

ASTI Environmental

Date: June 10, 2014

To: James Breuckman, City of Rochester Hills

From: Tom Wackerman

Subject: Review of Amended Brownfield Plan for the Northwest Corner of East Hamlin Road and Dequindre Road, Dated June 2, 2014

In preparation for the next RHBRA meeting the following is a review of the amended document titled *Act 381 Combined Brownfield Plan, To Conduct Eligible DEQ Response and/or MSF Non-Environmental Activities, General Trucking, Northwest Corner of East Hamlin and Dequindre Road, Rochester Hills, Brownfield Redevelopment Authority*, dated June 2, 2014 and submitted for review June 6, 2014. This Plan was originally reviewed in May and comments are provided in our memo dated May 27, 2014. This memo is limited to changes in the amended plan, so please refer to the May 27 memo for background.

General

The Brownfield Plan (the Plan) is for a 10.92 acre portion of a larger parcel (Parcel ID 70-15-24-4001-041) on the northwest corner of East Hamlin Road and Dequindre, formerly known as the Sandfill Landfill #2. Total investment is \$4,095,000 and includes the construction of a 40,000 square foot building. The duration of the Plan is twenty nine years based on the assumptions described in the Plan. The Plan is requesting total reimbursement of \$759,573 (including contingency) over an estimated twenty-four year period from local and school tax capture. The applicant and property are eligible as described in the May 27 memo.

Amendments to Address Recommendations:

The follow recommendations were included in the May 27 memo, and have been addressed as indicated below.

1. "In order to assure sufficient funding for the local revolving loan fund, the RHBRA should consider limiting recapture to \$759,573 (including contingency) or twenty-four years, whichever comes first."
 - a. This has not been addressed in the amended Plan, but the applicant has indicated that they will adjust the Plan based on the discussion of this topic in the RHBRA meeting.
2. "It is not specifically included in the Plan, but as described in the RHBRA policy, it should be made clear that local tax capture will be limited to the proportional share of the captured millages."
 - a. This language has been added to Section 3.5 on page 14 of the amended Plan.

3. "If the RHBRA wants to consider financial need, the applicant should provide a five year IRR, both with and without incentives, using the MEDC CRP format, and a sources and uses table that includes owner equity."
 - a. Financial information, both with and without the incentive, was provided in the amended Plan. Refer to the discussion below.
4. "Based on the RHBRA policy, the following are recommended - The Plan should included the following language: "Unless otherwise agreed to in writing by the RHBRA, this Plan will expire and no longer be valid if the applicant does not execute a Reimbursement Agreement within one hundred and eighty days of the date the Plan is approved by City Council. To remain eligible for the approved incentives, eligible activities must start within eighteen months of Plan approval, construction must start within five years of the executed Reimbursement Agreement, and construction must be completed within three years of the estimated completion date.""
 - a. This language has been added to Section 3.4 on page 14 of the amended Plan.

Financial Impact:

The amended Plan includes project financial information both with and without the TIF incentives (Appendix F). Although this is an owner/occupied project, the financial information was formatted as if the owner was a tenant to provide a estimate of IRR. Although the applicant is not requesting Community Revitalization Program (CRP) funding, they have used the CRP form at my request to present the financial information. The following is a review of that data.

1. The financing gap for construction of this project is \$230,000 compared to the total requested TIF reimbursement of \$759,573 (including contingency), and the local contribution for TIF reimbursement of approximately \$360,000 (including contingency). This is based on 12% equity and 82% financing. The construction cost per square foot is \$84.
2. The IRR for a comparable rental property is -12% without incentives and 2% with incentives.

Based on this information, this project requires incentives for reimbursement of the extraordinary costs of building on a landfill in order to succeed.

Recommendations for Consideration During RHBRA Meeting:

1. In order to assure sufficient funding for the local revolving loan fund, the RHBRA should consider limiting recapture to \$759,573 (including contingency) or twenty-four years, whichever comes first.
2. As indicated in the May 27 memo, three of the eligible activities, listed as additional response activities, may also be considered eligible at the discretion of the RHBRA. These are typically associated with site preparation or infrastructure, and therefore not eligible in a non-core community, but are necessary because of the former use of the property as a landfill. As such, the extraordinary costs of these activities, necessary to maintain the landfill cover as a due care activity, may be eligible if approved by the RHBRA.

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