

Introduction and Project Description

The Townie Homes project is an affordable/attainable housing proposal by the Ann Arbor Community Land Trust (the “Developer”). The project consists of ten parcels, all in the City of Ann Arbor, on Scio Church, Wagner, Maple Roads, and Jewett Avenue, where 26 single family and accessory dwelling units (ADUs) are proposed, all two and three-bedroom. Refer to **Attachment C** of the Brownfield Plan for a site plan for all parcels. The targeted sales prices for these homes are intended to address the lack of housing for households earning between 30% and 90% of the Area Median Income. Projected sale prices range from \$125,000 to \$350,000, which correlates to these income levels. Median home sales in Ann Arbor are approximately \$600,000. To ensure affordability, the homes will be deed-restricted at the indicated household incomes for at least 30 years. The Developer intends to exceed 30 years of affordability and keep the homes permanently affordable within the community land trust.

The proposed Brownfield Plan is the City’s first under the recently amended Brownfield Act 381, incorporating the ability to use Tax Increment Financing to subsidize affordable rental and for-sale housing units. The Michigan State Housing Development Authority (MSHDA) is the State Agency in charge of the program and will review the Brownfield Plan after City and County approvals. Typically, Brownfield Plans go to EGLE or the MEDC for State review and approval. However, the involved sites are not contaminated, therefore EGLE will not be involved. Further, the proposed “Non-Environmental Activities” will be reviewed by MSHDA, rather than MEDC, since this is a Housing Brownfield Plan.

The MSDHA guidance for Housing TIF Brownfield Plans for for-sale homes allows the developer to calculate the difference between the cost to develop the homes and the price at which the homes could be sold at an affordable/attainable level, recognizing that the cost to develop even a modestly-sized new homes is often higher than a low- or middle-income household can afford. This cost differential is called the “Potential Development Loss”, or the “PDL”. Methodology for establishing the PDL is provided in **Attachment L** of the Plan, and is a total of \$2,660,075 for all 26 homes. This is the amount requested to be reimbursed to the Developer by capturing the tax increment generated by the new homes over a period of 30 years. The reimbursement amount takes into account the amount of money that a household in the target income group can reasonably pay toward a mortgage and “backs into” a target sale price.

In addition to the PDL calculation of \$2,660,075 the Developer is requesting reimbursement in the amount of \$14,400 for Phase I Environmental Assessments, \$1,356,060 for Public Infrastructure, \$65,000 for Building Demolition, \$370,137 for Site Preparation, \$268,680 as a 15% Contingency and \$209,429 for General Conditions costs. Additional costs are included for Project Management, Brownfield Plan and Work Plan preparation, and \$60,000 for the County Brownfield Authority for Implementation, which includes oversight and compliance responsibilities for the income restricted homes over the 30 years of the Plan. The total amount of all Eligible Activities requested is \$5,049,381, displayed in a table on the following page. In addition, the Authority will capture 5% of gross annual tax capture for Administrative operations for deposit into the Local Brownfield Revolving Fund (LBRF), estimated to be \$268,680 over the life of the Plan. Finally, an Authority LBRF Lum Sum of \$300,000 is included at the end of the Plan.

Eligible Activity Table

EGLE Eligible Activities Costs and Schedule	
EGLE Eligible Activities	Cost
Department Specific Activities	
<i>Phase I Environmental Assessments</i>	\$14,400
EGLE Eligible Activities Sub-Total	\$14,400
Contingency (0%)	\$0
Interest (0%)	\$0
EGLE Eligible Activities Total Costs	\$14,400

