



## MICHIGAN STRATEGIC FUND

# MICHIGAN COMMUNITY REVITALIZATION PROGRAM PROGRAM GUIDELINES

### PROGRAM OVERVIEW

The Michigan Community Revitalization Program (MCRP) is an incentive program to promote private investment in Michigan communities. Administered by the Michigan Economic Development Corporation (MEDC) on behalf of the Michigan Strategic Fund (MSF), this tool provides Michigan communities with access to real estate development gap financing for innovative and/or impactful placemaking, historical redevelopment and/or job growth in targeted sectors.

The MSF may provide support for a project in the form of a grant, direct loan or other economic assistance such as a loan participation or equity investment. All awards shall be performance-based.

### PROGRAM GOALS

The focus of the MCRP is to transform underutilized properties into vibrant areas by encouraging and promoting capital investment and the redevelopment of brownfield and historic properties located in or in support of traditional downtowns<sup>1</sup> and high-impact corridors in every region of the state. Community revitalization will attract talent through innovative and/or impactful placemaking by accelerating private investment in areas of historical disinvestment, fostering redevelopment of functionally obsolete properties, reducing blight, and supporting the rehabilitation of historic resources.

### PROJECT CONSIDERATIONS

Per statutory requirements, applicants are required to document that the project is located on eligible property (See **Appendix A**). Further, to the extent reasonably applicable and to the extent determined by the fund Board or its designee, the fund Board or its designee shall evaluate each project based on the criteria provided in the statute (See **Appendix B**).

Staff shall also evaluate proposed projects based on the following considerations; the most competitive MCRP project submissions will address local and regional impact, place, and economic and financial considerations. These are listed below by category and are in no particular order. Projects meeting multiple considerations will be more competitive and more likely to receive a positive staff recommendation.

#### *Local and Regional Impact Considerations:*

- Project supports the vision and goals stated in the local master plan, downtown plan, capital improvements plan and/or economic development strategy.
- Project supports region-wide economic development strategy or initiative.
- Located in a Redevelopment Ready Community; a voluntary, no-cost certification program designed to promote effective redevelopment strategies through a set of best practices.
- Located in a Main Street community; unique, historic preservation based economic development strategy that focuses on leveraging existing social, economic, physical, and cultural assets to energize community revitalization efforts.
- Community financially supports the project as demonstration that the project is a priority.

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<sup>1</sup> A "traditional downtown" or "traditional commercial center" is defined as a grouping of 20 or more contiguous commercial parcels containing buildings of historical or architectural significance. The area must have been zoned, planned, built or used for commercial purposes for more than 50 years. The area must consist of, primarily, zero-lot-line development and have pedestrian friendly infrastructure.



- Project strengthens connections to local/regional workforce and career opportunities to the community, region and/or state's overall workforce and opportunities particularly in support of the growth and development of the MEDC's strategic focus industries.
- Located in a Geographically Disadvantaged Area (GDA)<sup>2</sup>; [Click here](#) to see a public map of Michigan's Geographically Disadvantaged Areas.
- Project is coordinated with or supports other state investments in the community.
- Readiness of infrastructure – utilities, housing, transportation, public transit and other community services. Is project filling available capacity or creating need for new community or state investments in infrastructure/resources?
- Emerging developers<sup>3</sup> who seek to generate community development projects that serve as a catalyst for community impact, specifically in geographically disadvantaged areas.
- The community has a documented public participation strategy for engaging a diverse set of community stakeholders.

***Place Considerations:***

- Evaluated in concert with the basic tenets of urban design; has density, building type(s), and scale appropriate to the neighborhood context and positively contributes to the pedestrian experience.
- Contributes to a traditionally dense mixed-use area and contains multi-story elements.
- Rehabilitation, infill and historic revitalization projects.
- Promotes mixed-income neighborhoods.
- Incorporate integrated and sustainable approaches to manage the quantity and the quality of stormwater for infrastructure improvements.
- Significant square footage being revitalized and activated.
- Universal design (designed to be accessed, understood and used to the greatest extent possible by all people).
- Redevelopment meets a third-party certification for green buildings (Leadership in Energy and Environmental Design [LEED], Energy Star, Living Building Challenge, Net Zero Energy Building, Green Globes, etc.)
- Level and extent of brownfield activities undertaken in direct support of the project.
- Availability of public transportation or other transportation programs to improve job access, or proximity/accessibility for workforce.
- Addresses improvement to non-motorized transportation.

