Procedures Title:	**Tax Increment Finance Analysis**
Development Project:	**309 N. Ashley**
Request:	**Brownfield TIF** **$5.6 Million ($4.5 to Developer)** **16 Years (commencing 2019)**
Date Prepared:	**February 7, 2019**
Proposed to Council:	**TBD**
Prepared By:	**Financial & Administrative Services**

1.0 Purpose

This report is used for Tax Increment Finance assessment of proposed development projects, and serves the following purposes:

- To guide staff in forming recommendations regarding the use of tax increment financing and negotiating contract terms with developers;
- to provide a framework, from which the Mayor and City Council can evaluate and compare proposed uses of tax increment financing; and
- to inform the public of the City's position on the use of tax increment financing and the process through which decisions regarding the use of tax increment financing are made.

2.0 Development Objective

The City uses tax increment financing to accomplish the following major objectives:

☐ 2.1 Expand the City of Ann Arbor economy to create more living-wage jobs, with an emphasis on providing job opportunities for the unemployed and underemployed.

☐ 2.2 Attract and expand new and existing services, developments, and employers in order to position Ann Arbor and the region to compete in the economy of the 21st century.

☒ 2.3 Increase the city's property tax base and maintain its diversity. Clean contaminated land to provide sites for uses that achieve City redevelopment objectives.

Estimated increase in taxable value by 2022 is $9.1 million at the conclusion of construction. City and other taxing authorities would realize an estimated benefit of approximately $10.3 million of additional taxable value in 2035. This site is not within the boundaries of either the DDA or the SmartZone LDFA.

Remediation of contaminants is addressed in the Brownfield Plan.

☒ 2.4 Provide an array of housing choices that meet the needs of current residents and attract new residents to the city, with an emphasis on providing affordable housing.

This project will include 17 market rate condominium units The Brownfield Plan does not identify any plans for affordable units.

☐ 2.5 Eliminate blighting influences throughout the city.

☐ 2.6 Support neighborhood retail services, commercial corridors, and employment hubs.

☐ 2.7 Support redevelopment efforts that enhance and preserve unique urban features and amenities, including downtown, green space and historic structures.

☐ 2.8 Tax delinquency

The parcels included in this project are up to date on taxes.

3.0 General Guidelines in the Use of Tax Increment Financing

3.1 The City of Ann Arbor will use tax increment financing only when a clearly identified city development objective is served and only to the degree necessary to accomplish that development objective.

3.2 Tax increment financing will only be used in cases where the City has the financial capacity to provide the needed public assistance, the Council deems it fiscally prudent to provide such assistance, and the developer can clearly demonstrate that the development will be able to meet its financial and public purpose commitments.

3.3 The City of Ann Arbor will recapture the public subsidy to the maximum extent feasible after allowing the developer a reasonable return.

3.4 Alternatives, such as “pay as you go” financing and reimbursing front-end public redevelopment costs with tax increment revenues, are preferable to bond financing and are to be considered and used when appropriate. The

City will not issue general obligation tax increment bonds except when all net bond proceeds are used to directly pay public costs or refinance debt that was previously issued to pay for such costs, and the taxable development that will generate the tax increment use to pay all or a portion of the debt service on the bonds is either fully constructed and assessed by the City Assessor or is underway and subject to the terms and conditions of a development agreement with the City.

3.5 Only those public improvements and public redevelopment costs directly associated with the proposed development plan or project should be financed through tax increment.

Eligible activities reviewed by Planning & Development Services. Developer's Statement of Brownfield TIF "purpose" included in Brownfield Plan.

4.0 Economic Analysis and Risk Assessment Process

4.1 Proposed uses of tax increment financing will be subject to rigorous economic analysis and risk assessment. The City's Financial and Administrative Services Area staff will be responsible for overseeing the analysis and assessment process. Consultants will be used to complete needed analysis and assessment as appropriate.

