

Win-Win-Win: Rethinking Tax Increment Financing

DDA, BRA, CIA, TIF. . . The financing tools available to villages, cities and townships – intended to foster redevelopment – can look like alphabet soup. All of these are authorities defined by Michigan law. Authorities capture tax increment created by new property investment or appreciation. This is called tax increment financing (TIF) and the captured funds can be used to undertake projects identified in the Tax Increment Financing Plan.

How does a TIF work? First, a base year is established and any new taxes paid above the base value on a property goes to the authority for pre-declared purposes for a specified period of time, often 20 years. An authority captures new property taxes, which would have otherwise been paid to the governing municipality and other entities such as the library system, public transportation, community college and the county government. This money is used instead for public improvements within the defined district. The taxing jurisdictions are foregoing any increases in taxes that are the result of the improvements to the properties within the district, but an authority, like a downtown development authority (DDA) or a corridor improvement authority (CIA) will have more funds

to spur new investment that otherwise may not be feasible over the term of the plan.

The creation and maintenance of any TIF is not without controversy.

The additional revenue comes from other taxing entities—this is no small thing, particularly these days. Authorities that contain many parcels have the potential to keep new revenue from going to the budgets of other entities. These taxing jurisdictions are correct to wonder if the loss in future funding is resulting in a net gain overall. Would new development in the downtown or corridor occur whether improvements were made in the TIF District or not?

For communities who already have a DDA (or other authority) the authority's scope may come into question when the authority sunsets and wishes to renew. If the authority already has agreements with other governmental entities (taxing jurisdictions), the new terms will need to be negotiated. Likewise, if there is any desire to change the boundaries of the district, the question of opting out will be on the table. Opting out simply means the other taxing jurisdictions review the terms proposed by the authority and can decide to participate or not. Participating means they believe their “investment” will bear

future fruit. Not participating means they will receive their taxes as they normally do, and their non-participation may jeopardize the economics of a future development and could result in a missed opportunity for the community.

The Case of the Village of Okemos

A number of properties in the Village of Okemos in Meridian Township (Ingham County) are vacant and deteriorating. What's more, some of the properties have underground contamination issues that are area-wide and very expensive to clean up. While some state funding is available for cleanup, actual redevelopment of the properties will take additional monies not available from traditional private sources. Without an alternative financial tool, redevelopment in the Village of Okemos cannot happen.

CIB Planning, working with Advanced Redevelopment Solutions and the Meridian Township DDA, went to work developing a financing tool to fund this “gap”. This involved updating the Township's DDA and Tax Increment Financing (TIF) Plan.

First, the DDA district needed to be well defined; in this case, it remained the same



Downtown Okemos



DDA plans for downtown Okemos

size; 99 parcels are included. (If a district is too big, it can be difficult to obtain approvals from other jurisdictions and it is more difficult to measure success.)

Second, the list of projects included in the DDA Plan needed to be practical and targeted to specific development projects with related incentives.

Third, creating a new TIF plan that all of the taxing jurisdictions would embrace was critical. The Meridian DDA had a 20-year TIF plan created in 2006. In 2006, all taxing jurisdictions had opted out with the exception of the township and the county, which had capped the total dollars it would allow to be collected. This time, township officials, including Economic Development Director, Chris Buck, and the consulting team of CIB Planning and Advanced Redevelopment Solutions spent a considerable amount of time meeting with officials from the various taxing jurisdictions. The Capital Area Transit Authority (CATA) quickly opted in, citing the new robust plan and clearly defined vision being taken by Meridian Township was an inspired one. In the end, all but one of the taxing entities opted in including CATA, Ingham County, Lansing Community College and the Capital Regional Airport Authority (CRAA).

What changed?

The new DDA Plan has a sunset of 20 years, meaning that after 20 years, all of the taxing jurisdictions will receive the full tax benefit from the newly developed properties. In addition, Meridian Township promised an additional 2.14% per year tax increment increase to their base year payment if development projects occurred. What does this really mean?

For example, the base year gives a taxing jurisdiction \$10,000 in tax revenue. In a typical TIF, the taxing jurisdiction will continue to receive \$10,000 per year for the 20-year duration. Any increases in tax value through appreciation or improvement will go to the TIF (DDA or CIA) to use for eligible projects.

If the TIF works as intended, the money used for 20 years has bolstered the district, the area has experienced redevelopment, and land values have greatly increased. When the TIF sunsets, the taxing jurisdictions begin receiving those previously captured revenues, which can be a huge windfall.

In Meridian Township's case, the township made an even better guarantee: if development occurs within the district, the taxing jurisdictions won't have to wait 20 years. As soon as a development project is completed, the taxing jurisdictions will receive an additional 2.14% compounded annually tax revenue increase.

Given this scenario, instead of a flat \$10,000 per year, a

BID'S, PSD'S, AND BIZ'S

The article on Okemos discusses how authorities work. Another tool available to local units of government are special assessment districts.

