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TO: COUNCIL MEMBERS

FROM: David Whitaker, Director 
Legislative Policy Division Staff

DATE: March 25, 2024

RE: **Detroit Downtown Development Authority (DDA) Report**

In a memorandum to the Legislative Policy Division (LPD), Council President Mary Sheffield made the following observation:

“Detroit has several public authorities that operate alongside, and sometimes, in place of the City of Detroit Government. One such authority is the Downtown Development Authority, which many Detroiters are unaware of its purpose and function. Originally established in 1975 to spur development in the greater downtown area, the question is whether the DDA has achieved its original purpose and is still needed.”

Based on this observation, Council President Sheffield requested that LPD provide a report to Council to provide details on the following:

- History of the Authority
- Historical context of its founding
- Organizational structure and duties
- Funding sources
- Annual budget
- The process to bring DDA activities under City of Detroit Control
- The process for dissolution of the DDA

This report is our response to this inquiry. In addition, to address Council President Sheffield’s question “whether the DDA has achieved its original purpose and is still needed”, LPD hired the Citizens Research

Council of Michigan (CRC) to provide an independent and unbiased expert analysis to address this question.¹ A summary of the CRC's findings is located toward the end of this report.

DDA History and Context of its Founding

In 1976, Detroit's Downtown Development Authority was created under the authorization of the Michigan Downtown Development Authority Act, Public Act 197 of 1975, which was repealed in 2018, but recodified² under Michigan Public Act 57 of 2018.³ Detroit's mayor at the time, Mayor Coleman A. Young, urged the Michigan Legislature to create an Act that would assist cities to restore downtown areas. Pursuant to the provisions of the DDA Act, upon the recommendation by Mayor Young, on May 20, 1976, the Detroit City Council adopted Ordinance #19-H, Chapter 2, Article 7 of the Detroit City Code, which created the City of Detroit Downtown Development Authority. Specifically, it was found by the Council in Section 2-2.12:

"In recognition of the fact it is in the best interest of the public to halt property value deterioration in the downtown business district, to eliminate the causes of such deterioration, and to promote economic growth in the downtown business district, a downtown development authority is hereby established pursuant to Act No. 197 of the Public Acts of 1975, to be known as the City of Detroit Downtown Development Authority."

This action established the DDA as an entity with an ability to issue bonds for the purpose of initiating private development in Detroit's Downtown area. In addition, the DDA was also established as a "Authority," with the ability to establish a "Downtown district," or a TIF⁴ district, of which the DDA would be authorized to capture the incremental taxes above the baseline property taxes to pay off the debt of bonds.

The DDA's Downtown TIF District was established to provide subsidies that are funded by the increase in property tax within the designated TIF district due to the economic activity generated by the developments in said district. These TIF collections are used to finance bonds⁵ that lead to proceeds that are made available for economic development projects to catalyze development in Detroit's downtown.

Organizational Structure and Duties

Pursuant to the Act, the Mayor appoints the charter board of the DDA, and the current Mayor serves as the chairman of the board of directors for the Authority. The DDA provides for a variety of funding options including a 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.

¹ LPD felt the Citizens Research Council of Michigan (CRC), a Michigan-based organization with many years of experience looking at property tax, tax increment financing, and tax incentive policies, was the best candidate to provide an independent analysis of the DDA and Detroit's economic condition. In February 2024, the CRC published a report entitled "An Assessment of Detroit's Economic Condition and A Critique of Its Economic Development Efforts". This CRC Report is phase one of the CRC contract, and it addresses Council President Sheffield's question of whether there is a continuing need of the DDA and provides an assessment of the City of Detroit's economic condition and economic development efforts. In addition, LPD received a request from Council Member Angela Whitfield Calloway to provide a report regarding the reform of the current tax abatement structure in the City of Detroit. More specifically, Council Member Calloway requested LPD to 1) perform an assessment of the current structure; 2) provide best practices and comparative analysis; and 3) provide policy recommendations. CRC's second phase of its contract will address Council Member Calloway's questions previously mentioned. CRC's phase two report is due to be provided by June 30, 2024.

² **Recodify** The process of reorganizing or restructuring a set of rules or laws.

³ RECODIFIED TAX INCREMENT FINANCING ACT (MCL 125.4101 - 125.4915) AN ACT to provide for the recodification and establishment of certain tax increment finance authorities.

⁴ Tax increment financing (TIF) is authorized by state statute and in Michigan it allows municipalities to promote economic development of designated areas and/or property types through the incremental growth of property taxes.

⁵ The issuance of the DDA bonds are based on the anticipated increase in tax revenue, or tax increment property tax revenue.