4.2 The analysis and assessment of all proposed uses of tax increment financing will address the following questions as part of the standard format for reports to the City Council:

- What is the public purpose of the financial assistance to the project?

  To make what was otherwise a financially infeasible development due to contamination issues into a viable project without providing an excessive return to the developer.

- Why is there a financial need for public investment and/or subsidy?

  The properties are adjacent to a former gas station. The soil has contaminants that will require remediation. The proposed reimbursement to the developer is for $2.4 million of eligible environmental activities, and $2.1 million of eligible non-environmental activities.

- What is the total cost of the project?

  Approximately $17.1 million.

- What is the appropriate level of public participation?

  Given data supplied by the developer, a level of participation of $5.6 million ($4.5 million reimbursement to developer) would lead to a return of 15.0 %. Without TIF reimbursements, the return would be approximately 6.1%.

  The developer is seeking reimbursement for environmental costs of 2.4 million, and for non-environmental costs of $2.1 million. The total TIF is increased through the inclusion of SRF ($400k) and LBRF ($700k), to a total of $5.6 million.

  Benchmark rates of return for real estate investment as report by PwC are in the 6-12% range, with a mean of 8.57%. ***FASA recommends that the support is limited strictly to environmental activities, and that administrative fees, interest, and LBRF are not funded. This would result in a $1.975 million reimbursement to the developer. The internal rate of return (IRR) on this project with that level of participation would likely be 10.7%, within the benchmark range.***

  FASA further recommends that, if the Committee supports the approval of a Brownfield capture, the Brownfield Plan and any other appropriate documents be amended to specify that in the event the State or any of its agencies approves amounts less than that specified in the plan, the burden shall not shift to local taxes.

- What are the risks associated with the project?

  Developer is responsible for all risks.

- What are the alternative plans for managing the risk?

  Developer is responsible for all risks.

- How does the proposed project finance plan compare with previously approved comparable projects?

  There have been several other Brownfields in Ann Arbor and this one is structured similarly.

- What is the project's impact on other publicly financed projects?

  None identified.

4.3 The results of the economic analysis and risk assessment will be presented to the City Council at the time of the request for approval of the proposed use of tax increment financing. The report will identify any elements of the proposed project that are not in conformance with this Tax Increment Policy.

4.4 Projects with an anticipated term of increment collection greater than 15 years or projects with tax increment principal in excess of $10 million will be subject to a more extensive analysis, including appropriate market analysis and review by the City's Financial and Administrative Services Area staff.

5.0 Evaluation Criteria

5.1 Need for public assistance – In all cases, it is required that the need for public assistance be demonstrated and documented by the developer to the satisfaction of the City's Financial and Administrative Services Area. All such documentation, including development budgets, cash flow projections, market studies and other financial and market information, must be submitted by the developer along with a written request for public financial assistance. If the request is based on financial gap considerations, the developer will demonstrate the profitability and feasibility of the project (i.e. gross profit, cash flow before taxes, cash-on-cash return, IRR, etc.), both with and without public assistance, in a format that allows for sensitivity analysis.

The Brownfield Plan and Pro Forma have been analyzed.

5.2 Amount of Public Assistance vs. Private Investment – All development proposals shall seek to maximize the amount of private investment per dollar of public assistance. Public assistance as a percentage of total development costs will be determined for each project (or discrete portion of a project receiving a subsidy) and compared to other development projects or subprojects of similar scope and magnitude whenever possible.

As proposed, the total reimbursement to the developer from TIF is $4.5 million, or 27% of total project costs.

5.3 Term of Public Assistance – The term of the public assistance shall be kept to a minimum. The proposed term of any public assistance shall be fully disclosed and explained to the City Council.

As proposed, the term of TIF reimbursement to the developer, SRF, and LSRRF is 16 years, commencing in 2019 and concluding in 2034.

