



Economic Development Tools

Introduction

Cities and villages often need special financing arrangements to complete projects designed to preserve their economic health. Legislation enacted by the state of Michigan allows municipalities to create specialized organizations for use as economic development tools. The chart on page two compares these organizations.

Financing tools:

Four of these organizations are able to use tax increment financing revenues (TIF). In the simplest terms, TIF is the capture of the increase in property tax revenue in a defined district to fund capital improvements in that area.

- **Downtown Development Authority (DDA)** may be created to halt property value deterioration, to increase property tax valuation in the business district, to eliminate the causes of deterioration and to promote economic growth. (1975 PA 197, MCL 125.1651)
- **Tax Increment Finance Authority (TIFA)**, available prior to 1989, has been replaced by the LDFA; its boundaries cannot be expanded. (1980 PA 450, MCL 125.1801)
- **Local Development Financing Authority (LDFA)** may be created to encourage local development, to prevent conditions of unemployment and to promote growth. (1986 PA 281, MCL 125.2151)
- **Brownfield Redevelopment Authority (BRA)** may be created to clean up contaminated sites, thus allowing the property to revert to productive economic use. (1996 PA 381, MCL 125.2651)

Three other types of organizations your community may find useful although they cannot use tax increment financing revenues are:

- **Economic Development Corporation (EDC)** may be created to alleviate and prevent conditions of unemployment and to assist industrial and commercial enterprises. (1974 PA 338, MCL 125.1601)
- **Principal Shopping District (PSD)** may be created to develop or redevelop a principal shopping area and to collect revenues, levy special assessments and issue bonds to pay for its activities. (1961 PA 120, MCL 125.981)
- **Business Improvement District (BID)** may be created to develop a more successful and profitable business climate in a defined area, and to collect revenues, levy special assessments and issue bonds to pay for its activities. (1961 PA 120 of, MCL 125.981)

For more information

The MML Resource Center has packets of additional information available on each type of economic development organization.

Summary of Economic Development Tools.

| | DDAs | TIFAs | LDFAs | BRAs | EDCs | PSDs | BIDs |
|----------------------------------|---|-------------------------------------|--|-----------------------------------|--|---|--|
| Authorized municipalities | Cities, villages and townships | Cities | Cities, villages and urban townships | Cities, villages and townships | Cities, villages and townships | Cities with designated principal shopping district(s) | One or more cities with an urban design plan |
| Limitations | One per municipality | No new areas established after 1989 | One per municipality | Industrial or commercial property | Industrial area | Commercial area with at least 10 retail businesses | Commercial or industrial area with boundaries established by city resolution |
| Requirements | Deteriorating property values | Deteriorating property values | Industrial area | Environmental contamination | Industrial or 501(c)(3) nonprofit | Designated as a principal shopping area in master plan | Designated as a BID by one or more cities by resolution |
| Eligible projects | Located in DDA district with approved DDA/TIF plans | Within defined TIFA area | Public facility to benefit industrial park | Environmental cleanup | Issue bonds for private industrial development | Improve highways and walkways; promotion; parking, maintenance, security or operation | Improvement of highways and walkways; promotion; parking, maintenance, security or operation |
| Funding sources | TIF from District; millage | TIF from plan area | TIF on eligible property | TIF; Revenue Bonds | Tax exempt bonds | Bonds, special assessments | Bonds, special assessments, gifts, grants, city funds, other |

Downtown Development Authority 1975 Public Act 197 (MCL 125.1651)

I. Agency

“The Downtown Development Authority of the City of _____.”

- (a) a statutory public body corporate with power to sue and be sued.
- (b) created by the governing body of the city or village.
- (c) referred to as a “DDA.”

II. Purpose

To halt property value deterioration; to increase property tax valuation in its business district; to eliminate the causes of deterioration and to promote economic growth.

III. Eligible Projects

After the governing body has properly established a DDA, a project may be undertaken only within the DDA district and only within a “development area” to which a properly adopted “development plan” and “tax increment financing plan” apply. A project must be for a public benefit.

IV. Ineligible Projects

The power and authority of the act cannot be used for the personal benefit of a private person or corporation.

Exactly where public benefit ends and personal benefit begins is often a matter of local and professional judgment.

