighborhood improvements to public facilities such as housing, a street, plaza, pedestrian mall and any improvements to a street, plaza or pedestrian mall including street furniture and beautification, park, parking facility, recreational facility, right-of-way, structure, waterway, bridge, lake, pond, canal, utility line or pipe or building, including access routes designed and dedicated to use by the public generally, or used by a public agency.

WHO IS ELIGIBLE TO CREATE AN NIA ?

Any city or village may establish an NIA. However, an NIA cannot include properties that are already part of a Historic Neighborhood TIFA (2004 PA 530).

HOW DOES IT WORK?

Once established, the NIA prepares a development plan and a tax increment financing plan to submit for approval to the local municipality. A development plan describes the costs, location and resources for the implementation of the public improvements that are projected to take place in the NIA district. A tax increment financing plan includes the development plan and details the tax increment procedure, the amount of bonded indebtedness to be incurred and the duration of the program. After adoption of the two plans, the development plan is implemented and the tax increments, which occur as a result of improvements in the eligible property, accrue to the NIA to be used as required by the development plan. The activities of the NIA may be financed by:

1. Donations to the authority
2. Revenue bonds
3. Revenues from buildings or property owned or leased by the NIA
4. Tax increments
5. Special assessment
6. Grants

WHAT IS THE PROCESS?

1. Municipalities may have multiple authorities.
2. The governing body finds that it is in the best interests of the public to:
   - Promote residential growth in an area where 75% or more of the area is zoned for residential
   - Promote economic growth
3. The governing body sets a public hearing, based upon its resolution of intent, to create an NIA.
4. Notice must be given of a public hearing by publication and mail to taxpayers within a proposed district and to the governing body of each taxing jurisdiction levying taxes that would be subject to capture of tax increment revenues.
5. Public hearing is held.
6. Not less than 60 days following the public hearing, the governing body may adopt by resolution the creation of the NIA and designating the boundaries of the NIA district.
7. The resolution must be published at least once in the local newspaper and filed with the Secretary of State. Neighborhood Improvement Authority
8. The governing board of the NIA shall consist of a chief executive officer of the municipality or his or her designee and between five and nine members.
   a. Members shall be appointed by the chief executive officer of the municipality, subject to approval by the governing body of the municipality.
   b. Not less than a majority of the members shall be persons having an ownership or business interest in property located in the development area.
   c. At least one of the members shall be a resident of the development area or of an area within ½ mile of any part of the development area.

OTHER IMPORTANT NOTES

- School and library millages are exempt from capture.
- All other taxing jurisdictions have the opportunity to negotiate the terms of, or opt out of capture, within 60 days of the public hearing establishing the TIF plan.
- An annual report must be submitted to the municipality and to the State Tax Commission on the status of the tax increment financing plan.

SUPPORTING STATUTE

Public Act 61 of 2007—Neighborhood Improvement Authority

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TIF Reform in Michigan

Some recommendations for public policy

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Local Government Committee,
Michigan House of Representatives – October 2015

“Fiscal illusion” in public finance

“It is well that the people of the nation do not understand our banking and monetary system, for if they did, I believe there would be a revolution by tomorrow morning.”

Henry Ford (1922)

Some simple questions …

- How heavily do municipalities in Michigan rely on TIF, relative to overall revenue raised from property taxes?
- What types of TIFs are being used across the state?
- Has municipal reliance on TIF increased since the financial crisis? Is TIF related to episodes of financial instability at the local level?
- Given that TIF is a financial instrument, what is the regulatory disclosure process for monitoring its usage?

