

**TO:** Mayor and City Council

**DATE:** April 15, 2025

**FROM:** Maura Thomson, Executive Director, Ann Arbor DDA

**CC:** Milton Dohoney, City Administrator  
Mariah Walton, Deputy City Administrator  
Marti Prashan, Chief Financial Officer  
Mike Pettigrew, City Treasurer

**SUBJECT:** DDA Development and Tax Increment Financing Plan

The purpose of this memo is to outline key considerations that will inform the DDA Boundary and Tax Increment Financing (TIF) Plan and to introduce the DDA's recommendations, which respond to evolving needs and opportunities. The DDA is recommending a boundary expansion and an adjustment to the TIF cap. Our role is to support City goals, and we need your input on how we can best do that.

## **DDA PURPOSE – WHY DOES IT MATTER?**

The pandemic illustrated that downtowns continue to be fragile and need support as they change and evolve. The DDA is the only funding tool the City has that is focused on supporting the downtown experience for all people and responding to evolving needs. Our work has been guided by a commitment to the City's values and using infrastructure investments as a tool to meet these needs. We are shaping this next phase to continue that alignment. *(See the Potential DDA Projects and Programs document for more details on project identification and prioritization.)*

## **1. DDA BOUNDARY EXPANSION**

### **Existing DDA Boundary**

The DDA boundary was established in 1982 and consists of 67 blocks downtown. The DDA boundary must be contiguous.

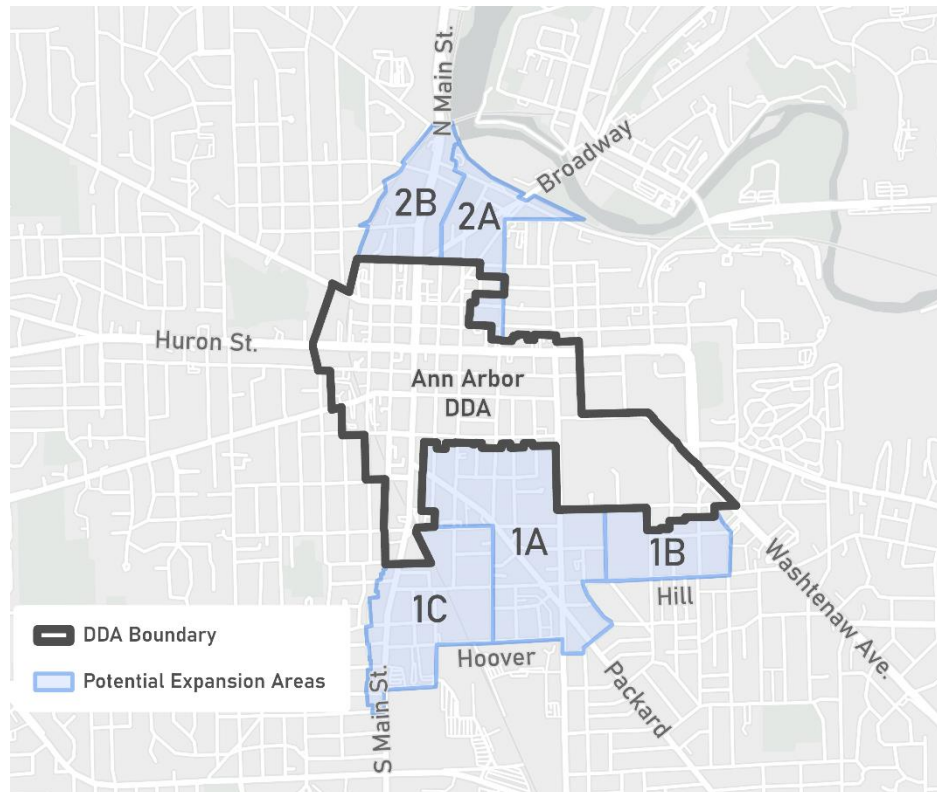
### **Aligning DDA Boundary with Needs**

Boundary exploration began by considering City values and priorities, infrastructure needs, and evolving trends adjacent to the existing DDA District. The DDA identified opportunities to achieve goals by investing in public spaces, the street environment, connections to the river and existing businesses, utilities, affordable housing, and maintenance of infrastructure that is unique to downtown (i.e., public seating, tree grates, pavers, streetlights, etc).

### **Recommended Boundary Expansion Areas**

Through further analysis, two areas directly to the north and three areas to the south of the DDA's existing boundary have been identified to have the greatest needs and opportunities.

## MAP A – DDA Boundary and Potential Expansion Areas



## 2. DDA TIF CAP ADJUSTMENT

### TIF Purpose

The Ann Arbor DDA is funded by TIF - a public financing tool that municipalities use to leverage tax dollars for infrastructure investment within a defined district. Tax Increment Financing (TIF) is the only regional revenue-sharing tool in Michigan used for this specific purpose. In Ann Arbor, for every \$1 the City invests in DDA TIF, an additional \$.82 is leveraged.

### Ann Arbor TIF Status Quo - Limitations

The current TIF cap was implemented in 2017. It limits the DDA's revenue, the amount the DDA can invest in downtown, and the funding leveraged to support evolving needs.

