CITY COUNCIL AGENDA ITEM

Date: April 29, 2014

To: Brian Kischnick, City Manager

From: Mark F. Miller, Director of Economic and Community Development
Thomas Darling, Director of Financial Services

Subject: Approval of the Troy Downtown Development Authority's Proposed Fiscal Year 2014/15 Budget ***(Introduced by: Mark F. Miller, Director of Economic & Community Development)***

The Downtown Development Authority (DDA) approved their proposed 2014/15 budget at the April 16, 2014 DDA meeting.

The City-captured tax rate of 10.5 mills, Oakland County 4.65 mills and Oakland County Community College. 1.58 mills was used in determining the DDA property tax revenue, based on a captured taxable value of $71,665,210 in fiscal year 2014/15.

The DDA's proposed fiscal year 2014/15 budget is hereby submitted to City Council for their approval.

Downtown Development Authority

County of Oakland, State of Michigan

2014/15 through 2016/17 Budget

Introduction

In order to prevent further deterioration and to encourage economic development of the Downtown District, the City of Troy established the Downtown Development Authority of the City of Troy (the TDDA) pursuant to Act 197 of 1975 (Act 197) and an ordinance adopted by the City Council of the City of Troy on July 12, 1993 and amended on September 28, 1998, February 7, 2000, August 5, 2002, December 16, 2002, June 4, 2007 and October 7, 2013.

The TDDA in it's first six Tax Increment Financing and Development Plans identified specific sources of funding to finance the implementation of a plan for physical improvements to the Downtown District identified in this plan as the Development Area.

The purpose of the Tax Increment Financing and Development Plans are to provide for the construction and financing of the necessary streets, sidewalks, street lighting, landscaping, parking garage and other facilities, Kmart and Civic Center projects, widening of Rochester and Big Beaver roads to improve traffic flow; provide and expand existing public facilities on the civic center site to serve the needs of the TDDA businesses and the citizens of the City of Troy; to fund improvements contained in the Big Beaver Corridor Study and to carry out the objectives of the TDDA so as to prevent the further deterioration of the Downtown Development Area while preserving and promoting economic growth for the benefit of all taxing units located within and benefited by the Troy Downtown Development Authority.

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Introduction

The TDDA issued three separate bond issues in 2001, 2002 and 2003. The bonds were "naked tax increment bonds" secured solely by the tax increment revenues to be derived from the properties in the Downtown District. This is rare in Michigan and was based on the then perceived strength of the Downtown District's taxable values and the ability of properties in the Downtown District to generate sufficient tax increment revenues to pay the debt service on the bonds. While the City has a AAA rating, its full faith and credit was not utilized or pledged for these three bond issues.

The initial value of the district in 1993 was $439,230,530. At the height of the aggregate value for the TDDA, the value peaked at $700,929,970 and captured value was $271,014,440. In comparison, the projected value for 2014/2015 is $380,857,480 and the captured value is $71,665,210. The reduction in the separation between the base year value and current taxable value created a revenue stream reduction trending toward elimination. This created a situation in which the TDDA would not be able to service the three bond issues and default was imminent.

On October 7, 2013, a new Tax Increment Financing and Development Plan was approved. The revised Plan eliminated properties that were a negative draw on the aggregate value of the TDDA. The Plan authorized three functions: debt service, maintenance costs and administrative fees. In addition, the TDDA and Plan were extended to 2033. Finally, the City of Troy issued bonds backed by the full faith and credit of the City, including it's AAA bond rating to pay off the three TDDA bond series. In conclusion, this budget demonstrates that the revision of the Plan provides for sufficient revenue to service the City of Troy bonds and thereby eliminates the threat of default of the TDDA bonds.

