



To: The Mayor & City Council *PN*
From: Phil Nelson, City Manager
Subject: Downtown Development Authority Fiscal Impact
Date: August 17, 2007

Background:

- Over the past few weeks, several statements have been made concerning the Downtown Development Authority and its fiscal impact on the City's budget.
- As information, staff has prepared the attached chart for Council review and consideration. The chart indicates the potential impact of the Downtown Development Authority on budgets including the City of Troy, Oakland County, and Oakland Community College, all of which generate revenues for DDA projects and operations.
- Besides the fact that real and personal property tax increases are projected at a very conservative rate, the chart shows that over the next 11 years existence of the DDA, the authority will capture approximately \$47.3 million dollars in tax yield. (note: the Pavilions project is not included in the running totals)
- From that total, \$14.2 million and \$4.8 million (\$19 million cumulatively) will be captured from Oakland County and Oakland Community College tax increment values respectively.
- The most telling fact included in the chart is the fact that the residents and property owners of Troy commit approximately \$32.7 million in property tax revenues to Oakland County and Oakland Community College and get nothing back in the form of cash injection in projects or programs or added property value from the property taxes levied by the County and the College. Almost all of the property tax generated by Troy residents and business owners is used for every day operational costs of the various departments or other parts of the County or community college.
- As a means of getting at least some return on investment, the DDA, by capturing the County and college's tax increments, Troy taxpayers could get a 30% rate of return on their cumulative investment from the County and 10% from Oakland Community College.
- More succinctly, Troy residents and property owners get some rate of return on their investment in the two taxing agencies that wouldn't be received without the DDA.

Budget/Fiscal Impact Considerations:

- In 2005, the Council commissioned the Big Beaver Corridor Study. The Council, DDA and Planning Commission have adopted the key concepts of the study, and the Council has instructed staff to implement those concepts as quickly as is possible. Staff has estimated that the local share of “public” projects will cost in the neighborhood of \$30,000,000 over the development life of the project.
- Using the \$30,000,000 figure, by capturing the County and College’s tax increment, approximately 75% of the projects can be funded, for lack of a better term, using someone else’s money.
- Another possibility to consider is that if it were not for the DDA’s ability to fund projects, all of the local costs of Big Beaver development would have to be born by the City’s General Fund. If the Council truly wants to do the Big Beaver projects, approximately ½ mill would have to be taken from existing property tax appropriations, or would have to be added to the budget.
- Combined contributions from Oakland County and Oakland Community College comprise about 80% of the City’s contribution by the DDA.

Legal Considerations:

- Assertions have been made that funds generated by the DDA have not been distributed on a fair or “legal basis”.
- Language that cleared up any misconception as to boundaries or collections were corrected in the second plan amendment. The DDA is now on Plan Amendment number 6.
- Audits by independent accounting firms have been conducted on DDA operations, and none have shown any discrepancies with the way the tax increment is generated or spent. Legal rulings have also shown no discrepancies with DDA funding appropriations or operations.

Policy Considerations:

- As indicated, by capturing the tax increment of Oakland County and Oakland Community College, the residents and property owners of Troy are getting a valid rate of return on their annual tax payments to those entities.
- Without the DDA’s property tax capture, all projects on Big Beaver would have to be financed by the City’s General Fund and would compete with all other potential Capital Improvements Projects meaning less money to do other projects in all parts of the City, or that the City’s share of projects on Big Beaver could not be done.
- Without DDA tax capture and the ability to do projects in a timely manner on Big Beaver, the City would lose development meaning that residential properties would continue to pick up a escalating share
- The DDA has approved a capital improvements program calling for the programming and expenditure of approximately \$18 million dollars in DDA funds over the next 6 years.