V. Establishing a DDA

- (a) Only one (1) may be established.
- (b) The governing body makes findings:
 - (i) that there is a business district area within the municipality which it desires to designate as a “downtown district,”
 - (ii) that within such area the general property values are (and have been) deteriorating,
 - (iii) that property tax valuation must be increased in such area,
 - (iv) that the community must eliminate the causes of deterioration, and
 - (v) the economic growth must be promoted in such area.
- (c) Governing body sets a public hearing, based upon its resolution of intent to create a DDA.
- (d) Governing body gives notice of public hearing by publication, mailed notice and posting.
- (e) At public hearing governing body takes comments.
- (f) Not less than 60 days following the hearing, the governing body may adopt a proposed ordinance creating the DDA and designating the boundaries of the DDA district.
- (g) The ordinance must be published at least once in a local newspaper and filed with the Secretary of State.
- (h) The governing board of the DDA shall be appointed or may, for municipalities of less than 5,000, be the same as the planning commission.

VI. LEGAL STATUS OF DDA

- (a) The DDA is a statutory public body corporate with power to sue and be sued.
- (b) The DDA board prepares and implements the development plan and tax increment plan.
- (c) Subject to Open Meetings Act and the Freedom of Information Act.
- (d) Make and enter into contracts necessary or incidental to the exercise of the powers under the act.
- (e) Acquire, own, convey, lease, lend and dispose of property, real and personal.
- (f) Tax, charge and collect fees, rents and charges.
- (g) Eminent domain only through municipality.

VII. Process to Use Powers of the DDA

Once established, the DDA may prepare and submit to the municipality, a development plan and a tax increment financing plan. The development plan provides the project and the process for implementing various public improvements in the DDA district (or a portion of the district). The tax increment financing plan outlines the means by which the development plan will be financed, including the use of tax increment revenue.

The municipality must then hold a public hearing on the adoption of the plan.

Once a plan is adopted by the municipality, tax increment revenues will be generated for the DDA development plan based on improvements to the property in the development area of the plan.

VIII. Financial Benefits of the DDA and the Act

The financial benefits of the DDA and the DDA Act are realized in the generation of tax increment revenues (commonly called TIF revenues), which are tax revenues that occur as the result of improvements to the taxable property in the development area (not including school taxes).

The DDA and the local municipality may issue bonds based on the receipt of TIF revenues generated from the increase in property value within the TIF development area.

IX. Reporting Requirements

Each year a DDA (or the municipality on behalf of the DDA) must report to the state tax commission regarding the tax increment revenues received and the extent to which school taxes have been retained and the reason therefore.

**Tax Increment Finance Authority Act
1980 Public Act 450
(MCL 125.1801)**

I. Agency

“The Tax Increment Finance Authority of the City of _____ a statutory public body corporate referred to as a “TIFA.”

Note: After January 1, 1989, “a new TIFA authority or authority district shall not be created and the boundaries of an existing TIFA Authority shall not be expanded to include additional land.”

II. Purpose

To halt a decline in property value; to increase property tax valuation; to eliminate the causes of the decline in property values; and to promote growth in the area within the TIFA district.

III. Eligible Projects

Assuming proper creation of a TIFA, the TIFA board may prepare a development plan and a tax increment finance plan for presentation to and approval by the municipal governing body following a public hearing.

The projects subject to the development plan are referred to as public facilities, and include streets, plazas, pedestrian malls, and any improvements thereto, including furniture, beautification, parks, parking facilities, schools, libraries and other public institutions. Bridges, lakes, canals, utility lines, pipelines and other similar facilities are also included.

IV. Ineligible Projects

Any project that would not serve the public in general, or could occur outside the boundaries of the TIFA district.

V. Establishing a TIFA

If a TIFA has not been established in your community, you are no longer eligible to establish one.

The board of a TIFA may be the board of a local Economic Development Corporation, the trustees of a local DDA, the trustees of an urban redevelopment corporation or designated other boards already created.

VI. Legal Status of a TIFA

- (a) A TIFA is a statutory public body corporate with the power to sue and be sued.
- (b) A TIFA possesses all power necessary to carry out the purpose of its incorporation.
- (c) Subject to the Open Meetings Act and to the Freedom of Information Act.
- (d) Make and enter into contracts necessary or incidental to the exercise of the powers under the act.
- (e) Acquire, own, convey, lease, lend and dispose of property, real and personal.
- (f) Tax, charge and collect fees, rents and charges.
- (g) Eminent domain only through municipality.

VII. Process to Use the Powers of a TIFA

The board of a TIFA may prepare a development plan and a tax increment finance plan to present to, and to be approved by, the governing body of the municipality.

Once the municipal governing body has adopted the plans, by ordinance the TIFA will begin realizing the

revenues from improvements to property within the area covered by the development plan.

This revenue must be expended only within the development area of the plan and only for the improvements and public facilities described in the plan.

