



BROWNFIELD REDEVELOPMENT AUTHORITIES EDUCATIONAL WEBINAR

PUBLIC ACT 381

October 18, 2023



**MICHIGAN ECONOMIC
DEVELOPMENT CORPORATION**



MICHIGAN DEPARTMENT OF
ENVIRONMENT, GREAT LAKES, AND ENERGY



MSHDATM
MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY

AGENDA



**MSHDA
Housing TIF
Program Overview**

**MEDC Brownfield
Reporting Updates**

**EGLE Brownfield
Program Updates**

**EGLE Act 382 Portal
Data Verification
Process**

Q&A



HOUSING TAX INCREMENT FINANCING PROGRAM

MEDC/EGLE Brownfield Webinar

October 18, 2023 – 1:00 PM

Presented by MSHDA Staff

TODAY'S AGENDA

SPEAKERS:

Chad Benson, Director of Rental Development, MSHDA

Josh Campbell, Financial Analyst, MSHDA

Tony Lentych, Chief Housing Investment Officer, MSHDA

1. **Brief Background**
2. **Review of Housing TIF Program**
3. **Definitions & Calculations**
 - **Infrastructure & Housing Subsidy**
 - **Sources & Uses Review**
4. **Discussion/Feedback**
5. **Next Steps**
 - **Coordination with MEDC & EGLE**

Brief History & Background

- **Public Act 90 of 2023** was approved in the legislature on June 28, 2023 and signed by the Governor on July 19, 2023 with immediate effect
- **Section 13b(4)(b)** establishes that Brownfield Work Plans and Combined Brownfield Plans that involve the use of taxes levied for school operating purposes and that request reimbursement for housing development activities for affordable (under 120% AMI) and/or subsidized housing ***must be reviewed by MSHDA***
- A **Work Team** was assembled to draft the “**Housing TIF Program**” for presentation to the MSHDA Board of Directors

Brief History & Background

- The **Work Team** also included MEDC and EGLE Staff and worked through the summer to finalize internal policy and procedures
- Significant work on explanations and definitions throughout the summer with outreach to the public on the calculation of “**housing subsidy**” in early September
- The **Work Team** also spent considerable time investigating a pilot “financial instrument” companion – this may launch later this year
- MSHDA Board of Directors adopted the overall program at their **September 29, 2023** Regular Meeting

Brief History & Background

- Designation of MSHDA's **Missing Middle Program Team** as the **home** for the **MSHDA Housing TIF Program**
- Internal staff training is underway and will continue throughout the fall
- Additional trainings or technical assistance plus the final program “guidance” documents will be finalized in before the end of October
- Anticipate receiving first Work Plans for approval soon!

Please remember this... Outreach for additional input/feedback through sessions like this is on-going – **WE WANT TO HEAR FROM YOU!**

MSHDA Workplan Approval Flow Chart

STEP ONE

Was the Workplan Submitted by the Local BRA?

No

Return to Submitting Party with Direction to have Local BRA Submit

Yes

GO ON TO NEXT STEP

STEP TWO

Was the Required information Submitted with the Workplan?

No

Return to BRA with List of Missing Items

Yes

GO ON TO NEXT STEP

MSHDA Workplan Approval Flow Chart

STEP THREE

Does the Plan Meet Threshold Requirements?

No



Deny with Letter of Reasons for Denial

Yes



GO ON TO NEXT STEP

STEP FOUR

Does the Plan Meet the Review Criteria?