***Economic and Financial Considerations:***

- Senior Financing: maximize all available senior financing with preference through a federally insured and regulated senior lender.
- Debt Service Coverage Ratio: ensure that the projected cash flow after MCRP incentive is applied is adequate to service debt.
- Financial need for the incentive(s) is demonstrated.

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<sup>2</sup> Geographically Disadvantaged Areas are defined as economically distressed and historically underinvested census tracts and counties, especially in urban and rural areas, that tend to experience relatively high unemployment and low household incomes. MEDC and the State of Michigan operationalize geographically disadvantaged areas to constitute Treasury-designated Opportunity Zones and Small Business Administration-defined HUBZones (Historically Underutilized Business Zones).

<sup>3</sup> Michigan-based developers with limited real estate experience and financial resources who support local initiatives and have completed commercial real estate training programs.



- All other potential funding resources have been explored and maximized.
- Demonstrated financial commitment towards the project by developer/owner equity contribution (generally 10–20% of total development cost). Staff may give additional flexibility to emerging developers regarding these developer contributions.
- High ratio of private dollars compared to the total amount of public contribution (state and federal funding) to a project.
- Financial sustainability of the project.

### **FINANCIAL STRUCTURE AND AWARD LIMITATIONS**

The MSF may provide support for a project in the form of a grant, direct loan or other economic assistance such as a loan participation or equity investment. All awards shall be performance-based. The Michigan Strategic Fund reserves the right to award less than the amount requested.

MSF support for a single project shall not exceed 25% of the eligible investment (See **Appendix C**), and in no event shall the MSF support exceed a total of \$10,000,000 for any project (including any combination of loan, grant or other economic assistance). However, in a city, village, or township with a population of 15,000 or less (based on the most recent federal decennial census), the amount of community revitalization incentives for a project shall not exceed 50% of a project's eligible investment up to \$10,000,000.

Additionally, the statute also allows that annually the MSF or its delegates may consider support for up to three single projects that shall not exceed 50% of the eligible investment for the specific purpose of historic preservation.

#### ***Grants***

MSF support that is in the form of a grant shall not exceed \$1,500,000 for any project. A grant may include flexible terms and conditions. Grants shall also include provisions requiring grant funds to be paid back to the MSF when certain requirements are not met. Disbursement of grant funds typically follow construction completion and issuance of a "Certificate of Occupancy" and completion of other performance-based criteria.

#### ***Loan Participation***

A loan participation arrangement requires the presence of a Senior Lender willing to lead the lending relationship and operate within the underwriting standards of the MEDC. It is anticipated the MSF's investment may have different terms from the Senior Lender's portion but operate under the same loan agreement(s).

#### ***Direct Loans***

Direct loans may be considered where a loan participation arrangement is not feasible. They may include flexible terms and conditions, all of which must be acceptable to the MSF Board or its delegates, including without limitation, primarily below market interest rates, extended grace and repayment provisions, forgivable terms and no security, or some security (which also may be subordinated). These loans typically require that funds are disbursed following construction completion and issuance of a "Certificate of Occupancy", and completion of other performance-based criteria.

#### ***Equity Investments***

Equity investments may be considered for projects located in geographic markets that have not seen any recent investment or that are in a state of change making traditional underwriting of income projections difficult.



## APPLICANT CRITERIA

Any person or multiple persons that has a project that fits the goals of the program as determined by the MEDC, may apply.

### *Background Check*

The MSF Act requires the MSF Board to establish requirements to ensure an applicant(s) seeking an MSF incentive in the amount of \$15,001 or more is subject to a civil and criminal background check as part of the due diligence process for programs and activities created and operated by the MSF. Background check guidelines and procedure are outlined in the Background Review and can be found on our website at [michiganbusiness.org](http://michiganbusiness.org).

## APPLICATION AND SELECTION PROCESS

All applicants are required to submit an application while working with their Community Assistance team member. Community Assistance team members can be identified by going to [miplace.org](http://miplace.org). The MCRP incentive approval process generally takes approximately six months to one year to complete. The timing for project consideration is impacted by various factors which may include changes to project scope, process delays (e.g., inadequate or incomplete documentation), and project complexities.

