



Procedures Title:	<b>Tax Increment Analysis</b>
Development Project:	<b>Deli Partners</b>
Request:	<b>Brownfield TIF \$1.23 Million, 17 Years</b>
Date Prepared:	July 19, 2010
Proposed to Council:	July 19, 2010
Prepared By:	Financial & Admin Svcs. Area

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## 1.0 Purpose

Used for a development project's Tax Increment Financing assessment 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 21<sup>st</sup> 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.
- 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.

N/A

- 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.

*LEED Certified.*

- 2.8 Other

### **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 Matthew Naud. Developer's Statement of Brownfield TIF "purpose" included in Brownfield Plan attached.*

## 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?
- Why is there a financial need for public investment and/or subsidy?
- What is the total cost of the project?
- What is the appropriate level of public participation?
- What are the risks associated with the project?
- What are the alternative plans for managing the risk?
- How does the proposed project finance plan compare with previously approved comparable projects?
- What is the project's impact on other publicly financed projects?

*The developer is prepared to respond to above questions.*

- 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.

*ROI Financial Forecaster Model has 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.

*ROI Financial Forecaster Model has been analyzed.*

- 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.

- 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: 65*

*Estimated market value of new development: \$6,600,000\**

*\*City Assessor has reservations that assessed value will be comparable to this assumption*

*Estimated new property taxes: \$27,000–City \$11,000–Gen'l Fund*

*Housing benefit: N/A*

*Commercial: 10,400 ft<sup>2</sup> plus existing*

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.

- 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:

  
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Financial & Admin Svcs. Area Staff

July 19, 2010

Date

Reviewed by:

  
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Chief Financial Officer

July 19, 2010

Date

DAVID PETRAK FOR TOM CRAWFORD