DETROIT PUBLIC LIBRARY

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Taxing Increment Financing (TIF) and Its Impact on the Detroit Public Library Through Tax Captures

What is Tax Increment Financing (TIF)?

The National Housing Conference defines tax increment financing (TIF) as a "tool used by municipal governments to stimulate economic development in a targeted geographical area. TIFs are used to finance redevelopment projects or other investments using the anticipation of future tax revenue resulting from new development. When a TIF district is established, the "base" amount of property tax revenue is recorded using the status quo before improvements. To the extent such efforts are successful, property values rise, leading to an increase in actual property tax receipts above the base. While the base amount of property tax revenue (the level before redevelopment investments) continues to fund city services, the increase in tax revenue is used to pay bonds and reimburse investors and is often captured as city revenue and allocated toward other projects."

Michigan State tax increment financing laws allow Detroit's City government to **"capture"** portions of dedicated millage revenues and use those funds for economic development projects. Michigan has several tax increment financing authorities (TIFA) authorized to use TIF financing. One authority in the City of Detroit is the Detroit Downtown Development Authority (DDA). This authority may **capture** property taxes in its district based on the increased value of properties. For example, an initial assessed taxable value on a property is $1 million. Improvements are made to the property and the next year, the assessed taxable value on the property increases to $1.25 million. The increase in the property's value generates an increase of $250,000 in the property tax. As the property value increases, more property tax is generated. The DDA is allowed to capture any additional property tax increases for the remaining years of the tax capture agreement. Yet, the Library will only receive the property tax based on the initial taxable value of $1 million annually for the remaining years of the tax capture agreement.

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The Impact of Tax Captures

Over the past 22 years, the Detroit Public Library's share of tax captured millage revenue for economic development projects, in the City of Detroit, totals **$48,501,433**. Currently, approximately 89% of the Library's revenue is derived from its dedicated millage of 4.63 mills. DPL has a .63 mill in perpetuity. The ballot language for the Library's 2014 millage renewal (Proposal L) read as follows:

> "Shall the tax limitation on taxable property for operating and maintaining the Detroit Public Libraries, be renewed for up to 3.9943 mills ($3.9943 on each $1,000.00 of taxable value) for 10 years (July 1, 2015 to June 30, 2025). This renewal combines two millages that voters approved on November 2, 2004, which expire June 30, 2015. 3.9943 mills will raise estimated revenue of $37,700,000 the first year, if approved, levied, and 100% collected. Of this, **5% may be captured by the tax increment authorities under the Detroit Economic Growth Corporation, as required by state law."**

Since 2017, the amount of captured millage revenue has annually exceeded the voter approved 5% cap. A memo dated February 9, 2018, was sent to the Honorable City Council of Detroit from the City of Detroit's deputy corporation counsel. It stated that "the 5% reference was presented in an information matter, rather than as a substantive part of the proposal and certainly not as a legally binding cap" and therefore "has no legal effect on the TIF captures."

It bears noting that in June, 2013, Lt. Governor Brian Calley signed a series of bills that allow the Detroit Zoo and the Detroit Institute of Arts to receive 100 percent of millages funding those institutions. Indeed, after signing the bills, Lt. Governor Calley stated that "voters approved millages to support these cultural icons, and these bills guarantee that the voice of the voters in southeast Michigan is not only heard, but followed." (Official website of Michigan.gov, June 18, 2013)

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Capital Improvements

Since 2015, the Library has had to use operational reserved dollars to fund much needed capital improvements. On February 24, 2009, the voters of Detroit approved Proposal C, a general obligation bond proposal, for the City of Detroit Museums, **Libraries** and other cultural institutions.

> **Proposal C**
> It would: Pay for the acquisition, construction, renovation or rehabilitation of city museums, libraries, recreation and other cultural institutions.
>
> **Cost:** $97 million ($34.66 per year on a home with a taxable Value of $100,000).

A memo dated October 22, 2018, was sent from David Whitaker, Director of the City of Detroit's City Council Legislative Policy Division, to the Detroit City Council members. The memo provided information from the Office of the Chief Financial Officer pertaining to issuing up to $255 million in Unlimited Tax General Obligation bonds (UTGO). Unlimited tax general obligation bonds are voter-authorized bonds paid off by property taxes, based on the City of Detroit's property tax debt millage. The bonds would finance capital projects and make investments that help improve the quality of life for Detroiters and spur the City's economic growth. The memorandum included recommended capital projects that fell within already approved 2004 and 2009 voter bond authorizations. No capital projects were recommended for the Detroit Public Library.

A Wall Street Journal (WSJ) article dated Wednesday, December 5, 2018 entitled "Detroit Bonds Get A Warm Welcome" by Gunjan Banerji, noted that on December 4, 2018, the city issued several stand-alone general obligation bonds. The city sold more than $130 million in debt. (WSJ -12/5/2018- pp. B1 & B15)

There are two additional documents dated March 1, 2021 included with this memo. The first document, lists the amounts of property tax revenues, tax captures, capital expenditures, as well as the amount of fund balance used for capital improvements (FY2015-FY2020). The second document lists the estimated property tax revenues, estimated tax captures, and the estimated capital expenditures for FY2022-FY2023.

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The FY2024 property tax revenues forecast for the Library is estimated to be **$29,337,680**. The estimated amount to be **captured** in FY2024 is approximately 11.76% at **$3,450,123** versus the voter approved amount of 5% being **$1,466,884**. The FY2025 property tax revenues forecast for the Library is estimated to be **$29,895,096**. The estimated amount to be **captured** in FY 2025 is approximately 11.76% at **$3,515,676** versus the voter approved amount of 5% being **$1,494,755.**