No



Return to BRA with List of Missing Items

Yes



APPROVAL or
CONDITIONAL
APPROVAL

Timeframe for MSHDA Review

MSHDA must provide one of the following written responses to the requesting BRA within sixty (60) days or, in the case of a transformational brownfield plan, within ninety (90) days:

- **Unconditional Approval** – Includes an enumeration of eligible activities and a maximum allowable capture amount
- **Conditional Approval** – Delineates specific necessary modifications to the combined brownfield plan, including, but not limited to, individual activities to be added to or deleted from the combined brownfield plan and revision of costs
- **Denial** – Will state with specificity the reason for the denial (may be subsequently resubmitted for review)

Timeframe for MSHDA Review

...Continued:

If MSHDA fails to provide a **Written Response** within sixty (60) days or, in the case of a transformational brownfield plan, within ninety (90) days, the eligible activities are considered:

APPROVED AS SUBMITTED

NOTE: The **Approval** of a Combined Brownfield Plan by MSHDA is considered final

Housing Property Definition

Eligible Property:

Housing property for which **Eligible Activities** are identified under a Brownfield Plan, including personal property located on the property, to the extent included in the Brownfield Plan

Housing Property:

- A property on which one (1) or more units of residential housing are proposed to be constructed, rehabilitated, or otherwise designed to be **used as a dwelling**; or
- One or more units of residential housing proposed to be constructed or rehabilitated and located in a mixed-use project

What's in a "Housing" Workplan?

All Applicable Components Are Still Required – Including:

- A brief summary of the **Eligible Activities** that are proposed
- An estimate of the captured taxable value and tax increment revenues for each year of the plan from the **Eligible Property**
- The proposed beginning date and duration of capture of tax increment revenues for each **Eligible Property**
- A description of the costs of the plan intended to be paid for with the tax increment revenues
- The method by which the costs of the plan will be financed
- An estimate of the future tax revenues of all taxing jurisdictions in which the **Eligible Property** is located to be generated during the term of the plan

What's in a "Housing" Workplan?

...Continued:

- A legal description of the **Eligible Property**, a map showing the location and dimensions of each **Eligible Property**, a statement of the characteristics that qualify the property as **Eligible Property**, and a statement of whether personal property is included as part of the **Eligible Property**
- Estimates of the number of persons residing on each **Eligible Property** to which the plan applies and the number of families and individuals to be displaced
- A plan for establishing priority and strategy for the relocation of persons displaced by implementation of the plan
- Provision for the costs of relocating persons displaced
- Other material that the BRA / Governing Body considers relevant to the brownfield plan

What's in a "Housing" Workplan?

For all Eligible Properties, Eligible Activities include the following:

- Reasonable costs of Environmental Insurance
- Reasonable costs incurred to develop and prepare brownfield plans, combined brownfield plans, or work plans for the eligible property, including legal and consulting fees that are not in the ordinary course of acquiring and developing real estate
- Reasonable costs of brownfield plan and work plan implementation, including, but not limited to, tracking and reporting of data and plan compliance, including costs to implement, monitor, and maintain compliance with the income and price monitoring responsibilities associated with housing development activities, and the reasonable costs incurred to estimate and determine actual costs incurred
- Demolition or site improvements that are not a Response Activity
- Lead, asbestos, or mold abatement

What's in a “Housing” Workplan?

For all Eligible Properties, Eligible Activities include the following:

Except as otherwise provided the repayment of principal of and interest on any obligation issued by an authority to pay the costs of eligible activities attributable to an eligible property.

For housing property located in a community that has identified a specific housing need:

- The Activities described as Eligible for all Properties
- Infrastructure Improvements that are necessary for housing property and support Housing Development Activities
- Site Preparation that is not a Response Activity and that supports Housing Development Activities
- **Housing Development Activities**

What's in a "Housing" Workplan?

Housing Development Activities include:

- Reimbursement for the **Qualified Rehabilitation** of rental units
- **Infrastructure** available for public use and **Safety Improvements** necessary for a housing project and that are not part of a Response Activity
- Costs of **Demolition & Renovation** of existing buildings and site preparation, to the extent necessary to accommodate an income qualified purchaser household or income qualified renting household
- **Temporary Household Relocation** costs for an income qualified household
- **Acquisition Costs** for blighted or obsolete rental units, to the extent the acquisition would promote rehabilitation or adaptive reuse of the blighted or obsolete rental unit to accommodate an income qualified purchaser household or income qualified renting household
- Reimbursement to fill a **Financing Gap** associated with the development of housing units for income qualified households

“Infrastructure” Definition

All fundamental physical development activities, that are not EGLE eligible activities, and that are **necessary** for the proposed affordable housing, **or** directly support the housing development activities, **or** are safety improvements necessary for the proposed affordable housing project and that may be available for public use.