Once established, the DDA is required to prepare a tax increment financing plan and may create a development 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. The duties of a DDA include carrying out the following objectives for the best interests of the public in 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.**⁶

Funding Sources and Annual Budget

The DDA is authorized to fund its activities by an ad valorem tax of one mill on real and tangible personal property not exempt by law in the downtown development district and the issuance of negotiable revenue and tax increment obligations to the finance the development activities in the DDA. The operating budget for the DDA from the Downtown Development Authority's June 2023 and 2022 Financial Statements⁷ is reflected in the chart below. Also attached, please find the DDA 2023-24 operating budget.

CITY OF DETROIT DOWNTOWN DEVELOPMENT AUTHORITY

SCHEDULES OF REVENUE AND EXPENDITURES — BUDGET AND ACTUAL — GENERAL FUND (UNAUDITED)

For the Years Ended June 30, 2023 and 2022

	2023				2022			
	Original Budget	Final Budget	Actual	Positive (Negative) Variance with Final Budget	Original Budget	Final Budget	Actual (Restated)	Positive (Negative) Variance with Final Budget
Revenue:								
Property taxes	\$ 1,050,000	\$ 1,050,000	\$ 1,362,554	\$ 312,554	\$ 1,050,000	\$ 1,050,000	\$ 1,238,491	\$ 188,491
Other revenue	840,000	840,000	1,250,278	410,278	840,000	840,000	1,060,550	220,550
Total Revenue	1,890,000	1,890,000	2,612,832	722,832	1,890,000	1,890,000	2,299,041	409,041
Expenditures:								
Current:								
Administrative and operating expenses	2,250,000	2,250,000	1,955,527	294,473	2,250,000	2,250,000	1,978,397	271,603
Professional fees	740,000	740,000	501,811	238,189	740,000	740,000	518,933	221,067
Total Expenditures	2,990,000	2,990,000	2,457,338	532,662	2,990,000	2,990,000	2,497,330	492,670
Excess (Deficiency) of Revenue over Expenditures	(1,100,000)	(1,100,000)	155,494	1,255,494	(1,100,000)	(1,100,000)	(198,289)	901,711
Other Financing Sources:								
Interfund transfers	750,000	750,000	742,627	(7,373)	750,000	750,000	750,000	-0-
Change in Fund Balance	\$ (350,000)	\$ (350,000)	\$ 898,121	\$ 1,248,121	\$ (350,000)	\$ (350,000)	\$ 551,711	\$ 901,711

DDA's total income statement for all of its funds as of June 30, 2023, is reflected in the chart below:

⁶ [downtowndevelopmentauthority.pdf \(michiganbusiness.org\)](#)

⁷ [Microsoft Word - dda-23-signed-fs \(degc.org\)](#)

CITY OF DETROIT DOWNTOWN DEVELOPMENT AUTHORITY

**STATEMENTS OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES —
GOVERNMENTAL FUNDS**

For the Year Ended June 30, 2023
(With Comparative Totals for the Years Ended June 30, 2022)

	2023				Total All Funds	
	General Fund	Special Revenue Fund	Debt Service Funds		2023	2022
			Stadium Fund	Other		
Revenue:						
Property taxes (Note D)	\$ 1,362,554	\$ 58,724,233	\$ -0-	\$ 4,410,795	\$ 64,497,582	\$ 53,308,547
Other revenue (Note F)	1,250,278	3,986,156	1,931,654		7,168,088	2,725,851
Total Revenue	2,612,832	62,710,389	1,931,654	4,410,795	71,665,670	56,034,398
Expenditures:						
Current:						
Project costs		6,783,129			6,783,129	4,622,473
Administrative and operating expenses (Note A)	1,955,527	787,193	308,163		3,050,883	3,192,954
Interest expense		4,240,429	14,079,742		18,320,171	18,704,279
Professional fees	501,811				501,811	518,933
Debt service (Note H)			4,549,008	4,410,795	8,959,803	8,758,445
Capital outlay (Note E)		7,373			7,373	1,972,431
Total Expenditures	2,457,338	11,818,124	18,936,913	4,410,795	37,623,170	37,769,515
Excess (Deficiency) of Revenue over Expenditures	155,494	50,892,265	(17,005,259)	-0-	34,042,500	18,264,883
Other Financing Sources (Uses):						
Issuance of bond proceeds (Note H)					-0-	7,000,000
Interfund transfers	742,627	(31,667,360)	30,924,733		-0-	-0-
Change in Fund Balances	898,121	19,224,905	13,919,474	-0-	34,042,500	25,264,883
Fund Balances, Beginning of Year	7,379,419	90,227,629	57,397,322	-0-	155,004,370	129,739,487
Fund Balances, End of Year	\$ 8,277,540	\$ 109,452,534	\$ 71,316,796	\$ -0-	\$ 189,046,870	\$ 155,004,370

See notes to financial statements.

