

# MEMO

## ASTI Environmental

**Date:** July 7, 2021

**To:** Sara Roediger, City of Rochester Hills  
Pam Valentik, City of Rochester Hills  
City of Rochester Hills Brownfield Redevelopment Authority

**From:** Tom Wackerman

**Subject:** Review of the Draft Brownfield Plan and Associated Documents for Redevelopment of 945 and 975 South Rochester Road, Rochester Hills, Michigan (ASTI files No. 11482-10)

As requested, this memo is a review of the following documents. These documents were submitted to ASTI Environmental (ASTI) for review on July 7, 2021. A previous draft, dated June 11, 2021, was also reviewed by ASTI and comments were provided to the applicant.

1. *Brownfield Plan, Proposed Rochester/Avalon Retail Development Located at 945 and 975 Rochester Road, Rochester Hills, Michigan*, dated July 6, 2021 and marked Draft (the Draft Plan).
2. *Brownfield Program Application for the City of Rochester Hills* (the Application) in file dated June 22, 2021.
3. IRR calculations from file named *975 S. Rochester Proforma v3* dated July 7, 2021.

### Background

The Draft Plan includes three parcels (the Property) located on the northeast corner of South Rochester Road and E Avon Road (Parcel ID Numbers 70-15-14-651-012, 70-15-14-351-011 and 70-15-14-351-068). Two of the parcels (945 and 975 South Rochester Road) are developed with a gas station and office building, and the third parcel (no street address) is undeveloped. The proposed redevelopment of the Property will be retail and office.

The total estimated investment is \$10 million. Total job creation is estimated at 70 new permanent full time jobs and 100 temporary construction jobs. The listed initial taxable value is \$617,020. The future taxable value is estimated at \$1,728,400, based on construction costs and area comps.

The Draft Plan will start capture in 2022 and will require an estimated 21 years for reimbursement to the Developer. The Draft Plan is requesting **total reimbursement to the Developer of \$508,553** (based on total eligible activity costs of \$446,175, and a contingency of \$62,378). Capture will be for real property and all personal property incremental taxes. **Capture will be from local taxes only.**

The Draft Plan indicates that funding from the Michigan Underground Storage Tank Authority (MUSTA) will also be requested to remove contaminated soil and groundwater related to a confirmed



10448 Citation Drive, #100  
P.O. Box 2160  
Brighton, Michigan 48116  
Phone: 810.225.2800 Fax: 810.225.3800

release (reported in 2019) from an underground storage tank at 975 South Rochester Road. The costs for those soil and groundwater removal activities are not being requested in the Draft Plan as reimbursable expenses.

The Draft Plan includes capture for RHBRA administrative fees each year at 5% of the annual capture for a total of \$35,331. Capture is also included for contributions to the local revolving loan fund each year at 3% of the annual capture as per the RHBRA policy, and additional capture in the last four years of the Draft Plan, for a total of \$162,743.

### **Basis for Eligibility**

Based on the following, the Project is eligible.

*Eligible Applicant:* The Draft Plan indicates that a Phase I ESA was completed on September 10, 2019 for 945 and 975 South Rochester Road, but does not mention the unaddressed property. The Draft Plan also indicates that a Baseline Environmental Assessment was completed for 975 South Rochester Road on September 10, 2019.

Although these documents were not available for review, this memo assumes that they were completed for the applicant, Rochester Avon Partners, LLC (the Developer). This memo further assumes that the Phase I ESA was completed for all three parcels prior to purchase, and therefore the applicant is eligible. As indicated below, additional documentation should be provided.

*Eligible Property:* The parcel at 975 South Rochester Road is a "Property" as defined by Part 213 of Act 451 and therefore is an eligible property. The remaining two parcels are adjacent and contiguous to 975 South Rochester Road and the development of those two parcels is estimated to increase the captured taxable value of 975 South Rochester Road<sup>1</sup>. Therefore, both of the adjacent parcels are also eligible properties.

*Eligible Activities:* The Draft Plan is limited to capture for eligible activities applicable in a non-core community.

### **Required Items**

All items required by Section 13(2) of Act 381 (MCL 125.2663) are included in the Draft Plan.

The Draft Plan includes all of the materials required by the *City of Rochester Hills Brownfield Incentives Policy* dated February 2014 (the Policy).

Please note that both the Policy and Act 381 require a separate tax capture table for each parcel, but this is rarely provided because allocation of future taxable value by parcel is often impossible. A combined tax capture table was provided with the Draft Plan.