Examples include, but are not limited to, water/sewer connectivity, sidewalks, driveways, development drives, and parking areas/structures.

Additionally, green-build features, like solar panels and electric vehicle charging stations, would be considered an eligible infrastructure activity if there is a direct benefit to the proposed eligible housing property.

BRA Submittal Process

NOTICE OF PUBLIC HEARING:

No less than ten (10) days prior to a scheduled Public Hearing where a Work Plan or a Combined Work Plan that involves the use of taxes levied for school operating purposes and that request reimbursement for housing development activities for affordable (under 120% AMI) and/or subsidized housing, the governing body and/or the BRA, must provide “**Notice of Public Hearing**” to MSHDA under Section 14 of Public Act 90 of 2023.

This Notice should be e-mailed to MSHDA-TIF@michigan.gov

BRA Submittal Process

Work Plans under Section 13b(4) (Work Plans) or **Combined Brownfield Plans** pursuant to Section 15(20) (Combined Brownfield Plans) that are required to be submitted by the local BRA to MSHDA must include, at a minimum, the following:

- A written letter from the submitting BRA **requesting formal approval** and indicating that the required financial review, notices, and formal hearing have been completed per the Brownfield Act must accompany each submittal to MSHDA
- For each required submission item under MCL 125.2665(10) provide a separate tab labeled according to subsection VIII(d)(1)-(8) of the Program Statement

The MSHDA Review Process

The “Need” for Housing:

Does the “Housing Work Plan” align with **Local & Statewide Housing Needs** as demonstrated through the following —

- Local **Housing Needs Assessment** (current within three years)
- Detailed Third-Party **Market Study** for the Area
- Alignment with the **Michigan Statewide Housing Plan**
- Alignment with an adopted **Regional Housing Plan**

The MSHDA Review Process

Property Information:

- Current and future Ownership of the **Eligible Property**
- Historical and current use of each **Eligible Property**
- Summary of the proposed development or redevelopment and all future use

The MSHDA Review Process

Ownership & Development Team:

- Financial Capacity and Experience
 - *Are all members in Good Standing?*
 - *Does the Team have experience developing the type of proposed project?*
- Program Capacity to Monitor for Price & Income
 - *Can be contracted with a third party*

The MSHDA Review Process

Development/Reimbursement Agreement:

- On-going, if required, **Price and Income Certification/Monitoring** for residential units
- Details of all Ownership Interests
- All monetary considerations, fees, revenue, cost sharing, charges, and other financial arrangements

The MSHDA Review Process

Eligible Activities:

- Review of **Purchase Agreement** and **Development Cost Budget** (Sources/Uses) for inclusion of all **Eligible Activities**
- Review for Reasonableness based upon the **Project Rent Loss (PRL) Gap Cap** and **Total Housing Subsidy (THS)** for rental developments
- Review for Reasonableness based upon the **Potential Development Loss (PDL) Gap Cap** and **Total Housing Subsidy (THS)** for “for sale” developments

The MSHDA Review Process

PRL & PDL Calculations:

Worksheets that are submitted by the BRA will be reviewed for **Accuracy** and **Reasonableness**

- **FOR SALE** — Potential Development Loss (PDL) & Total Housing Subsidy (THS)
- **RENTAL** — Potential Rent Loss (PRL) & Total Housing Subsidy (THS)

The MSHDA Review Process

FOR-SALE DEVELOPMENT:

Any physical development activity that is “purchased” by an end user, such as:

- **Single-Family House(s)**
- **Condominiums (in all forms, whether stand alone or in a common physical structure)**
- **Duplexes, Triplexes, etc.**
- **Row Houses**

RENTAL DEVELOPMENT:

Any physical development activity that is “rented” by an end user, such as:

- **Single Multi-Family Building**
- **Multi-Family Apartment Communities (Several Buildings)**
- **Scattered-Site Single-Family Homes**

NOTE: The end use matters more than the physical structure itself

Rental Development Calculation

Potential Rent Loss (PRL) & Total Housing Subsidy (THS)

For Rental Developments, MSHDA will undertake the following steps to calculate the Potential Rent Loss (PRL) Gap Cap and the Total Housing Subsidy (THS) for every application received. The PRL Gap Cap and the THS will be utilized to establish the reasonableness of certain housing activities for which tax capture is being planned.