VIII. Financial Benefits of a TIFA

Similar to a DDA, the financial benefits to establishing a TIFA are the ability to capture local property taxes (except schools) to pay for improvements in the development area.

The TIFA or the municipality have the power, under the act, to borrow money and issue bonds to be repaid from the TIFA revenues generated by the increased taxes on improved property.

The municipality may issue tax increment bonds secured by the limited tax general obligation of the municipality. The TIFA may also issue revenue bonds supported solely by the TIFA revenues.

IX. Reporting Requirements

The TIFA, or the municipality on behalf of the TIFA, is obligated to file a report annually with the state tax commission regarding the receipt and expenditure of TIF revenue and, in particular, the school tax revenues captured and retained by the TIFA.

The Local Development Financing Act 1986 Public Act 281 (MCL 125.2151)

I. Agency

A city, village or urban township may establish one (1) Local Development Authority. Referred to as a LDFA.

A LDFA is a statutory public body corporate which may sue or be sued.

A LDFA possesses all powers necessary to carry out the purposes of its incorporation.

II. Purpose

The creation of a LDFA is to encourage local development, to prevent conditions of unemployment and to promote growth.

III. Eligible Projects

A project must be a public facility for the benefit of “eligible property” which is land improvements, buildings, structures and machinery, equipment, furniture and fixtures comprising an integrated whole located within a LDFA district of which the primary purpose is (i) manufacturing or processing of goods or materials, (ii) agricultural processing, (iii) high technology activity for research, product development engineering, laboratory testing or development of industrial technology, or (iv) production of energy.

A public facility includes streets, bridges, sewer, water, rail utility or similar structures owned or used by a public agency.

IV. Ineligible Projects

The LDFA is to be used primarily for the benefit of industrial property, within a LDFA district. Projects that do not so qualify are ineligible.

V. Establishing a LDFA

- (a) The municipality initiates the establishment of a LDFA by the adoption of a resolution of intent.
- (b) Notice must then be given of a public hearing by publication and mail to taxpayers within a proposed district and to the governing body of each taxing jurisdiction levying taxes that would be subject to capture for tax increment revenues.
- (c) At the hearing taxpayers must be heard regarding the creation of the LDFA.
- (d) Within 60 days, the governing body of another taxing jurisdiction may, by resolution, exempt its taxes from capture, and file the resolution with the clerk of the municipality.
- (e) Not less than 60 days after hearing, the municipality adopts resolution establishing LDFA and designating the boundaries of one or more districts.
- (f) Resolution shall be filed with the Secretary of State promptly and published once in a local newspaper.
- (g) Land may be added to or deleted from a district pursuant to the same requirements prescribed for adopting the resolution creating the LDFA.
- (h) The municipality appoints the members to the LDFA board.

VI. Legal Status of LDFA

- (a) The LDFA is a statutory public body corporate with power to sue and be sued.
- (b) The LDFA board adopts rules governing its procedure and the holding of regular meetings.
- (c) The board may study and analyze unemployment and the impact on growth, plan and purpose construction of a public facility and develop long range plans.
- (d) Implement a development plan within a LDFA district.
- (e) Make contracts and acquire, lease, convey or demolish real or personal property.
- (f) Fix charges and collect fees, rents and charges for use of a building or property.
- (g) Eminent domain by municipality.

VII. Process to Use Power of LDFA

Once established, the LDFA, similar to the DDA and TIFA, prepares a development plan and a tax increment financing plan to submit for approval by the municipality following a public hearing.

VIII. Financial Benefits of the LDFA

After adoption of the development plan and tax increment financing plan by resolution, the development plan is implemented and the tax increments developed as the result of improvements in the eligible property accrue to the LDFA to be used as required by the development plan.

The activities of the LDFA may be financed by (i) contributions to the LDFA, (ii) revenues from property, (iii) tax increment revenues, (iv) proceeds of tax increment bonds, or (v) proceeds of revenue bonds and other appropriations.

IX. Reporting Requirements

An annual report must be submitted to the municipality and to the state tax commission on the status of the tax increment financing plan.

Brownfield Redevelopment Financing Act
1996 Public Act 381
(MCL 125.2651)

I. Agency

The Brownfield Redevelopment Financing Authority is established by a municipality pursuant to the act.

The Authority is a public body corporate with power to sue and be sued.

The Authority possesses all the power necessary to carry out the purpose of its incorporation.

II. Purpose

The purpose of the authority is to allow municipalities to develop and implement brownfield development financing plans to capture state and local property taxes through tax increment revenues, in order to conduct environmental response activities at sites in the community with environmental contamination, thus allowing the property to revert to productive economic use.