… but no simple answers

- MI Department of Treasury estimated tax capture authorities to capture $280 million in revenue for FY2014
  - 86% increase ($150 million) since 2006 (65% when adjusted for inflation to 2012 figures)

- Official figures grossly **underestimate** true magnitude of revenue capture because of the **lack of reporting**:
  - Estimate: closer to **$500 million**, possibly as much as **$1.2 billion**—nearly 10% of total property tax revenues
  - Revenue collection not emphasized
  - Very complex and complicated reporting
  - Missing and inconsistent data (~ 30% reporting complicance)

Accountability in local public finance

- Tax Increment Finance (TIF) is among the most popular financing mechanisms for economic development in the U.S.
- TIF is neither intrinsically good nor bad local tax policy, but implementation is key
  - Lack of TIF transparency leads to "**fiscal illusion**" (systematic public misperception of key fiscal parameters that distort the fiscal choices by the electorate)
  - TIF gives rise to local "**shadow budgets**" that are outside of the control of local elected officials. Importance of regulatory accountability.

Accountability in local public finance

- TIF create conditions for "**overfishing**" of fiscal common-pool as multiple territorially overlapping governments and special purpose districts levy taxes in common geographic area.
  - Increasing number of overlapping governments increases interest costs for county debt (Greer, 2015)
- Observation that TIF districts grow faster than other areas is unremarkable on its own, does not permit causal inference.
  - TIF expenditures and property value change in Chicago show negative effect of infrastructure spending (Kane and Weber, 2015)
  - TIF projects might be "crowding out" private investments

What are the "burning issues"?

- Negative capture and TIF "bail-outs" (Kansas City, P&L TIF), "strategic defaults" (Troy, MI) and "blank cheques" (Queensgate/WestEnd, Cincinnati, OH)
- General fund budget shortfalls and TIF "war chests"
  - Chicago's 151 TIFs had accumulated balances of $1.7 billion in property taxes; 20% of total budget)
  - TIF sunset clauses often rolled over ("Zombie TIFs")
- New GASB Standard for reporting of "tax-based economic development subsidies" via "Comprehensive Annual Financial Reports" (including TIFs and other local tax expenditures)
  - GASB Statement No. 77 "**Tax Abatement Disclosures**" (Dec 2015)

Table 3: **Estimating the activities of TIF authorities in Michigan**

Source	*Type**	*BRA*	*CIA*	*DDA*	*LDFA*	*MI RR*	*NIA*	*TIFA*	*WIRD*	*Total*
CRCM (2007)	A	261	–	–	–	–	–	–	–	261
	M	–	–	370	98	–	–	87	–	555
MI Tax Commission (2012)	A	–	–	361	66	–	–	57	–	484
	D	–	–	441	87	–	–	88	–	616
Authority Districts in MI		–	–	417	–	–	4	139	–	560
Authority summary†	M	215	–	416	103	–	–	–	–	734
	MT	12	–	110	13	–	–	–	–	135
Reese (2014)	C	132	4	203	–	–	–	91	–	430
MI TIF Working Group (2014)	M	500	30	380	110	1	–	95	3	1,119

Notes: BRA: Brownfield Redevelopment Authority; CIA: Corridor Improvement Authority; DDA: Downtown Development Authority; LDFA: Local Development Financing Authority; NIA: Neighborhood Improvement Authority; TIFA: Tax Increment Finance Authority; WIRD: Water Resource Improvement District. * "A": authorities; "D": authority districts; "C": cities with TIF districts; "M": municipalities with authorities; "MT": municipalities with TIF districts (see text for more details). † Summary of BRAs (2011), DDAs (2011), LDFAs (2014).

Source: Bieri and Kayanan (2014)

Assessing HB-5856

- Sweeping one-sided changes to only one type of TIF-enabled entity (DDAs)
  - Partial reform makes regulatory arbitrage very likely
- No regulatory cost-benefit assessment possible due to lack of data
- Only minimal changes to address lack of transparency and accountability
- Increased reporting burden, instead of standardization of state-wide financial reporting (no GASB compliance).

