

# MEMO

## ASTI Environmental

**Date:** June 27, 2014

**To:** Ed Anzek, City of Rochester Hills

**From:** Tom Wackerman

**Subject:** Review of Amended Brownfield Plan for 3010 and 3050 South Rochester Road, Dated June 18, 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, For The Former Gasoline Dispensing Station And Former Dealership Property, Located at 3010 and 3050 South Rochester Road, Rochester Hills, Brownfield Redevelopment Authority*, dated June 18, 2014 and submitted for review June 20, 2014. This Plan was previously reviewed and comments were provided in our memos dated July 19, 2013 and December 11, 2013. .

### General

The Brownfield Plan (the Plan) is for one parcel including 3010 and 3050 South Rochester Road (Parcel ID Number 70-15-34-227-046) located on the southwest corner of E. Auburn and South Rochester Roads. Total investment is \$9,989,690 for construction of 32,191 square feet of retail space, and the project will create 75-100 full time jobs. The duration of the Plan is 16 years based on the assumptions described in the Plan. The Plan is requesting total reimbursement of \$337,634 (including contingency) over an estimated 11 year period from local tax capture only. The amount requested is the local proportional share (47%) of a total of \$718,370 in eligible activities.

### Basis for Eligibility

Based on the following, the project is eligible.

*Eligible Applicant:* The applicant, Rochester Auburn Associates, LLC, has completed a Phase I ESA and Baseline Environmental Assessment for each of the original two properties and has therefore completed the bona fide purchaser requirements. During a previous review it was noted that the applicant owned the property while it continued to operate as a gas station and that insufficient information was provided to determine if operations caused exacerbation. The current Plan includes a MDEQ review of site remediation and assessment conducted in February 2014 that determines that exacerbation from operation of the property did not occur (Attachment E). Therefore, the applicant is eligible.



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*Eligible Property:* Soils on the subject property are impacted above residential clean-up criteria in three locations. Concentrations of trimethylbenzenes and xylenes exceed several residential and non-residential criteria including direct contact, drinking water protection and soil volatilization to indoor air. 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. Some of these activities require additional consideration by the RHBRA as described below. Note that some of the soils and demolition work has already been conducted.

### **Required Items:**

All items required by Section 13(1) of Act 381, and the RHBRA Policy are included in a Brownfield Plan, except for the following:

- A list of contractors and subcontractors was not provided..

### **Amendments to Address Recommendations:**

All recommended changes included in the December 5, 2013 memo have been included in the current Plan.

### **Eligible Activities:**

References to eligible activity costs are listed as a maximum amount (refer to table on page 21). The following eligible activities need clarification or consideration by the RHBRA:

- **Demolition:** These costs are lower than in the original Plan. This Plan includes costs for finish and installation of backfill materials (Attachment C), which would not generally be considered demolition. In addition, it includes the cost of removal of an underground storage tank, which would not generally be considered demolition. Costs for these activities are not detailed, so the impact on the requested \$57,677 is not clear, but consideration should be given to removing them.
- **Removal of Orphan Underground Storage Tanks:** Costs for removal of USTs are generally not reimbursable (see memo of December 2013), however the exception is orphan tanks that were not identified during the due diligence process. This cost is a new item from the previous Plan and is considered eligible.
- **Installation of Utility Trench Barriers:** This item has increased in cost by 66%. Some explanation would be helpful.
- **Transport of Soils as Due Care Activities:** This is a new cost item and the text indicates that it is a future activity. However, some remediation was conducted in February (697 tons of soil and 2,000 gallons of water), and clarification as to whether this is the same activity, or if the completed remediation will be included in the reimbursement, would be helpful.
- **Soils Removal:** There are two references to soils removal: 6,000 cubic yards for Due Care and 750 cubic yards for Additional Response Activities. These are limited to transportation and off-site disposal and should not include excavation or backfill costs, which would not be eligible. These costs are \$45 and \$35 per cubic yard, respectively. Since the assumption is disposal in a Type II landfill, and these costs appear high, documentation of the cost basis should be provided.
- **Vapor Barrier and Asbestos Abatement:** These costs are no longer included in the Plan. Since site soils exceed soil volatilization criteria, some explanation as to why these are no longer necessary would be helpful.

**Financial Impact:**

The Plan includes project financial information both with and without the TIF incentives (Attachment D). Although the applicant is not requesting Community Revitalization Program (CRP) funding, they have used the CRP form as requested by the RHBRA Policy to present the financial information. The following is a review of that data.

1. The financing gap for construction of this project is \$689,690 compared to the total requested TIF reimbursement of \$337,634 (including contingency). After application of the TIF reimbursement, the project will continue to have a financing gap of \$358,853. This is based on 18% equity and 75% financing. The construction hard cost per square foot is \$60.
2. The IRR for this project is 12% without incentives and 13.6% with incentives.

Reimbursement is limited to the local proportional share of eligible activities (estimated at 47%, but will be based on actual local tax mills), and does not include school tax capture. Table 2, Tax Increment Financing Estimates, assumes a base taxable value of \$974,510, and a future taxable value of \$2,650,000, with a 1% annual increase. Both these values are consistent with the previous version of the Plan. However, it should be noted that the actual taxable value as of the date of the Plan is \$727,280, and estimates of future taxable value based on construction hard costs and the value of the land would support a slightly higher future taxable value than listed. Therefore, these assumptions provide a conservative estimate of the repayment period. It should be noted that the tax capture table is missing 3 mills for the SET so that the total mills are not consistent with current taxes - this does not affect the amount captured for reimbursement.

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

**Recommendations for Consideration During RHBRA Meeting:**

1. The RHBRA should consider limiting recapture to a maximum amount (depending on the individual eligible activities discussed above) or 11 years, whichever comes first. I
2. Applicant should provide clarification and documentation of individual eligible activities as described above. Applicant should provide information on the amount of eligible activities already conducted.

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



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