MCRP requests for MSF Support are based on, but not limited to, a high-level application and selection process. The following is a summary of the process:

1. MEDC engagement with local partners around potential project.
2. Applicant provides pre-application including proforma and initial intake documentation.
3. MEDC reviews project based on the criteria which expounds upon the Legislative mandates of the program (See **Appendix B**) and project considerations outlined above.
4. MEDC provides a Letter of Interest, when appropriate.
5. Applicant provides completed application with additional supporting documents.
6. MEDC completes a statutory review, full financial review and provides proposed financial structure and term sheet.
7. MEDC prepares a recommendation to the Michigan Strategic Fund (MSF) Board or its authorized delegates for project approval.
8. MSF Board considers the project and if approved, applicant is required to pay pre-closing fees, if applicable.
9. MEDC drafts appropriate legal agreement which is executed at closing.
10. Applicant completes milestones outlined in the agreement and necessary for disbursement of funds.
11. Applicant completes required reporting following project completion.
12. MEDC completes compliance verification and project closeout.

All MSF support shall be memorialized by final written grant, loan or other economic assistance agreements, with terms and conditions in accordance with state law, these guidelines and otherwise satisfactory to the MSF, including, without limitation, requiring performance-based milestones which shall govern disbursements; and requiring periodic reporting of data, financial information, and any other information required to facilitate reporting to the MSF and the Michigan legislature, including periodic reporting after completion of a project. The program may require applicants to pay reasonable application fees, and any other expenses incurred in administering the program.



## APPENDIX A: ELIGIBLE PROPERTY

Eligible property includes one or more of the following:

### **Facility:**

As defined in Public Act 451 of 1994, MCL 324.20101, means any area, place, or property where a hazardous substance in excess of concentrations that satisfy the cleanup criteria for unrestricted residential use has been released, deposited, disposed of, or otherwise comes to be located. A Phase I and Phase II Baseline Environmental Assessment is used to determine whether the property is a facility. The MEDC will confirm with the Michigan Department of Environment, Great Lakes and Energy (EGLE) who will certify the property as a facility after adequate documentation is received from the developer.

### **Historic Resource:**

A publicly or privately-owned historic building or structure, individually listed, or located within a historic district designated by the National Register of Historic Places, the State Register of Historic Sites, or a local unit acting under the Local Historic Districts Act, 1970 PA 169. Documentation is required to verify any of the above designations.

### **Functionally Obsolete:**

Property that is unable to be used to adequately perform the function for which it was intended due to a substantial loss in value resulting from factors such as overcapacity, changes in technology, deficiencies or super adequacies in design, or other similar factors that affect the property itself, or the property's relationship with other surrounding property as determined by a Michigan Advanced Assessing Officer or a Michigan Master Assessing Officer.

### **Blighted:**

Property that meets the definition of Blight as defined in the Michigan Strategic Fund Act, MCL 125.2001 et. seq., (specifically MCL 125.2090a(e)(iii)(A-G) ("Act 270") as determined by the respective unit of government, building official, or assessor when applicable. The definition of Blight as defined in Act 270 states that a property:

- Has been declared a public nuisance in accordance with a local housing, building, plumbing, fire, or other related code or ordinance,
- Is an attractive nuisance to children because of physical condition, use, or occupancy,
- Is a fire hazard, or is otherwise dangerous to the safety of persons or property,
- Has had the utilities, plumbing, heating, or sewerage permanently disconnected, destroyed, removed, or rendered ineffective so that the property is unfit for its intended use,
- Is tax reverted property owned by a qualified local governmental unit, by a county, or by this state,
- Is property owned, by or under the control of, a land bank fast track authority under the Land Bank Fast Track Act, 2003 PA 258, and
- Has substantial subsurface demolition debris buried on site so that the property is unfit for its intended use.

### **Adjacent or Contiguous:**

Other parcels that are adjacent or contiguous to qualifying property described above that is part of the same project and all properties are improved.

### **Neighborhood and Commercial Corridor Food Initiative ("Urban Grocery):**

Property that will be used primarily as a retail supermarket, grocery store, produce market, or delicatessen that is located in a downtown area or in a development area as defined in section 2 of the Corridor Improvement Authority Act. The qualifying project must not be less than one mile from another grocery provider and must provide unprocessed USDA-inspected meat and poultry products or meat products that carry the USDA organic seal, fresh fruits and vegetables, and dairy products for sale to the public.