Downtown Development Authority

County of Oakland, State of Michigan

2014/15 through 2016/17 Budget

	2013 Actual	2014 Estimated	2014 Budget	2015 Budget	2016 Budget	2017 Budget
REVENUE						
Property Taxes	$ 320,854	$ 216,067	$ 216,040	$ 1,199,000	$ 1,136,100	$ 1,153,300
City Contribution		-	120,200	-		
Interest Income	3,823	300	6,000	-	-	-
Total Revenues	**324,677**	**216,367**	**342,240**	**1,199,000**	**1,136,100**	**1,153,300**
EXPENDITURES						
Administrative Expenses	-	-	-	-	-	-
Audit Fees	3,070	3,070	3,070	3,070	3,070	3,070
Tax Tribunals	397,754	80,000	106,193	100,000	100,000	100,000
Street Island Maintenance	60,872	131,798	-	136,367	81,267	107,567
Debt Service-Prior Issues	3,267,357	-	3,262,870	-	-	-
Debt Service-Series 2013	-	411,721	-	958,563	950,763	941,663
Other expenditures	1,152	1,500	-	1,000	1,000	1,000
TOTAL - EXPENDITURES	**3,730,205**	**628,089**	**3,372,133**	**1,199,000**	**1,136,100**	**1,153,300**
Change Before Other Financing	**(3,405,528)**	**(411,722)**	**(3,029,893)**	**-**	**-**	**-**
OTHER FINANCING SOURCES (USES)						
Bond Proceeds from General Fund		15,438,088	-	-	-	-
Payments to Escrow Agent	-	(17,866,244)	-	-	-	-
Total Financing Sources (Uses)	**-**	**(2,428,156)**	**-**	**-**	**-**	**-**
SURPLUS (USE) OF FUND BALANCE	**(3,405,528)**	**(2,839,878)**	**(3,029,893)**	**-**	**-**	**-**
BEGINNING FUND BALANCE	6,245,406	2,839,878	3,029,893	-	-	-
ENDING FUND BALANCE	**$ 2,839,878**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**

Captured Taxable Value

	2014/15 Taxable	2015/16 Taxable	2016/17 Taxable
Real Base Taxable Value (1993 initial/Revised 2013)	$ 244,924,440	$ 244,924,440	$ 244,924,440
Real Taxable Value	277,809,450	275,054,900	275,068,537
Real Captured Value	**32,885,010**	**30,130,460**	**30,144,097**
Personal Base Taxable Value (1193 initial/Revised 2013)	64,267,830	64,267,830	64,267,830
Personal Taxable Value	103,048,030	102,047,726	103,062,847
Personal Captured Value	**38,780,200**	**37,779,896**	**38,795,017**
Total Captured Value	**$ 71,665,210**	**$ 67,910,356**	**$ 68,939,114**

	Oakland County	Oakland Comm. College	City of Troy	Total
Millage Rates	4.65	1.58	10.5	16.73