5.4 Development Benefit and Costs – The direct and indirect benefits of the development proposal shall be determined and quantified to the degree possible. Benefits shall include, but are not limited to, employment benefits (number of jobs retained or created, percentage of jobs held by City residents, wage and salary information, etc.), tax base benefits (estimated market value of new development, new property taxes generated, etc.), housing benefits (number of new rental or ownership units, number of affordable units, etc.) and other benefits relating to transportation, parking, blight remediation, environmental cleanup and historic preservation.

Estimated jobs created: *Unspecified temporary construction*
Estimated taxable value of new development: *$9.1 million in 2022*
Estimated new property taxes: *$500,000 –Total City*
$80,000 – General Fund
Commencing in 2035
Housing benefit: *17 condominium units*
Commercial: *Project does not include commercial or retail*

Costs of the development proposal to the City shall also be identified to the degree possible. Such costs shall include, but are not limited to, additional required infrastructure, required local contributions by the City, etc. The timeframe used for these cost estimates should equal the timeframe of the project finance plan and should separately identify any projected recapture of public subsidy.

Detail of such costs is illustrated in both the Brownfield Plan and the Pro Forma.

5.5 Recapture of Public Subsidy – It is the City's goal to recapture all, or a portion, of the public subsidy provided to the extent practical. Methods of recapture shall include, but are not limited to, long-term ground leases, subordinated loans, sale, and/or refinancing provisions and equity participation.

Prepared by: Matthew V. Horning, Treasurer — Date: 2/7/2019

Reviewed by: Tom Crawford, CFO — Date: 2/8/19

PROPOSED

IRR With TIF HIGH

Year	Cash Flow	Interest & Commission	Revenue	Developer Fee	TIF **	Total
2017	(1,277,500)					(1,277,500)
2018	(347,500)					(347,500)
2019	(3,921,207)				3,803	(3,917,404)
2020	(8,107,365)				154,723	(7,952,642)
2021	16,130,237			-	259,056	16,389,293
2022					328,610	328,610
2023					332,089	332,089
2024					335,600	335,600
2025					339,148	339,148
2026					342,730	342,730
2027					346,351	346,351
2028					350,006	350,006
2029					353,698	353,698
2030					357,430	357,430
2031					361,194	361,194
2032					364,992	364,992
2033					316,877	316,877
SUM	**2,476,665**	-	-	-	**4,546,307**	**7,022,972**
IRR						**18.4%**
NPV						**$4,867,864**

IRR Test Using NPV Method

Year	NPV of Cash Flow
0	(1,277,500)
1	(347,500)
2	(3,917,404)
3	(7,952,642)
4	16,389,293
5	328,610
6	332,089
7	335,600
8	339,148
9	342,730
10	346,351
11	350,006
12	353,698
13	357,430
14	361,194
15	364,992
16	316,877
SUM	**7,022,972**
Rate =	**18.4%**
NPV	**$0**

IRR Without TIF

Year	Cash Flow
2017	(1,277,500)
2018	(347,500)
2019	(3,921,207)
2020	(8,107,365)
2021	16,130,237
2022	-
2023	-
2024	-
2025	-
2026	-
2027	-
2028	-
2029	-
2030	-
2031	-
2032	-
2033	-
SUM	**2,476,665**
IRR	**10.5%** ***
NPV	**1,554,492**
Return Using Developer Method ****	4.81%

IRR With TIF MID

Year	Cash Flow	Interest & Commission	Revenue	Developer Fee	TIF **	Total
2017	(1,277,500)					(1,277,500)
2018	(347,500)					(347,500)
2019	(4,088,480)				3,803	(4,084,677)
2020	(8,487,964)				154,723	(8,333,241)
2021	15,635,788			-	259,056	15,894,844
2022					328,610	328,610
2023					332,089	332,089
2024					335,600	335,600
2025					339,148	339,148
2026					342,730	342,730
2027					346,351	346,351
2028					350,006	350,006
2029					353,698	353,698
2030					357,430	357,430
2031					361,194	361,194
2032					364,992	364,992
2033					316,877	316,877
SUM	**1,434,344**	-	-	-	**4,546,307**	**5,980,651**
IRR						**15.0%**
NPV						**$3,950,112**

