



Procedures Title:	Tax Increment Finance Analysis
Development Project:	618 S. Main
Request:	Brownfield TIF \$4.6 Million, 24 Years (commencing 2014)
Date Prepared:	June 11, 2012
Proposed to Council:	TBD
Prepared By:	Financial & Administrative Services

1.0 Purpose

Used for a development project's Tax Increment Finance 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 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 is \$9.2 million in 2014. City and other taxing authorities would realize estimated benefit of \$11.6 million

additional taxable value beginning in 2038. 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 150-170 residential rental units, 121 underground automobile parking spaces, and 89 bicycle parking spaces. The Brownfield Plan does not identify any plans for affordable units.

- 2.5 Eliminate blighting influences throughout the city.

The parcel is the site of the former Fox Tent and Awning.

- 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.

The project proposes to remove soil contaminants and construct housing in the downtown area.

- 2.8 Tax delinquency

The parcel included in this project is 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 Matthew Naud. 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 of the project 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 property had an underground storage tank that was removed during phase two environmental testing. The soil has contaminants that will require approximately \$200,000 to remediate. The balance of the reimbursement to the developer is for eligible activities, such as infrastructure improvements. Tax increment financing provides support for the project without providing an excessive return to the developer.

- What is the total cost of the project?

\$39-40 million

- What is the appropriate level of public participation?

FASA recommends approval of the Contamination/Core Community Related Activities, Brownfield Program Administrative Fees, and LSRRF Capture as specified in the Brownfield Plan (\$3,708,031). The fact that this parcel is within the DDA boundary and that the DDA captures the majority of tax extends the capture over a long period of time. This results in a large amount of interest relative to eligible activities (\$656,421). While this amount is authorized by statute, the State may not approve interest reimbursement at this level. If the City were to approve this amount, and the State were to subsequently approve a lesser amount, the burden of funding the difference would shift to local taxes only. Therefore, FASA 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 approves an interest amount less than that specified in the plan, the burden shall not shift to local taxes.

- What are the risks associated with the project?

The return to the developer as specified in the financial pro forma is low.

- 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 only been a few other Brownfields by Ann Arbor and this one is structured similarly. However, as this parcel is in the DDA/LDFA district the TIF is captured differently. All incremental tax for non-school millages is captured by the DDA. Fifty percent of the incremental tax for school operating and SET millages is captured by the LDFA. This leaves only 50% of the incremental tax for school operating and SET millages available for capture by the Brownfield. As the DDA does not capture incremental tax due to appreciation, the Brownfield will capture all non-school incremental tax due to appreciation. The Brownfield will also capture all non-operating local school and WISD millages.

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

This project provides for \$2 million in public infrastructure improvements.

- 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.

The Financial and Administrative Services Area (FASA) supports the Phase I & II Environmental Site Assessments, Baseline Environmental Assessment, Due Care Activities, Additional Response Activities, Preparation of a Brownfield Plan and Act 381 Work Plans, Public Infrastructure Improvements, Lead and Asbestos Survey and Abatement, Demolition, and Site Preparation inherent in the project. The Plan calls for developer reimbursements of \$3.7 million over 21 years. This level of reimbursement results in a return on investment of 6.13% if a sale is assumed after 20 years at a cap rate of 9.75. If a sale is not assumed, the return is 5.81%. These rates of return are below previously approved Brownfield plans. Additional funds are to be captured by the WCBRA and the LSRRF for a total capture amount of \$4,615,063 over 24 years.

- 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 (in City format) 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.

The total reimbursement to the developer from TIF is \$3.7 million, or 9.25% 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.

The term of TIF reimbursement to the developer, WCBRA, and LSRRF is 24 years, concluding in 2037.

- 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: unknown

Estimated taxable value of new development: \$9.5 million

Estimated new property taxes: \$191,500–Total City; \$119,500–General Fund commencing in 2038


Housing benefit: 150-170 residential rental units in the downtown area

Commercial: none

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:  June 11, 2012
Matthew V. Horning, Treasurer Date

Reviewed by:  June 12, 2012
Tom Crawford, Chief Financial Officer Date