III. Eligible Projects

An eligible project is one which provides response to environment contamination on industrial or commercial property in the municipality.

IV. Ineligible Projects

A project is ineligible if the project does not relate to the clean-up or eventual clean-up of environmental contamination.

V. Establishing an Authority

- (a) A municipality may establish one or more authorities under the act.
- (b) The governing body adopts a resolution of intent to create the authority.
- (c) Notice is published and a public hearing is held on the merits of creating the Authority.
- (d) The notice includes the areas of the municipality to be included in the “zone” of the Authority which may be noncontiguous.
- (e) Within 30 days after the hearing the municipality shall adopt a resolution creating the Authority.
- (f) The resolution creating the Authority is filed with the secretary of state.
- (g) The zones may be amended in accordance with these same steps.
- (h) The establishment of the Authority shall be presumed valid if not contested in court within 60 days after filing the resolution with the Secretary of State.

VI. Legal Status of Authority

- (a) Authority is a public body corporate with power to sue and be sued.
- (b) The municipality appoints 5 to 9 members to the board of the Authority unless the municipality appoints, as the board of the Authority, the EDC board, the DDA board, the TIFA board or the LDFA board.

- (c) The Authority has the power:
 - 1. to adopt bylaws,
 - 2. incur and expend funds,
 - 3. incur costs as approved by the municipality,
 - 4. make and enter into contracts, lease purchase agreements, land contracts,
 - 5. own, mortgage, dispose, and lease property, real and personal, to achieve the purposes of the act, and
 - 6. acquire, maintain and operate devices necessary to ensure eligible activity on eligible property.

VII. Process to Use Powers of an Authority

- (a) The Authority prepares a brownfield plan which may apply to one or more parcels, including an estimated cost of the plan and the amount to be paid from tax increment revenues.
- (b) The plan should also include the method by which the cost of the plan will be financed; the maximum amount note or bonded indebtedness; the duration of the plan and the estimated impact of the tax increment revenues on the various taxing jurisdictions.

VIII. Financial Benefits of the Authority

The purpose of the act and the authority is to recapture land unusable because of environmental contamination and to place such land back into productive use.

Under certain circumstances the tax increment revenue captured by the Authority may include school taxes.

An authority may establish a local site remediation revolving fund and place excess captured taxes from properties at which eligible activities are conducted into the local fund. The authority may use the money in the local fund to conduct eligible activities at other properties in a zone established by the municipality.

An authority may issue revenue and tax increment financing bonds and notes in order to finance the eligible activities and then capture taxes from the eligible property to pay off the obligations.

IX. Reporting Requirements

Annual reports to the municipality and the state tax commission.

Economic Development Corporation
1974 Public Act 338
(MCL 125.1601)

I. Agency

- (a) The Economic Development Corporation of the City of _____ is created by action of the governing body of the municipality.
- (b) The EDC is a statutory public body corporate with power to sue and be sued.

II. Purpose

The EDC Act was formulated and an EDC is created to provide programs to alleviate and prevent conditions of unemployment; to assist and retain local industrial and commercial enterprises, to strengthen and revitalize the economy; to encourage assistance of industrial and commercial enterprises and, generally, to promote economic activity.

III. Eligible Projects

The EDC has the unique power to issue bonds (tax exempt obligations) for the specific benefit of private industrial development, or the development of property for a 501(c)(3) non-profit corporation.

Otherwise, the EDC does not have power or authority to accomplish or finance any project that the municipality could undertake directly.

Many communities that have formed an EDC use the talent of the EDC board members to advise the municipality on ways of encouraging employment and fostering the economy.

IV. Ineligible Projects

Bonds cannot be issued for commercial enterprises.

V. Establishing an EDC

- (a) An EDC is established by action of the governing body of the municipality on its own motion or upon receipt of an application request that an EDC be formed.
- (b) The municipality adopts a resolution approving the articles of incorporation, which shall be filed with the Secretary of State.
- (c) Executed copies of the articles of incorporation shall be filed with the county clerk.
- (d) The articles of incorporation shall be published once in the local paper.
- (e) The validity of incorporation of the EDC shall be conclusively presumed unless questioned in court within 60 days after filing with the Secretary of State.
- (f) The board of the EDC shall be appointed by the municipality.

VI. Legal Status of an EDC

- (a) The EDC is a statutory public body corporate with power to sue and be sued.
- (b) Board members not personally liable on obligations issued by the EDC.
- (c) EDCs may (i) construct, acquire and repair projects, including land; (ii) acquire machinery, furnishings and equipment; (iii) make secured or unsecured loans; (iv) borrow money and issue its

bonds for the repayment; (v) enter into leases and lease purchase agreements; and (vi) mortgage and create security interests in a project.