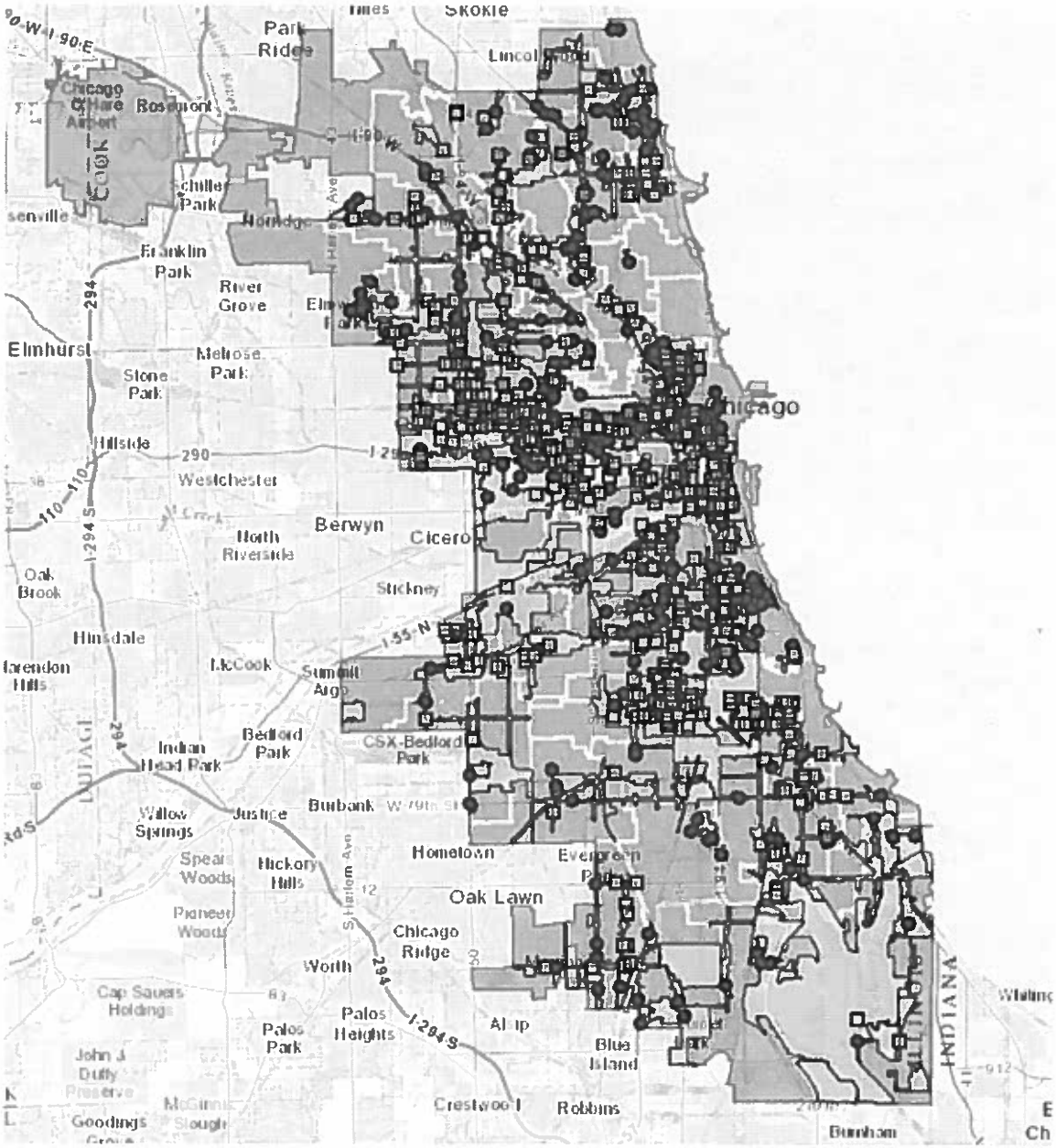
Recommendations for TIF reform

1. Better **monitoring**
   - Smarter regulation (not more, but better, "lean" regulation; consolidate TIFA to 2 types max.)
   - Simple metrics for benchmarking TIF performance (evidence-based public policy).

2. Improved **accountability**
   - Smarter and more regular reporting (open data)
   - New GASB Statement 77 on "Tax Abatement Disclosures" as opportunity

3. Strengthened **oversight** with more consistent enforcement
   - Internal body with well-defined accountability for all aspects of TIFs (e.g. Treasury)

TIF projects in Chicago



Source: City of Chicago Data Portal -- https://data.cityofchicago.org/