Step 1: Establish the Control Rent (CR) for the project

Utilizing the appropriate Fair Market Rent (FMR) for each county and for the appropriate rate for each bedroom size as published by the U.S. Department of Housing & Urban Development (HUD), the following calculation will be made:

$$(FMR/40) \times 100 = \text{Control Rent (CR)}$$

Note: This formula corrects for HUD publishing FMR as 40% of area rents.

Rental Development Calculation

Potential Rent Loss (PRL) & Total Housing Subsidy (THS)

Step 2: Determine the difference between the Control Rent (CR) and targeted Project Rent (PR)

Utilizing the Project Rent (PR) targeted by the development team for each project, the following calculation will be made:

$$\text{Control Rent (CR)} - \text{Project Rent (PR)} = \text{Potential Rent Loss (PRL)}$$

Note: There may be multiple PRLs calculated for each project due to the fact the rents vary by bedroom size and most projects have a mix of bedroom sizes.

Rental Development Calculation

Potential Rent Loss (PRL) & Total Housing Subsidy (THS)

Step 3: Determine the PRL Gap Cap

Utilizing the number of total units in a project that will have the appropriate income targets and the number of years of TIF Capture requested, both of which will be submitted by the development team for each project, the following calculation will be made:

$$\text{Potential Rent Loss (PRL)} \times 12 \text{ months} \times \text{No. of Units} \times \text{No. of Years} = \text{PRL Gap Cap}$$

Note: There may be multiple PRL Gap Caps calculated for each project due to the fact the rents vary by bedroom size and most projects have a mix of bedroom sizes.

Rental Development Calculation

Potential Rent Loss (PRL) & Total Housing Subsidy (THS)

Step 4: Add all Potential Rent Loss Gap Cap calculations to establish Total Housing Subsidy

After calculating PRL Gap Cap for each bedroom type in the proposed development project, the following calculation will be made:

$$\begin{aligned} &\text{PRL Gap Cap 1-Bedroom} + \text{PRL Gap Cap 2-Bedroom} + \text{PRL Gap Cap 3-Bedroom...} \\ &= \text{Total Housing Subsidy (THS)} \end{aligned}$$

Rental Development Calculation

Potential Rent Loss (PRL) & Total Housing Subsidy (THS)

Step 5: Review of Total Housing Subsidy (THS) for reasonableness among all other activities allowed under Public Act 90 of 2023

- **MSHDA will deduct the THS from the total Housing Tax Increment Financing (HTIF) request and will review for overall reasonableness**

Note: THS should not exceed the total HTIF request as this may indicate instability in the overall project pro forma. Conversely, an insignificant overall THS may indicate a project that is not targeting appropriate income levels. Reasonableness will be determined based on this review in conjunction with any narrative information that is submitted by the development team.

- **The utilization of the remainder of the HTIF request will also be reviewed for reasonableness under the guidance established under Public Act 90 of 2023**

Rental Development Calculation

EXAMPLE:

A developer has received approval from the Oceana County Brownfield Redevelopment Authority (BRA) to utilize the tax capture allowed under Public Act 90 of 2023 for a 40-unit multi-family workforce housing project which contains twenty (20) one-bedroom apartments with 60% AMI target rents and twenty (20) two-bedroom apartments with 80% AMI target rents.

The BRA has approved a \$2,225,000 Housing TIF tax capture that is collected over 25 years (this amount is just an estimate).