VII. Process to Use Powers of EDC

- (a) The EDC board designates a project area and a project plan and obtains approval of the municipality and other municipalities where project is located.
- (b) Certify to municipality that the project will not have the effect of transfer of more than 20 full-time jobs from another municipality in Michigan.
- (c) Project plan to indicate location and extent of streets and other public rights-of-way and other elements required by act.
- (d) If required, findings and recommendations of local public agency (planning commission).
- (e) After a public hearing the municipality shall determine whether the project plan constitutes a public purpose.
- (f) A project citizens district council may be necessary unless waived.

VIII. Financial Benefits of the EDC

The use of tax exempt financing to assist local manufacturing and non-profit corporations in obtaining borrowed money at a lesser cost may be an encouragement to increase employment in the municipality.

IX. Reporting Requirements

None.

Development or Redevelopment of Principal Shopping Districts

1961 Public Act 120

(MCL 125.981)

I. Agency (only for cities)

A city which provides ongoing activity regarding (i) promoting economic development and (ii) provision of maintenance, security and operation of a principal shopping district shall create a board for the management of those activities.

II. Purpose

The act authorizes the development or redevelopment of a principal shopping district, and the collection of revenue, levying of special assessments and the issuance of bonds for such development or redevelopment.

III. Eligible Projects

A principal shopping district designated by a city that is predominantly commercial containing at least 10 retail businesses, in a city having a master plan for the physical development for the city, that includes (i) an urban design plan designating a principal shopping district or (ii) the development or redevelopment of a principal shopping district.

IV. Ineligible Projects

Any project that does not meet the eligible project requirements.

V. Establishing Entity

The city governing body appoints a management board if the PSD actively promotes economic activity or contracts with other public or private entities for the operation of the district.

VI. Legal Status of Entity

If a board is created its legal status and authority is only as an advisory board to the city.

VII. Process To Use Powers Of The Entity

The power under the act rests with the city governing body. It includes authority to:

- (a) open, widen, extend, realign, pave, maintain or otherwise improve highways and pedestrian walkways,
- (b) prohibit or regulate vehicular traffic and parking,
- (c) acquire, maintain and operate off-street parking lots, or contract for such operation by others,
- (d) construct, maintain and operate malls with bus stops, information centers and other buildings to serve the public interest,
- (e) acquire, maintain, and operate real or personal property necessary to implement the act,
- (f) promote economic activity and provide or contract for the maintenance, security and operation of a principal shopping district,
- (g) levy special assessments against land or interests in land, or both, and
- (h) issue bonds to cover the capital costs of the project.

VIII. Financial Benefits of Act

The ability to spread the cost of development of the public improvements of a principal shopping district among all participants in the district.

IX. Reporting Requirements

No reporting requirements to the State of Michigan.

Business Improvement Districts

1961 Public Act 120

(MCL 125.981)

I. Agency (only for cities)

One or more cities may establish a Business Improvement District (BID) by resolution to provide ongoing activity regarding (i) promoting economic development and (ii) provision of maintenance, security and operation of a BID.

II. Purpose

The act authorizes the development or redevelopment of a business improvement district, and the collection of revenue, levying of special assessments and the issuance of bonds for such development or redevelopment.

III. Eligible Projects

A BID established by resolution of one or more cities for the physical development of an area.

IV. Ineligible Projects

Any project that does not meet the eligible project requirements.

V. Establishing Entity

The city governing body appoints a management board in the resolution establishing the boundaries of the BID.

VI. Legal Status of Entity

Its legal status and authority is only as an advisory board to the city.

VII. Process To Use Powers Of The Entity

The power under the act rests with the city governing body. It includes authority to:

- (i) open, widen, extend, realign, pave, maintain or otherwise improve highways and pedestrian walkways,
- (j) prohibit or regulate vehicular traffic and parking,
- (k) acquire, maintain and operate off-street parking lots, or contract for such operation by others,
- (l) construct, maintain and operate malls with bus stops, information centers and other buildings to serve the public interest,
- (m) acquire, maintain, and operate real or personal property necessary to implement the act,
- (n) promote economic activity and provide or contract for the maintenance, security and operation of a principal shopping district,
- (o) issue bonds to cover the capital costs of the project and
- (p) levy special assessments against land or interests in land, or both. If special assessments are levied, the board must develop a marketing and development plan.

VIII. Financial Benefits of Act

The ability to spread the cost of development of the public improvements of a business improvement district among all participants in the district.

IX. Reporting Requirements

No reporting requirements to the State of Michigan.