

Without tax increment financing (TIF) and applicable interest, the Legacy Rochester Hills residential project is not economically viable as it cannot support the environmental costs. Our project will cleanup and encapsulate highly contaminated land that has lain fallow for decades and will perform a cleanup to a far higher standard than what was approved under the 2006 Consent Judgment. The Brownfield/TIF program as established in the State of Michigan was created exactly for projects like our proposed apartments. Some advantages of our project include:

1. We anticipate \$9.62 million in brownfield eligible activities that go directly to cleaning up environmental contamination. The cleanup breaks down into \$6 million on Parcel A and \$3.6 million on Parcel B. With Brownfield TIF, cleanup occurs first, and the Developer is only reimbursed in years into the future, far after the community has received the benefits of the cleanup.
2. A TIF project is not a gift/grant of tax dollars. It is a financing tool where the Developer takes all of the risk, invests money upfront by completing the cleanup, and is only reimbursed if the property performs and generates new taxes. If the property does not succeed, there are no new taxes and therefore the Developer is not reimbursed. If the project is successful, the TIF merely equalizes the project to equal that of an investment in a Greenfield Site – while allowing the improvement on a Brownfield Site.
3. Over half (55%) of the funds for reimbursement come from the increased State tax increments generated at the site and are not from local taxes. Additionally, if the project proceeds as planned, the community will see immediate tax benefits including money going toward the Ch 20 drain debt, the OPC Building Debt, and the Rochester School Department, with an average of over \$100k annually for every TIF year.
4. Approximately \$3.6 million of the environmental expenses will go directly towards encapsulating and controlling the former landfill on the east property (3+ acres) that will remain in a natural, undeveloped state. Therefore, most of the financing gap in the residential development project is directly attributable to costs on Parcel B (the easternmost parcel), which will offer no benefit to the project.
5. The project has a financing gap that is greater than \$3.5 million, because with the environmental cleanup cost included, the project does not meet minimum investor return requirements and the bank will not provide a loan for the remediation expenses. The City's policy allows for interest to be reimbursed in a financing gap situation, the State allows for 5% interest reimbursement, and most brownfield projects include 5% interest. Our consultant (AKT)'s research shows that government support for remediation projects includes ~5% grant-funded, 20% funding via government subsidized loans, and the majority of the remaining projects are developer-funded with TIFs; and ~80%+ of those include interest. Generally, municipalities look favorably on interest for environmental TIF's and if the municipality approves then DEQ must approve interest reimbursement as well. It is less likely for interest to be provided to support eligible expense that are not-environmentally driven, and even then, interest is common.
6. We have examined many potential solutions that could have helped fill the financing gap.
  - a. The seller recognizes that the environmental remediation is complicated and therefore has given over eighteen months to try and figure out the process.
  - b. We are not compromising the project as it relates to the community. Specifically, we are not reducing the cleanup expense, we are not reducing product quality quality, and we are absorbing extra costs to satisfy neighbors including underground detention and Tudor style architecture. These options cannot help plug the financing gap.
  - c. Because the remedial expense for Parcel B is estimated at \$3.6 million and that Parcel is not expected to provide any of the tax increment, this parcel's cleanup carries a disproportionate portion of the financing gap.

- d. We can request a \$1 million low interest loan from the state. While, this will offer limited help with the financing gap and interest would still be required, it would help reduce the total interest and also reduce TIF reimbursement period. We could seek additional funding through a local revolving fund but the City does not currently have one.

7. Below is a list of recent apartment-related projects and other projects where grant money or interest was approved, which obviously represent a tiny fraction of projects with TIF reimbursement of interest statewide. Many projects also had grants and government sponsored loans.

**Residential Brownfield Projects**

Project	City
1329 S. Main St	Adrian
544 Detroit Street	Ann Arbor
3250 Auburn Rd	Auburn Hills
Uptown at Rivers Edge	Bay City
400 S. Old Woodward	Birmingham
Urbcam	Dearborn
DuCharme Place	Detroit
Orleans Landing	Detroit
Grandview Commons	Dexter
Center City	East Lansing
Stonehouse Village	East Lansing
Skypoint Ventures	Fenton
SkyVue	Lansing
Marketplace Apartments	Lansing
Downtown Midland	Midland
101 North Park	Traverse City

**Other Notable Brownfield Projects**

Project	City	Use
Water Street	Rochester	Commercial
Albion City Block	Albion	Hotel
Edgewater	Benton Harbor	Commercial
Herman Kiefer Complex	Detroit	Mixed
555 Gallery	Detroit	Recreational
Ace Hardware	Grand Rapids	Commercial
Downtown Market	Grand Rapids	Retail
MSU Biomed Research	Grand Rapids	Academic
River Raisin Battlefield	Monroe	Recreational
Northville Garage	Northville	Retail
Plainwell Paper Mill	Plainwell	Commercial
FC Mason	St. Johns	Industrial
Revival Commons	Tecumseh	Commercial
Downtown Traverse City	Traverse City	Mixed
Jimmy Johns Fields	Utica	Recreational

**Conclusions**

1. Asking the Developer to front the full \$9.6 million and not reimbursing the Developer for the cost of the funds expended effectively drives up the Developer's cost of the project. This also leaves a financing gap, that without interest, is calculated to be \$3.6 million.
2. Our project uniquely follows the City's policy and allows for interest since:
  - a. The law explicitly identifies interest as an eligible expense;
  - b. The MDEQ regularly approves interest as an eligible expense and most other communities authorize TIF reimbursement for interest expense;
  - c. The cleanup presents a financing gap that requires interest;
  - d. The project addresses:
    - Property that's lain fallow for over a decade,
    - Significant contamination,
    - The Developer cleaning to a cleaner standard than what is minimally acceptable and currently approved under the 2006 Brownfield Plan, and
    - The plan is to cleanup/mitigate property outside of the development area which has posed an uncontrolled risk to the public for years.