Special assessment districts can be created by a legislative body if a particular improvement will only benefit a particular neighborhood or area. For example, a neighborhood desires to have a road paved. Rather than have the cost for improvement paid by revenue from all taxpayers regardless of where they live, the legislative body may designate a special assessment defined by those properties that abut the road. The process for creating a special assessment is designated by ordinance and involves the legislative body and staff to determine the overall project costs, how the assessment will be defined and how long the assessment will last. Look for detailed links to Special Assessment Districts in the upcoming *Michigan Planner E-Dition*. Special assessment districts are more straightforward than tax increment financing as they tax those who presumably will be enjoying the improvements the most.

In addition to the special assessment process outlined above, the State of Michigan defines particular types of districts zones for economic redevelopment purposes.

BUSINESS IMPROVEMENT DISTRICTS (BID'S).

One or more cities can form a BID through a resolution. An urban design plan is required first. BID's provide a solution for maintenance and improvement along state and county trunklines.

PRINCIPAL SHOPPING DISTRICT'S (PSD'S).

A Principal Shopping District must have at least 10 businesses within it. Sometimes a community will create a DDA and a PSD with the same boundaries. This provides the downtown shopping district with the flexibility to finance projects through tax increment financing and/or special assessments.

BUSINESS IMPROVEMENT ZONES (BIZ'S).

A Business Improvement Zone is created by a petition drive of at least 30% of the property owners within an area. A group of business/property owners petition the clerk to create the boundaries of the proposed zone.

BID's, PSD's and BIZ's have the ability to create assessments and apply for grants. Projects in BID's and PSD's can also be funded through bonds. Check out the May issue of the *Michigan Planner E-Dition* for links to additional details on these financial tools.

taxing jurisdiction could be receiving about \$14,000 by year 20 if development occurs early on.

A significant development project would increase the taxable value well above this amount, yielding millions of dollars for the DDA to use for eligible activities.

The parcels within the DDA District averaged 2.14% appreciation for the past 20 years. The taxing jurisdictions get a secured increase that's "normal" from their financial perspective, but it also provides funding to assist in the downtown's redevelopment. Once the TIF plan expires in 20 years, the revenue to the taxing jurisdiction will skyrocket, and the region receives vibrancy and renewed infrastructure where they is currently blight. It's a true win-win-win, which is why Meridian Township received such overwhelming support.

The Meridian Township Board adopted the DDA/TIF Plan in December 2018.

In addition to necessary utility upgrades and right-of-way improvements to be completed within the DDA, the plan also allows funds to be rebated back to development projects to help close the funding shortfall.

This rebate program, currently being developed by the DDA Board, will include an application review process with evaluation criteria. The criteria will rank private sector redevelopment projects on a point system based upon how well the projects meet the downtown plan's criteria. Projects that rank higher due to location or the project's quality will be entitled to greater rebates. Developers are financing their own projects through banks or investors, but the rebate from the township can fill a lending gap, which will make projects financially feasible.

Given the weak retail market, it can be extremely difficult to make downtown redevelopment happen. It takes determination, persistence and an unwavering commitment to reach the goal of redevelopment. The role of government is to provide the vision and the tools to allow private developers to work. Local leaders must stick to the vision for their downtown. If a developer balks at design standards, local leaders should not buckle, but should have some creative financing tools available to provide the stopgap in funding. With a vision and financial tools, projects can be built that everyone will be proud of well into the future.

Chris Buck is the first ever Economic Development Director for Meridian Township. He has been in the role for just under two years after 20 years (and four states) in Corporate America. He's thrilled to work for a great community that's clamoring for vibrancy. Chris lives with his wife and two sons in Okemos Michigan.



Carmine Avantini, AICP is president of CIB Planning. He specializes in community planning, zoning, public involvement, economic development, downtown planning, small town development, site redevelopment, and project implementation. He works with a wide range of municipalities to find creative solutions to challenging development issues and sees them through to implementation.



NEW MAP WORKSHOP BRINGS HEALTH INTO FOCUS

Thanks to recent grants from the Michigan Department of Health and Human Services, MAP has created a training workshop and checklist aimed at helping communities incorporate health considerations into their master plans and municipal policies.

The 2-hour "Planning for Health" workshop highlights the ways in which the built environment and land use affect personal and community health outcomes by highlighting their connections to active living, emergency preparedness, environmental health, nutritious food, social cohesion and mental health.

The workshop is designed to include presentations from local health professionals on specific local health concerns. In a recent workshop in Oakland County, the county health officer conveyed the startling statistic that 21 year life expectancy gap exists between residents of one community and those of another. The differences were presented on a county map so participants could see the geographic imbalance.

To support implementation of a "health in all policies" approach to local decision making, MAP developed a comprehensive Planning for Health checklist that a community can use to assess how health is or is not incorporated in plans and policies. This checklist can be incorporated into your 5-year master plan review to determine what parts of the plan should be updated. It is provided, along with other resources, as part of the workshop training materials.

To schedule a Planning for Health workshop in your community, contact Amy Vansen, Director of Information and Programs, at avansen@planningmi.org.