IRR Test Using NPV Method

Year	NPV of Cash Flow
0	(1,277,500)
1	(347,500)
2	(4,084,677)
3	(8,333,241)
4	15,894,844
5	328,610
6	332,089
7	335,600
8	339,148
9	342,730
10	346,351
11	350,006
12	353,698
13	357,430
14	361,194
15	364,992
16	316,877
SUM	**5,980,651**
Rate =	**15.0%**
NPV	**($0)**

IRR Without TIF

Year	Cash Flow
2017	(1,277,500)
2018	(347,500)
2019	(4,088,480)
2020	(8,487,964)
2021	15,635,788
2022	-
2023	-
2024	-
2025	-
2026	-
2027	-
2028	-
2029	-
2030	-
2031	-
2032	-
2033	-
SUM	**1,434,344**
IRR	**6.1%** ***
NPV	**636,740**
Return Using Developer Method ****	0.00%

IRR With TIF LOW

Year	Cash Flow	Interest & Commission	Revenue	Developer Fee	TIF **	Total
2017	(1,277,500)					(1,277,500)
2018	(347,500)					(347,500)
2019	(4,255,754)				3,803	(4,251,951)
2020	(8,868,563)				154,723	(8,713,840)
2021	15,141,339			-	259,056	15,400,395
2022					328,610	328,610
2023					332,089	332,089
2024					335,600	335,600
2025					339,148	339,148
2026					342,730	342,730
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2029					353,698	353,698
2030					357,430	357,430
2031					361,194	361,194
2032					364,992	364,992
2033					316,877	316,877
SUM	392,022	-	-	-	4,546,307	4,938,329
IRR						11.8%
NPV						$3,032,360

IRR Test Using NPV Method

Year		NPV of Cash Flow
	0	(1,277,500)
	1	(347,500)
	2	(4,251,951)
	3	(8,713,840)
	4	15,400,395
	5	328,610
	6	332,089
	7	335,600
	8	339,148
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	10	346,351
	11	350,006
	12	353,698
	13	357,430
	14	361,194
	15	364,992
	16	316,877
SUM		4,938,329
Rate =		11.8%
NPV		$0

IRR Without TIF

Year	Cash Flow
2017	(1,277,500)
2018	(347,500)
2019	(4,255,754)
2020	(8,868,563)
2021	15,141,339
2022	-
2023	-
2024	-
2025	-
2026	-
2027	-
2028	-
2029	-
2030	-
2031	-
2032	-
2033	-
SUM	392,022
IRR	1.7% ***
NPV	(281,012)

IRR With TIF LOW

Year	Cash Flow	Interest & Commission	Revenue	Developer Fee	TIF **	Total
2017	(1,277,500)					(1,277,500)
2018	(347,500)					(347,500)
2019	(4,255,754)				3,803	(4,251,951)
2020	(8,868,563)				154,723	(8,713,840)
2021	15,141,339			-	259,056	15,400,395
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2030					357,430	357,430
2031					361,194	361,194
2032					364,992	364,992
2033					316,877	316,877
SUM	**392,022**	-	-	-	**4,546,307**	**4,938,329**
IRR						11.8%
NPV						$3,032,360

IRR Test Using NPV Method

Year		NPV of Cash Flow
	0	(1,277,500)
	1	(347,500)
	2	(4,251,951)
	3	(8,713,840)
	4	15,400,395
	5	328,610
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	11	350,006
	12	353,698
	13	357,430
	14	361,194
	15	364,992
	16	316,877
SUM		**4,938,329**
Rate =		**11.8%**
NPV		**$0**

IRR Without TIF

Year	Cash Flow
2017	(1,277,500)
2018	(347,500)
2019	(4,255,754)
2020	(8,868,563)
2021	15,141,339
2022	-
2023	-
2024	-
2025	-
2026	-
2027	-
2028	-
2029	-
2030	-
2031	-
2032	-
2033	-
SUM	**392,022**
IRR	1.7% ***
NPV	**(281,012)**

