The Importance of Tax Increment Financing









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Why does Michigan Need Tax Increment Financing?

After 40 years of hard work and investment, downtowns across the state are stronger, more resilient, and more vibrant than ever! This would have never happened if it were not for the diligent downtown management and ongoing programs of Downtown Development Authorities (DDAs).

While downtowns are on the rise in popularity, our work is never done! DDA management teams today are striving to ensure the long-term prosperity of our historic downtowns and shopping districts as market conditions continue to evolve.

Since 1975, the State of Michigan has enabled DDAs to utilize Tax Increment Financing (TIF) to invest in infrastructure improvements, redevelopment of blighted areas, job creation, and events and promotions that make downtowns relevant, exciting and a key reason why people choose to live in a community.

Why were Downtown Development Authorities Important in the Past?

Downtown Development Authorities (DDAs) are downtown management organizations that rely on TIF dollars for their operation. DDAs were created to solve a market failure, which was the decline of downtowns across the state that began after World War II due to a failure to proactively respond to changing customer interests and the rise of indoor shopping malls and shopping centers. Stores closed, buildings became chronically vacant, and many became dilapidated. By the early 1970's some entire downtowns were vacant or abandoned.

DDAs were designed to counter this trend, by allowing for public-private investments and establishment of specialized public management expertise for these districts. City planners and downtown managers began rebuilding public areas and investing in projects designed to bring people back to downtowns.

What is Tax Increment Financing or TIF?

TIF is the annual capture of the year-to-year growth in property values in a defined district. The power of TIF is that it allows municipalities to direct funds to engage in specific, critical economic development activities without raising local property taxes. DDAs that use TIF are self-sustaining, because as a DDA invests in the district, property values increase above the baseline value (typically the value at the time the district was established). As property values increase, the DDA captures more funding and is able to do more projects.

Why are DDAs even more relevant today?

DDAs comprehensively manage downtowns to maximize the local economy. In communities large and small, DDAs help fund significant projects and on-going economic development activities to improve the quality of life, retain residents, attract talent and encourage and support private reinvestment, including:

- Infrastructure improvements to streets, sidewalks, lighting, sewer and water;
- Design of public gathering and parks;
- Revitalization of vacant and underutilized properties;
- Rehabilitation of historic buildings, assets and facades;
- Mixed-use and middle-housing infill developments;
- Business recruitment and retention programs;
- Safety, security and maintenance programs; and
- Marketing, special events and promotions.