The chart above shows that as June 30, 2023, the DDA received a total of \$71.7 million in revenue from the following sources:

- \$ 1.36 million in property taxes from its ad valorem tax of one mill on real and tangible personal property not exempt by law
- \$63.13 million from property tax increment revenue
- \$ 7.17 million in other revenue, primarily from parking operations revenue and lease revenue (rental income and interest income).
- \$71.66 million in total DDA revenue

DDA's total revenue in FY 2023 covered administrative expenses, project costs, professional fees, and debt service (principal and interest payments) on DDA bonds.

As of June 30, 2023, the DDA had \$571.1 million (\$319.4 million principal and \$251.7 million interest) in outstanding DDA bonds.⁸ Proceeds from the DDA bonds were used primarily for the construction of the Little Caesars Arena located in downtown Detroit. The debt service on these bonds is paid from the annual property tax increment revenue received by the DDA from Development Area No. 1 within the downtown business district. The DDA bonds are scheduled to be totally paid off in 2053.⁹

The process to bring DDA activities under City of Detroit Control and Dissolution of the Authority

The process to bring the DDA under City of Detroit control would require the dissolution of the Authority. Under the Act, Section 230 (1) An authority that has completed the purposes for which it was organized shall be dissolved by ordinance of the governing body. The property and assets of the authority remaining after the satisfaction of the obligations of the authority belong to the municipality.¹⁰ Before the City Council could dissolve the DDA, a determination would need to be made that the DDA had both completed its purpose and had satisfied its obligations. Regarding the satisfaction of the obligations of the authority, this is negated by the fact that the DDA anticipates needing more than \$571 million to finance bonds pledged against tax capture. This suggests that the DDA could not cease operations until at least 2053 at the earliest.

Council President Sheffield's question, "whether the DDA has achieved its original purpose and is still needed"

As denoted in footnote 1 of this report, the Citizens Research Council of Michigan (CRC) published a report in February 2024 entitled "An Assessment of Detroit's Economic Condition and A Critique of Its Economic Development Efforts", which provides an independent analysis in addressing Council President Sheffield's question of whether the DDA has achieved its original purpose and is still needed.

A summary of CRC's findings from this report is as follows:

- Detroit's economy has improved substantially since it filed for bankruptcy a decade ago, yet the city still has serious socioeconomic problems that, when combined with high property tax rates, make it hard to attract and retain businesses.
- The property tax rate is one of the handful of costs to do business that the city controls, and to reduce that cost and subsidize what may otherwise be unprofitable investments the city offers tax business attraction incentives—tax abatement and improvements funded through tax increment financing.
- After nearly 50 years of granting tax abatements and using tax increment financing to provide improvements in the downtown areas, it could be hoped that conditions in the city would have improved sufficiently so that their use would no longer be necessary.
- A cursory analysis of the cost of locating in the city and the revenues businesses can expect to yield reveals that a gap continues to exist stacking the deck against the city for business attractions. Detroit can ill afford to cease the use of tax abatements until the gap between costs developers face and return on investment is closed.
- The city has multiple reasons to end the Downtown Development Authority and resume the distribution of the collected property tax revenue to the taxing jurisdiction. All of those reasons are negated by the fact that the DDA anticipates needing more than \$571 million to finance bonds

⁸ DDA annual financial statements as of June 30, 2023.

⁹ Ibid.

¹⁰ Act 57 of 2018 MCL 125.4230 [Michigan Legislature - Section 125.4230](#)

pledged against tax capture. This suggests that the DDA could not cease operations until at least 2053 at the earliest.

Please contact us if we can be of any further assistance.

Attachment: **DDA 2023-24 Budget**

EXHIBIT A

**DOWNTOWN DEVELOPMENT AUTHORITY
BUDGET
2023-2024**

	2023-24 BUDGET
REVENUES:	
Current taxes - one mil	\$ 1,200,000
Earnings on investments	200,000
Transfer from Tax Increment Fund	750,000
Parking Operations	825,000
Other	15,000
From/(To) prior year balance	<u>0</u>
TOTAL REVENUES	<u>\$ 2,990,000</u>
EXPENSES:	
Contractual Services	
Detroit Economic Growth Corp	\$ 2,000,000
Annual Audit	<u>40,000</u>
Sub-Total	\$ 2,040,000
Professional Service Fees	
Legal Services	\$ 200,000
Insurance	325,000
Advertising/Marketing	15,000
Computer Support	<u>10,000</u>
Sub-Total	\$ 550,000
Parking Lots Management	\$ -
Special Projects & Contingencies	<u>\$ 400,000</u>
TOTAL EXPENSES	<u>\$ 2,990,000</u>