

Date: June 3, 2014

To: City of Rochester Hills Brownfield Redevelopment Authority

Cc: James Breuckman, City of Rochester Hills; Tom Wackerman, ASTI

From: PM Environmental, Inc.

RE: Response to ASTI Memo regarding Review of Brownfield Plan for the Northwest Corner of East Hamlin Road and Dequindre Road

Below is PM's response to the recommendations stated in the memo provided by ASTI on May 27, 2014 in regards to the brownfield plan submitted for review for the property located at the Northwest Corner of East Hamlin Road and Dequindre Road.

1. Recommendation 1 will be decided during the BRA meeting, the plan will be updated based on this decision prior to City Council
2. Language has been added to section 3.5 of the plan stating that local tax capture will be limited to the proportional share of the captured millages
3. The MEDC pro-forma and IRR template has been added to Attachment E both with and without the tax increment financing incentive. Developer equity, which was not previously determined, has been included in Attachment E for review
4. The requested language has been added to section 3.4 of the plan

The memo provided by ASTI listing these recommendations is attached.

ASTI Environmental

Date: May 27, 2014

To: James Breuckman, City of Rochester Hills

From: Tom Wackerman

Subject: Review of Brownfield Plan for the Northwest Corner of East Hamlin Road and Dequindre Road, Dated April 22, 2014

In preparation for the next BRA meeting the following is a review of the 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 April 22, 2014 and submitted for review May 16, 2014.

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.

Basis for Eligibility

Based on the following, the project is eligible.

Eligible Applicant: The applicant, General Trucking, Inc., has completed a Phase I ESA and Baseline Environmental Assessment for the subject property and is therefore an innocent landowner and eligible for Brownfield incentives.

Eligible Property: Soils and groundwater on the subject property are impacted above residential clean-up criteria. Concentrations of volatile organic compounds, metals and PCBs exceed the criteria for direct contact, drinking water protection and/or groundwater-surface water interface. The property therefore is a facility per Part 201 of Act 451, and therefore a Brownfield and an eligible property.

Eligible Activities: The Plan includes capture for eligible activities applicable to a non-core community. However, some of the activities may not be eligible in a non-core community, and therefore require additional consideration by the RHBRA as described below.

Key Assumptions:

1. The new taxable value following all site improvements is assumed to be \$800,000. This is based on a hard construction cost of \$1,826,000. Based on the provided materials, the new taxable value is reasonable.
2. The Plan assumes an annual appreciation of 1% in taxable value. Given the economic recovery, this is a reasonable assumption.
3. Tax capture does not include new personal property.

Required Items:

All items required by Section 13(1) of Act 381 are included in the Brownfield Plan.

The Plan includes all items required by the RHBRA policy except for the following:

- A five year IRR, both with and without incentives, was not provided.

The proposed project meets the following policy goals

- Incorporates source control and remediation
- Creates new full time jobs
- Provides an increase in taxable value

Eligible Activities:

The preparation of environmental assessments, transportation and disposal of contaminated soils, installation of vapor barriers and methane venting systems, installation of sewer system liners and isolation slurry walls are considered eligible activities in a non-core community. Given the nature of the site as a former landfill, future remediation or control costs could be greater than anticipated.

The following eligible activities, listed as additional response activities, may also be considered eligible at the discretion of the RHBRA: Please note that the MDEQ may consider these items to be site preparation costs, and therefore not eligible for school tax capture.

- Installation of lift stations: Although these costs (estimated at \$20,000) are a result of site conditions, and may be considered a site preparation or infrastructure cost, they are required in order to maintain the integrity of the existing cap and therefore all or a portion of the costs can be considered eligible as an additional response activity to meet due care obligations.
- Installation of a geo-grid system: Although these costs (estimated at \$56,250) are a result of site conditions, specifically unstable fill, and may be considered site preparation costs, they are required in order to maintain the integrity of the existing cap and therefore can be considered an extraordinary cost eligible as an additional response activity to meet due care obligations.
- Installation of helical piers and grade beam system foundation: These costs (estimated at \$207,500) are a result of site conditions, specifically unstable fill, and may be considered site preparation costs, they are required in order to maintain the integrity of the existing cap and therefore can be considered an extraordinary cost eligible as an additional response activity to meet due care obligations. .

Financial Impact:

The project will invest a total of \$3,695,000 (not including land costs or equipment) or \$92.37 per square foot.

The project will create 13-15 new full time jobs, and retain 84 jobs.

The Plan captures an estimated total of \$759,573 (including contingency) from local and school taxes over 24 years for reimbursement of the applicant. During the same period, local taxes of approximately \$16,327 will continue to be collected on the base taxable value. For millages not captured under the Plan an additional \$201,159 in taxes will be collected.

The Plan includes capture of 3% annually for the local Site Remediation Revolving Fund (for \$216,143). The Plan includes 5% annual capture for BRA administrative costs (for \$52,169).

The financial information provided in Appendix E of the Plan indicates that the project has an IRR on investment of 8%. Details of how this was calculated were not provided. The sources and uses table indicates a financing gap of \$730,000, but does not list any equity to fund the project.

The Plan captures all but one year (at about \$56,000ⁱ) of the incremental taxes available within the 30 - year statutory limit of the Plan, assuming that the last five years are reserved for the revolving loan funding. As such, any additional eligible costs could not be reimbursed from the Plan, and any eligible costs not approved for school tax capture could not be funded beyond the local proportional share.

Recommendations:

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. 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.
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.
4. Based on the RHBRA policy, the following are recommended.
 - a. 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."

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

ⁱ Assumes that the final year will provide \$41,000 in captured millages, plus approximately \$15,000 not captured during the Plan.