The cap will reduce the funding available to invest downtown by \$4M or 28% in FY26. Under this model, that percentage will be nearly 50% by FY33.

### Aligning Funding with Need & Opportunity

The DDA began by considering City values and priorities, identified need, and funding models for other DDAs. Not many DDAs in Michigan differ from the standard TIF model, and the Ann Arbor DDA is the most restricted. The Grand Rapids DDA provides an alternative example that allows all taxing units to benefit while maintaining a focus on downtown infrastructure. Following a change to state law, the Grand Rapids DDA implemented a gainshare model – sharing a percentage of TIF with increases at set

intervals. The amount shared begins at 10% and gradually increases to a maximum of 25%. By using a percent share instead of a cap, this approach ensures that everyone's revenue grows together.

### **Recommended Gainshare Model – Original District**

The DDA recommends shifting to a TIF gainshare model. In FY26, 28% of TIF revenue will be above the DDA's 3.5% cap. We recommend locking in the amount of TIF revenue distributed to the City and the other taxing units at 30%, creating a 70% / 30% share of the total TIF capture. Under this model, the DDA will capture a portion of future tax revenue, and everyone shares revenue growth and risk. This change funds a Downtown Service Team that the DDA can begin in FY 2026 if plans are approved. City Council capped the DDA's revenue through a change to City Code in 2013 and has the authority to revise City Code.

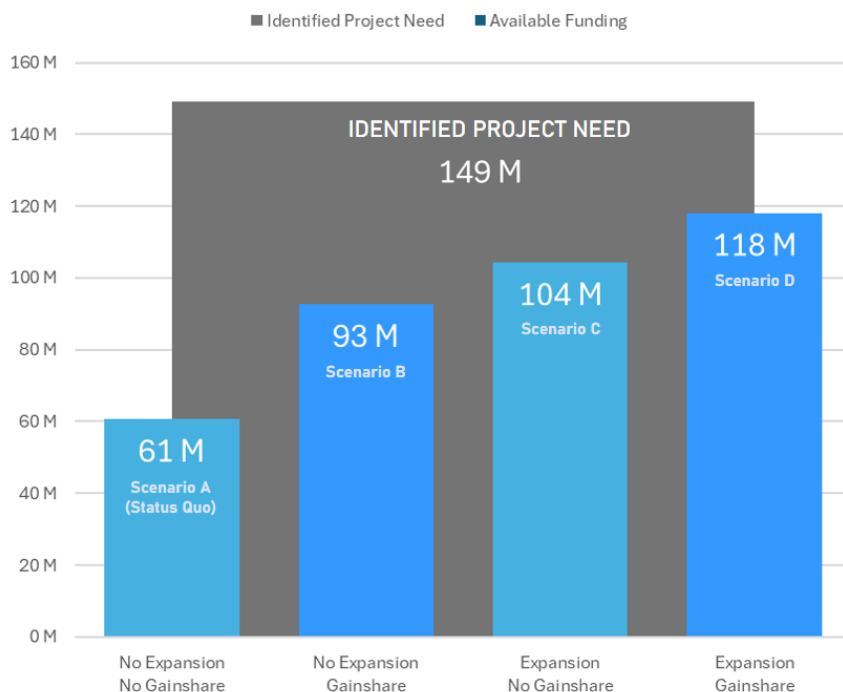
### **Recommended Gainshare Model – Expanded District**

Since these would be new areas to the DDA, and any tax revenue will start small and grow slowly, we recommend a phased gainshare approach for the expanded areas. Unlike the decision related to the DDA cap, taxing units can opt out of the expansion area. It's important to note that while opt-out reduces the revenue available, it does not impact where the DDA can spend TIF to fund capital projects and programs. We recommend viewing expansion as an opportunity to respond to evolving needs and not as a significant revenue generator.

### **Context for Decision-Making: Draft Scenarios**

To provide context for how the DDA can contribute to City values, we've drafted four scenarios exploring how funding and boundary decisions impact infrastructure opportunities, the DDA's affordable housing grant fund, and a Downtown Service Team over a 10-year period (pages 48 – 57 of the presentation PDF). To compare how dollars would be prioritized within each scenario, see Graph A and Table A below.

**GRAPH A – Funding Versus Need for Four Scenarios**



**TABLE A – Benefit Comparisons for Four Scenarios**

<b>BENEFIT COMPARISON</b>	<b>Scenario A</b>	<b>Scenario B</b>	<b>Scenario C</b>	<b>Scenario D</b>
Estimated 2026-2035 Available Capital Project Funding (assumes no opt-out)	\$61 M	\$93 M	\$104 M	\$118 M
<b>BENEFITS</b>				
Focused dollars dedicated for a downtown purpose	X	X	X	X
Installs infrastructure that is unique to downtown (i.e., streetscape)	X	X	X	X
Maintains the infrastructure that is unique to downtown	X	X	X	X
Funds more projects & projects to a higher degree		X		X
Pays a larger share of parks, utilities, and transit projects		X		X
Creates bonding capacity. Near-term projects could be more fully funded		X		X
Expands into new areas to address evolving needs			X	X
Funds a Downtown Service Team		X		X
Total Affordable Housing Grant Commitment	\$5M	\$6M	\$6M	\$7M