IRR With TIF HIGH

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2031					361,194	361,194
2032					364,992	364,992
2033					316,877	316,877
SUM	**2,476,665**	-	-	-	**4,546,307**	**7,022,972**
IRR						**18.4%**
NPV						**$4,867,864**

IRR Test Using NPV Method

Year	NPV of Cash Flow
0	(1,277,500)
1	(347,500)
2	(3,917,404)
3	(7,952,642)
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11	350,006
12	353,698
13	357,430
14	361,194
15	364,992
16	316,877
SUM	**7,022,972**
Rate =	**18.4%**
NPV	**$0**

IRR Without TIF

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2018	(347,500)
2019	(3,921,207)
2020	(8,107,365)
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2025	-
2026	-
2027	-
2028	-
2029	-
2030	-
2031	-
2032	-
2033	-
SUM	**2,476,665**
IRR	**10.5%** ***
NPV	**1,554,492**
Return Using Developer Method ****	4.81%

IRR With TIF MID

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2017	(1,277,500)					(1,277,500)
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2019	(4,088,480)				3,803	(4,084,677)
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2029					353,698	353,698
2030					357,430	357,430
2031					361,194	361,194
2032					364,992	364,992
2033					316,877	316,877
SUM	**1,434,344**	-	-	-	**4,546,307**	**5,980,651**
IRR						**15.0%**
NPV						**$3,950,112**

IRR Test Using NPV Method

Year	NPV of Cash Flow
0	(1,277,500)
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9	342,730
10	346,351
11	350,006
12	353,698
13	357,430
14	361,194
15	364,992
16	316,877
SUM	**5,980,651**
Rate =	**15.0%**
NPV	**($0)**

IRR Without TIF

Year	Cash Flow
2017	(1,277,500)
2018	(347,500)
2019	(4,088,480)
2020	(8,487,964)
2021	15,635,788
2022	-
2023	-
2024	-
2025	-
2026	-
2027	-
2028	-
2029	-
2030	-
2031	-
2032	-
2033	-
SUM	**1,434,344**
IRR	**6.1%** ***
NPV	**636,740**
Return Using Developer Method ****	0.00%

RECOMMENDED

IRR With TIF MID ENV ONLY

Year	Cash Flow	Interest & Commission	Revenue	Developer Fee	TIF	Total
2017	(1,277,500)					(1,277,500)
2018	(347,500)					(347,500)
2019	(4,088,480)				1,652	(4,086,828)
2020	(8,487,964)				67,215	(8,420,749)
2021	15,635,788				112,539	15,748,327
2022					142,754	142,754
2023					144,266	144,266
2024					145,791	145,791
2025					147,332	147,332
2026					148,888	148,888
2027					150,461	150,461
2028					152,049	152,049
2029					153,653	153,653
2030					155,274	155,274
2031					156,909	156,909
2032					158,559	158,559
2033					137,657	137,657
SUM	**1,434,344**	-	-	-	**1,975,000**	**3,409,344**
IRR						**10.7%**
NPV						**$2,076,130**

IRR Test Using NPV Method

Year	NPV of Cash Flow
0	(1,277,500)
1	(347,500)
2	(4,086,828)
3	(8,420,749)
4	15,748,327
5	142,754
6	144,266
7	145,791
8	147,332
9	148,888
10	150,461
11	152,049
12	153,653
13	155,274
14	156,909
15	158,559
16	137,657
SUM	3,409,344
Rate =	10.7%
NPV	**$0**

IRR Without TIF

Year	Cash Flow
2017	(1,277,500)
2018	(347,500)
2019	(4,088,480)
2020	(8,487,964)
2021	15,635,788
2022	-
2023	-
2024	-
2025	-
2026	-
2027	-
2028	-
2029	-
2030	-
2031	-
2032	-
2033	-
SUM	1,434,344
IRR	**6.1%**
NPV	636,740