MSHDA Eligible Activities Costs and Schedule	
MSHDA Eligible Activities	Cost
Public Infrastructure Sub-Total	\$1,356,060
<i>Curbing</i>	\$65,000
<i>Public Driveway</i>	\$45,000
<i>Water and Storm Sewers</i>	\$326,858
<i>Sidewalks</i>	\$40,000
<i>Roads</i>	\$94,800
<i>Solar</i>	\$312,000
<i>Rain Gardens</i>	\$182,000
<i>Retaining Wall</i>	\$75,000
<i>Soft Costs (design, engineering, etc.)</i>	\$215,402
Building Demolition Sub-Total	\$65,000
<i>Demolition</i>	\$65,000
Site Demolition Sub-Total	\$0
Site Preparation Sub-Total	\$370,137
<i>Land Balancing</i>	\$281,858
<i>Clearing/Grubbing</i>	\$40,000
<i>Soft Costs (design, engineering, etc.)</i>	\$48,279
Contingency (15%)*	\$268,680
General Conditions Sub-Total	\$209,429
Project Management Sub-Total	\$30,000
MSHDA Eligible Activities (excl. Housing Subsidy) Sub-Total	\$2,299,306
Total Housing Subsidy Sub-Total	\$2,660,075
MSHDA Eligible Activities Sub-Total	\$4,959,381
Interest (0%)	\$0
Brownfield Plan and/or Work Plan Preparation	\$30,000
Authority Work Plan Implementation	\$60,000
MSHDA Eligible Activities Total Costs**	\$5,049,381

After Brownfield Plan approval by the City, the Plan will go to the Washtenaw County Brownfield Redevelopment Authority for recommendation, then to the County Board of Commissioners for Adoption. Then the Brownfield Plan will be packaged as an Act 381 MSHDA Housing Brownfield Plan and submitted to MDSHDA for approval, which will allow the capture of School Taxes to assist with reimbursement of Eligible Activities.

The County Brownfield Authority has compliance, oversight and reporting responsibilities for all 26 housing units over the life of the Plan. A Reimbursement and Affordable Housing Agreement will be executed between the Authority and Developer to provide responsibilities for both parties.

Based upon the findings described below, staff finds that Townie Homes Brownfield Plan meets the intent of the City's Brownfield Policy and recommends approval of the resolution.

Brownfield Plan Review Criteria

1. Developer-reimbursable Brownfield TIF shall not exceed 20% of overall project investment. This limit does not apply to projects with \$3 million or less in private investment, not including property acquisition costs.

This standard is intended to adhere to some reasonable proportion of public tax contribution to private investment. It was developed with Brownfield Plans historically proposed in the City, which included environmental and non-environmental activities. However, with a MSHDA Housing Brownfield Plan, there are large rent/for-sale subsidies funded with TIF that will skew this proportion. For example, total estimated private investment is \$9.9M, but developer-reimbursable Eligible Activities in the Plan are \$4,989,381, which is approximately 50% of private investment. If the \$2,660,075 in MSHDA Housing Subsidies were excluded, developer reimbursement of is \$2,329,306, which is 24% of private investment.

Affordable housing projects are difficult to finance and require creative solutions. Large scale affordable housing projects, which benefit from economies of scale and can often leverage federal tax credits still frequently require additional local subsidy. This project addresses a "missing middle" housing typology while providing affordable units through new taxes that would not exist but for the project. City Council could consider allowing flexibility with this standard, given the community benefit proposed.

2. Brownfield TIF incentives shall not be reimbursed to (benefit) a Liable Party, nor used to finance brownfield activities that are otherwise the legal responsibility of a Viable Liable Party. Primary Responsible Parties are identified and pursued by the MDEQ.

Plan meets standard. This standard refers to traditional brownfields with environmentally-impacted sites.

3. If a project includes residential land use, and Non-Environmental Eligible Activities are requested, and is not already paying a Fee in Lieu of providing affordable housing as part of a Planned Unit Development, affordable housing must be included. In those cases at least 15% of the total number of units must be provided to households that earn a maximum of 60% of the

Area Median Income, with rents established using MSHDA rents and MSHDA PHA Utility Allowances, for at least 99 years.

- a. If for-sale residential units are proposed, AMI limits still apply and sales price will be limited to maintain affordability over the required affordability period.

