CITY COUNCIL AGENDA ITEM

Date: May 4, 2016

To: The Honorable Mayor and City Council

From: Brian Kischnick, City Manager
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 2016/17 and Three Year Budget ***(Introduced by: Mark F. Miller, Director of Economic & Community Development)***

The Downtown Development Authority (DDA) approved their proposed 2016/17 budget and three year budget at the April 20, 2016 DDA meeting.

The City-captured tax rate of 10.4 mills, Oakland County 4.54 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 $74,312,460 in fiscal year 2016/17, with a projected property tax revenue of $1,228,200.

The very positive tax revenue reflects the October 2013 amendment to the DDA Tax Increment Financing and Development Plan. This latest Plan corrected the negative tax capture and eliminated the potential for default of three bond issues. While the City of Troy issued bonds backed by the full faith and credit of the City, including its AAA bond rating to pay off the three DDA bond series. The Plan amendment limits the DDA to three functions: debt service, maintenance cost and administrative fees. In fiscal year 2016/17 the DDA will generate sufficient revenue to pay for both the bonds and maintenance, and administrative cost of $25,000 for the first time since the 2013 amendment. In conclusion the 2013 DDA Plan amendment is successful in solving the dramatic reduction in DDA revenues.

The DDA's proposed fiscal year 2016/17 budget is hereby submitted to City Council for their approval.

Downtown Development Authority

County of Oakland, State of Michigan

2016/17 through 2018/19 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.

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 2016/2017 is $383,504,730 and the captured value is $74,312,460. 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

2016/17 through 2018/19 Budget

	2015 Actual	2016 Estimated	2016 Budget	2017 Budget	2018 Budget	2019 Budget
REVENUE						
Property Taxes	$ 1,179,142	$ 1,163,490	$ 1,170,850	$ 1,228,200	$ 1,393,950	$ 1,459,020
City Contribution	-	-	-	-		
Interest Income	1,581	3,000	-	3,000	3,000	3,000
Total Revenues	**1,180,723**	**1,166,490**	**1,170,850**	**1,231,200**	**1,396,950**	**1,462,020**
EXPENDITURES						
Administrative Expenses	-	-	-	25,000	25,500	26,000
Audit Fees	3,070	3,070	3,070	3,070	3,070	3,070
Tax Tribunals	(8,840)	100,000	100,000	100,000	100,000	100,000
Street Island Maintenance	142,079	169,500	179,380	177,550	181,170	185,790
Debt Service-Prior Issues	-	-	-	-	-	-
Debt Service-Series 2013	958,688	951,000	950,760	941,900	931,500	923,700
Other expenditures	70	1,000	1,000	1,000	1,000	1,000
TOTAL - EXPENDITURES	**1,095,067**	**1,224,570**	**1,234,210**	**1,248,520**	**1,242,240**	**1,239,560**
Change Before Other Financing	**85,656**	**(58,080)**	**(63,360)**	**(17,320)**	**154,710**	**222,460**
OTHER FINANCING SOURCES (USES)						
Bond Proceeds from General Fund	-	-	-	-	-	-
Payments to Escrow Agent	-	-	-	-	-	-
Total Financing Sources (Uses)	**-**	**-**	**-**	**-**	**-**	**-**
SURPLUS (USE) OF FUND BALANCE	**85,656**	**(58,080)**	**(63,360)**	**(17,320)**	**154,710**	**222,460**
BEGINNING FUND BALANCE	116,881	202,537	202,537	144,457	127,137	281,847
ENDING FUND BALANCE	**$ 202,537**	**$ 144,457**	**$ 139,177**	**$ 127,137**	**$ 281,847**	**$ 504,307**

Captured Taxable Value

	2016/17 Taxable	2017/18 Taxable	2018/19 Taxable
Real Base Taxable Value (1993 initial/Revised 2013)	$ 244,924,440	$ 244,924,440	$ 244,924,440
Real Taxable Value	283,345,090	290,408,730	293,312,818
Real Captured Value	**38,420,650**	**45,484,290**	**48,388,378**
Personal Base Taxable Value (1193 initial/Revised 2013)	64,267,830	64,267,830	64,267,830
Personal Taxable Value	100,159,640	103,124,694	104,157,648
Personal Captured Value	**35,891,810**	**38,856,864**	**39,889,818**
Total Captured Value	**$ 74,312,460**	**$ 84,341,154**	**$ 88,278,196**

	Oakland County	Oakland Comm. College	City of Troy	Total
Millage Rates	4.5456	1.5819	10.4	16.5275

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 16.5275	Principal	Interest	Total Debt Service	Net
2016/2017	383,504,730	74,312,460	**1,228,200**	260,000	681,663	**941,663**	**286,537**
2017/2018	393,533,424	84,341,154	**1,393,950**	260,000	671,263	**931,263**	**462,687**
2018/2019	397,470,465	88,278,195	**1,459,020**	260,000	663,463	**923,463**	**535,557**
2019/2020	401,446,911	92,254,641	**1,524,740**	260,000	654,363	**914,363**	**610,377**
2020/2021	405,463,156	96,270,886	**1,591,120**	375,000	638,488	**1,013,488**	**577,632**
2021/2022*	409,517,788	100,325,518	**1,658,130**	440,000	618,113	**1,058,113**	**600,017**
2022/2023	413,612,966	104,420,696	**1,725,810**	500,000	594,613	**1,094,613**	**631,197**
2023/2024	417,749,096	108,556,826	**1,794,170**	600,000	567,113	**1,167,113**	**627,057**
2024/2025**	426,104,078	116,911,808	**1,932,260**	745,000	537,213	**1,282,213**	**650,047**
2025/2026	434,626,160	125,433,890	**2,073,110**	900,000	499,813	**1,399,813**	**673,297**
2026/2027	443,318,683	134,126,413	**2,216,770**	975,000	452,938	**1,427,938**	**788,832**
2027/2028	452,185,057	142,992,787	**2,363,310**	1,250,000	403,563	**1,653,563**	**709,747**
2028/2029	461,228,758	152,036,488	**2,512,780**	1,250,000	352,781	**1,602,781**	**909,999**
2029/2030	470,453,333	161,261,063	**2,665,240**	1,250,000	294,188	**1,544,188**	**1,121,052**
2030/2031	479,862,400	170,670,130	**2,820,750**	1,275,000	227,906	**1,502,906**	**1,317,844**
2031/2032	489,459,648	180,267,378	**2,979,370**	1,275,000	160,969	**1,435,969**	**1,543,401**
2032/2033	499,248,841	190,056,571	**3,141,160**	1,275,000	94,031	**1,369,031**	**1,772,129**
2033/2034	509,233,818	200,041,548	**3,306,190**	1,275,000	30,281	**1,305,281**	**2,000,909**

* = 1.0% 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.