Downtown Development Authority

County of Oakland, State of Michigan

Projected Tax Capture to Debt Schedule

	Revenues			Debt Service - Series 2013			
Year	Total Taxable Value	Captured Taxable Value	Captured Tax Revenues (16.7305 mills)	Principal	Interest	Total Debt Service	Net
2014/2015	380,857,480	71,665,210	**1,198,995**	260,000	698,563	**958,563**	**240,432**
2015/2016	377,102,626	67,910,356	**1,136,174**	260,000	690,763	**950,763**	**185,411**
2016/2017	378,131,384	68,939,114	**1,153,386**	260,000	681,663	**941,663**	**211,723**
2017/2018	381,917,773	72,725,503	**1,216,734**	260,000	671,263	**931,263**	**285,471**
2018/2019	385,742,287	76,550,017	**1,280,720**	260,000	663,463	**923,463**	**357,257**
2019/2020 *	389,599,710	80,407,440	**1,345,257**	260,000	654,363	**914,363**	**430,894**
2020/20201	393,495,707	84,303,437	**1,410,439**	375,000	638,488	**1,013,488**	**396,951**
2021/2022	397,430,664	88,238,394	**1,476,272**	440,000	618,113	**1,058,113**	**418,159**
2022/2023	401,404,971	92,212,701	**1,542,765**	500,000	594,613	**1,094,613**	**448,152**
2023/2024	405,419,020	96,226,750	**1,609,922**	600,000	567,113	**1,167,113**	**442,809**
2024/2025 **	413,527,401	104,335,131	**1,745,579**	745,000	537,213	**1,282,213**	**463,366**
2025/2026	421,797,949	112,605,679	**1,883,949**	900,000	499,813	**1,399,813**	**484,136**
2026/2027	430,233,908	121,041,638	**2,025,087**	975,000	452,938	**1,427,938**	**597,149**
2027/2028	438,838,586	129,646,316	**2,169,048**	1,250,000	403,563	**1,653,563**	**515,485**
2028/2029	477,615,358	138,423,088	**2,315,887**	1,250,000	352,781	**1,602,781**	**713,106**
2029/2030	456,567,665	147,375,395	**2,465,664**	1,250,000	294,188	**1,544,188**	**921,476**
2030/2031	465,699,018	156,506,748	**2,618,436**	1,275,000	227,906	**1,502,906**	**1,115,530**
2031/2032	475,012,998	165,820,728	**2,774,264**	1,275,000	160,969	**1,435,969**	**1,338,295**
2032/2033	484,513,258	175,320,988	**2,933,208**	1,275,000	94,031	**1,369,031**	**1,564,177**
2033/2034	494,203,524	185,011,254	**3,095,331**	1,275,000	30,281	**1,305,281**	**1,790,050**

* = 1% Increase

** = 2% Increase

TAX INCREMENT PROCEDURE

Tax increment revenue to be transmitted to the TDDA is generated when the current taxable value of all properties within a development area exceeds the initial assessed value of the properties. The initial assessed value is defined in Act 197 as the assessed value of all taxable property within the boundaries of the development area at the time the ordinance establishing the tax increment financing plan is approved, as shown by the most recent assessment roll of the municipality for which equalization has been completed at the time the ordinance is adopted. The current assessed value refers to the assessed value of all properties, real and personal, within the development area as established each year subsequent to the adoption of the tax increment financing plan. The amount in any one year by which the current taxable value exceeds the initial assessed value, including real and personal property, is defined as the "captured taxable value". The tax increment revenue transmitted to the TDDA results from applying the total tax levy of taxing units within the development area to the captured taxable value.

Inreases in assessed values within a development area which result in the generation of tax increment revenues, can result from any of the following:

a. Construction of the new development occurring after the date establishing the "initial assessed value".

b. Construction of new rehabilitation, remodeling alterations, or additions accruing after the date establishing the "initial assessed value".

c. Increases in property values which occur for any other reason.

Tax increment revenues transmitted to the TDDA can be pledged for debt service on general obligation tax increment bonds issued by the municipality or tax increment revenue bonds issued by the TDDA.

If bonds are to be sold, the municipality may not pledge for annual debt service requirements in excess of 80% of the estimated tax increment revenue to be received from a development area for that year. In addition, the estimated annual debt service owed on bonds issued by the municipality may not exceed 80% of the estimated annual tax increment revenues. Should actual tax increment revenues fall below projections, any previously accumulated revenue would be devoted to retirement of the bonds. Any tax increment revenues collected in excess of the 80% measure described in Table 2 of the Development Plan will be used to pay current debt service on any bonds issued under the Plan. The bonds are subject to the Michigan Municipal Finance Act and may not mature in more than thirty years.

The TDDA may expend tax increment revenues only in accordance with the tax increment financing plan; surplus revenues revert proportionally to the prospective taxing jurisdictions. The tax increment financing plan may be modified upon approval of the governing body after notificaiton and hearings as required by Act 197. When the governing body finds that the purposes for which the plan was established have been accomplished, they may abolish the plan.