### **Any Other Property:**

"Any Other Property" means property that when redeveloped as proposed will promote community revitalization, as determined by the MSF Board.

## **APPENDIX B: LEGISLATIVE CONSIDERATIONS**

- The applicant's financial need for the incentive and whether the project is financially and economically sound (Sec 90(b)(4)(d) & Sec 90(b)(4)(h)).
- The importance of the project to the community, the amount of local financial support to the project, and the level of private sector and other contributions to the project, such as federal tax credits (Sec 90(b)(4)(a), Sec 90(b)(4)(c), and Sec 90(b)(4)(g)).
- Whether the project incorporates basic tenants of urban design by promoting mixed-use development, walkable communities and/or increasing the density of the area (Sec 90(b)(4)(j) & Sec 90(b)(4)(i)).
- Whether the project will redevelop a brownfield and/or historic resource and/or a vacant structure; if historic, whether the project will follow the federal secretary of the interior's standards for rehabilitation of historic buildings, 36 CFR 67 (Sec 90(b)(4)(e), Sec 90(b)(4)(m), and Sec 90(b)(4)(q)).
- Whether the project promotes sustainable development (Sec 90(b)(4)(l)).
- The level and extent of environmental contamination (Sec 90(b)(4)(p)).
- If the project will act as a catalyst for additional revitalization and/or addresses area-wide redevelopment strategies (Sec 90(b)(4)(b) & Sec 90(b)(4)(n)).
- Creation of jobs (Sec 90(b)(4)(f)).
- Whether the project addresses underserved markets of commerce; converts abandoned public buildings to private use; and if the project will compete with or affect existing Michigan businesses (Sec 90(b)(4)(o), (Sec 90(b)(4)(k), & (Sec 90(b)(4)(r)).
- Any other additional criteria approved by the board that are specific to each individual project and are consistent with the findings and intent of this chapter (Sec 90(b)(4)(s)).

## **APPENDIX C: ELIGIBLE INVESTMENT**

An eligible investment is defined as at least one, or any combination of, the following expenditures which have not been completely reimbursed to, or paid for on behalf of, the applicant. Collectively these expenditures are eligible investments and are referred to as "Hard Costs":

- a. Any fees or costs for alteration, new construction, improvement, demolition, or rehabilitation of buildings of an approved project, including utility tap fees, and fees and costs paid to a governmental entity for permits, zoning, and inspections,
- b. Any fees or costs for site improvements to an approved project, including, a surface parking lot, parking garage, parking ramp, utilities and public infrastructure, such as roads, curbs, gutters, sidewalks, landscaping, lighting, grading and land balancing,
- c. Any fees or costs for the addition of machinery, equipment or fixtures to an approved project; or
- d. Professional fees or costs for an approved project for architectural services, engineering services, Phase I environmental site assessment, Phase II environmental site assessment, or Baseline Environmental Assessment, or surveying services.
- e. Professional fees associated with obtaining a third-party certification for environmentally sustainable design, building materials and/or development practices.



The MSF or MSF Fund Manager, on its behalf, may impose additional terms and conditions involving any Hard Costs that meet eligibility for reimbursement under any tax increment financing, including requiring those costs to be repaid to the MSF, or excluding any such costs from Hard Costs. Eligible investment will be determined through the review of invoices, work orders, bills, and corresponding evidence of payment.

In no event shall any of the following, which are collectively referred to as "Soft Costs", be deemed any part of the Hard Costs:

- a. acquisition fees or costs for real property,
- b. developer fees or costs,
- c. closing fees or costs,
- d. legal fees or costs,
- e. professional fees or costs (other than those included above as part of the Hard Costs),
- f. title commitment fees or costs,
- g. title insurance fees, premiums or costs,
- h. management fees or costs (including related party project and construction management),
- i. appraisal fees or costs,
- j. bank or other lender financing, interest, or inspection fees or costs,
- k. leasing or sales commission fees or costs,
- l. shared savings, or fees or costs arising from penalties or other reductions in payment from any contract for improvements to the Project,
- m. performance bond and other risk contingency fees and costs,
- n. marketing fees or costs,
- o. zoning fees or costs (other than those zoning fees or costs paid to a governmental entity included above as part of the Hard Costs),
- p. taxes, or
- q. hazard, liability or any other insurance fees and costs.