The 15% target was established as a mechanism to ensure that some level of affordable units would be created in developments that would otherwise be solely market rate. In this case, all of the proposed units will be income-restricted for at least 30 years, at varying income levels between 30% and 90%. Staff finds that the intent of this standard is met.

4. If a project does not include residential land use, and is not already paying a Fee in Lieu as part of a Planned Unit Development, and Non-Environmental Eligible Activities are requested, a payment in lieu of providing the required affordable housing is required. The payment in lieu amount shall be \$50,000 + 2% of the overall private investment, to be reserved by the Brownfield Authority and remitted to the City from first Tax Increment capture available for reimbursement to developer for Eligible Activities.

This standard does not apply.

5. If only Environmental Eligible Activities are requested, affordable housing is not required, and the project will generally be supported with the assumption of the inherent benefits of a cleaner environment and protection of public health. The City strongly favors additional remediation beyond minimum required for Due Care and compliance with applicable environmental standards. Examples include remediation beyond property boundaries within adjacent street rights-of-way and properties where such actions will result in meaningful current and/or future protection of public health.

This standard does not apply

6. Additionally, Non-Environmental Eligible Activities will only be considered if:
 - i. Total of non-environmental activities does not exceed environmental, unless the project provides affordable housing, or Fee in Lieu, in accordance with #4, above; AND

The Plan meets this standard. Non-environmental activities exceed Environmental, but affordable housing is provided.
 - ii. Projects that can demonstrate the project meets MEDC requirements, and the MEDC has given verbal conceptual support for the project. However, projects may be supported that do not qualify for MEDC support, if determined to be a local priority;

The Plan meets this standard. The MEDC is not involved.

AND

- iii. A real financial gap in project feasibility can be demonstrated.

Staff finds that a financial gap exists and that the project as proposed could not be constructed but for the use of tax increment financing in the amount described herein. Unlike most Brownfield Plans, where the project as proposed would not be feasible

without the use of tax increment financing, these homes could likely be built without financial support. However, the resulting sale prices would not be affordable to the intended income groups. The Townie Homes program therefore offers a creative and targeted approach to meeting the community's affordable housing goals for a housing type that is in high demand yet difficult to deliver at an affordable level.

According to the developer's model, on a per-unit basis, the average cost to construct a home, including all hard costs, soft costs, land, and fees, is approximately \$345,400, whereas the average household can only afford to finance a home up to \$242,700, resulting in nearly a \$100,000 potential development loss per home. It is important to note that the size of the gap depends on the target affordability level. For example, the gap will be much smaller for a household at 90% AMI and much larger for a household at 30% AMI. This program is structured so that higher income households will cross-subsidize lower income households.

7. Public Infrastructure Non-Environmental Eligible Activities must demonstrate an area-wide benefit, and not only serve the proposed development. The proposed infrastructure upgrade shall not be an improvement that would otherwise be required to support the development. The City also encourages infrastructure that result in exemplary improvements in energy efficiency.

The new MSHDA Housing TIF program includes guidance that is more flexible, and different from the MEDC. MSHDA allows public and private infrastructure, solar panels and other sustainability improvements, while the MEDC is stricter in what is permitted, only including public infrastructure, and does not allow sustainable elements. It is presumed that the infrastructure proposed in the Brownfield Plan will be primarily serving the development sites.

8. The environmental conditions and/or extraordinary costs associated with urban, infill development prevent a reasonable Return on Investment for the developer.

This standard does not apply.

9. Interest, permit review fees, building review fees, sewer disconnect fees, as an additional brownfield eligible expense, will not be considered eligible expenses.

These activities are not proposed.

10. Total TIF capture period for developer reimbursement may be limited to below the maximum 30 years allowed by statute, as negotiated with the City. Any such capture period shall explicitly identify duration and eligible activities, inclusive of administrative and local brownfield revolving fund activities.

The Plan is proposed for 30 years to maximize affordability and allow sufficient time for all Eligible Costs to be reimbursed. Limiting reimbursement period would only limit Eligible Activities, which would impact the number of affordable homes, and/or affordability levels.