### **Key Assumptions**

1. The Draft Plan indicates an annual appreciation of 1.0% in taxable value. Changes in this assumption will result in a longer or shorter reimbursement period.

---

<sup>1</sup> Both conditions are required by Section 2(p)(ii) of Act 381 (MCL 125.2652(p)(ii))

2. Tax capture will include personal property, but the tax capture table (Table 2) does not include an assumption for personal property tax capture. Inclusion of personal property tax capture may result in a shorter reimbursement period.

### Review of the Draft Plan

The Draft Plan is requesting reimbursement for eligible costs as indicated in Table 1 of the Draft Plan. These include environmental assessment, vapor barrier design and installation, utility corridor gaskets and barriers, underground storage tank removal, soil and groundwater removal and disposal, pre-demolition asbestos abatement, building and site demolition, Brownfield Plan preparation, and associated oversight and project management. Please note that the requested soil and groundwater disposal costs are different than those to be reimbursed under MUSTA, and are limited to soil and groundwater removed as required to meet Due Care obligations under Part 201. Soil costs are limited to transportation and disposal for contaminated soils removed as a result of utility trenching, building construction and pavement. Groundwater costs are limited to treatment and disposal for contaminated groundwater removed as a result of site development.

This Draft Plan is for the capture of local taxes only, not including non-capturable mills, and requests reimbursement for the full cost of the eligible activities from local tax capture. The *City of Rochester Hills Brownfield Incentives Policy* (the Policy) indicates that “local tax capture for eligible activities will be limited to the proportional share that captured local tax mills have to the total property taxes, even in cases where state tax capture is not approved”. However, the Policy also indicates that the “City will consider each application on a case-by-case basis” and any exception to the proportional local tax capture “will be those cases where there is a compelling local interest”.

Assuming that reimbursement is limited to proportional local tax capture of total taxes, the amount for reimbursement would be reduced to \$219,046 and would require an estimated 10 years of capture as indicated below.

	Total Mills	49.1330
	Local Mills Captured	<u>21.1628</u>
	Local Captured as Percent of Total Mills	43.07%
	Total Eligible Costs	<u>\$508,553</u>
	Eligible Costs Based on Percent of Total Mills	\$219,046

Please note that while the Policy indicates that the local only capture will be limited to the “the proportional share that captured local tax mills have to the total property taxes” it is more common to limit local only capture to the proportional share that captured local tax mills have to the total capturable property taxes. This is because the objective of limiting local capture to the proportional share is typically to limit the dollar amount of the local capture to the same amount that would occur if school tax capture had been included. Assuming that reimbursement is limited to proportional local tax capture of capturable taxes, the amount for reimbursement would be reduced to \$238,302 and would require an estimated 10 years of capture as indicated below.



10448 Citation Drive, #100  
P.O. Box 2160  
Brighton, Michigan 48116  
Phone: 810.225.2800 Fax: 810.225.3800

Total Capturable Mils	45.1628
Local Mils Captured	<u>21.1628</u>
Local Captured as Percent of Capturable Mils	46.86%
Total Eligible Costs	<u>\$508,553</u>
Eligible Costs Based on Percent Above	\$238,302

Because this Draft Plan is for local capture only, a 381 Work Plan will not be submitted. Therefore, any additional detail required by the RHBRA for review and approval should be requested as part of the review of the final Brownfield Plan.

### Review of Financial Information

Review of the IRR analysis provided by the applicant indicates that the IRR for the project is estimated at 0.28%. This IRR assumes a 4.5% interest rate on Senior Debt and a Debt Service Coverage Ratio of 1.12. Cash flow includes the capture of TIF for the full cost of eligible expenses. A review of the applicant's assumptions indicates that inputs are consistent with the Application and the Draft Plan. Although the RHBRA has not set a threshold IRR, the proforma indicates that incentives are required for this project.

### Recommendations

Based on this review the Draft Plan is administratively complete and ready for consideration by the RHBRA. The following are recommendations for RHBRA to consider during review of the Draft Plan.

1. As requested by the Policy, the applicant should provide copies of the September 2019 Phase I ESA for the three properties and the Baseline Environmental Assessment for 945 South Rochester Road to confirm eligibility.
2. The RHBRA should determine if reimbursement from local taxes will be for the full cost of the eligible activities as requested by the Draft Plan, the proportional share only as permitted by the Policy, or a modified approach to proportional share as described above.

Please contact me if you have any questions, or need additional information.



10448 Citation Drive, #100  
 P.O. Box 2160  
 Brighton, Michigan 48116  
 Phone: 810.225.2800 Fax: 810.225.3800