Housing TIF Financing Gap Cap Calculation - Multifamily Rental

Oceana County WFH Project: 40 Total Units/Leases (20 1-Bedroom @ 60% AMI / 20 2-Bedroom @ 80% AMI)

FORMULA	Location	Type	FMR/MR Rent	Control Rent - Proj. Rent	= PRL	x No. of Units	x No. of Months	x No. of Years	= PRL GAP CAP	Per Unit
FMR	Oceana Co.	1 Bedroom	\$ 635.00	\$ 1,587.50 - \$ 852.00	= \$ 735.50	20	12	25	\$ 4,413,000.00	\$ 220,650.00
FMR	Oceana Co.	2 Bedroom	\$ 836.00	\$ 2,090.00 - \$ 1,364.00	= \$ 726.00	20	12	25	\$ 4,356,000.00	\$ 217,800.00
TOTAL Housing Subsidy						40			\$ 8,769,000.00	\$ 219,225.00
Approved BRA TIF Request						40			\$ 2,225,000.00	\$ 55,625.00
Other Housing Activities Allowed Under Public Act 90 of 2023:									\$ (6,544,000.00)	\$ (163,600.00)
Developer may utilize the remainder (if any) of the TIF capture for the following HOUSING RELATED items: <ol style="list-style-type: none"> 1. Site Preparation/Demolition 2. Infrastructure Development 3. Relocations Expenses 4. Plus Other Housing TIF Related Expenses 										

Rental Development

SOURCES & USES

Initial review of the simple Sources and Uses during the Work Plan review will be much different than during a more comprehensive “underwriting” review of the project

<u>SOURCES</u>	Loan	\$ 8,750,000.00
	Grant	\$ 2,250,000.00
	BRA/Housing TIF	\$ 2,225,000.00
	Owner/Equity	\$ 775,000.00
	TOTAL	\$ 14,000,000.00
<u>USES</u>	Land Acquisition	\$ 500,000.00
	Land Preparation	\$ 750,000.00
	<u>Hard Costs:</u>	
	1. General Construction Costs	\$ 9,725,000.00
	2. Other Eligible Housing Activities	\$ -
	3. Total Housing Subsidy/GAP	\$ 2,225,000.00
	Soft Costs	\$ 400,000.00
	Financing Costs	\$ 400,000.00
	TOTAL	\$ 14,000,000.00

For-Sale Development Calculation

Potential Development Loss (PDL) & Total Housing Subsidy (THS)

- For For-Sale projects, MSHDA will undertake similar steps to calculate the Potential Development Loss (PDL) Gap Cap and the Total Housing Subsidy (THS) for every application received
- The PDL Gap Cap and the THS will be utilized to establish the reasonableness of certain housing activities for which tax capture is being planned
- Calculations assume an Area Median Income (AMI) targeted for 1 person per bedroom for 1- and 2-bedrooms homes and 1.5 persons per bedroom for 3+ bedroom homes and assumes a 15% downpayment
- Monthly housing payments including the costs of principal + interest, insurance, taxes, PMI at no more than 30% of the household gross annual income
- The calculation uses the current market average interest rate and developer provided projected insurance, taxes, and PMI costs

For-Sale Development Calculation

EXAMPLE:

A developer has received approval from the Lake County Brownfield Redevelopment Authority (BRA) to utilize the tax capture allowed under Public Act 90 of 2023 for a 10-unit single-family “for sale” workforce housing project which contains 10 three-bedroom homes with two (2) 100% AMI target prices and eight (8) 120% AMI target prices. The developer reports that the cost to build all ten houses is \$300 per square foot with each house being 1300 square feet in total.

The BRA has approved a \$1,450,000 Housing TIF tax capture that is collected over 28 years (this amount is just an estimate).

Housing TIF Financing Gap Cap Calculation - For Sale Homeownership

Rural For-Sale Project: 10 Single-Family Homes (For-Sale Home Ownership Units with 2 @ 100% AMI & 8 @120% AMI)

FORMULA	Location	Type	Affordable Mortgage*	Development Cost** - Affordable Mortgage	= PDL	x No. of Units	x PDL GAP CAP
Income	Lake Co.	For Sale (100%)	\$ 249,000.00	\$ 390,000.00 - \$ 249,000.00	= \$ 141,000.00	2	\$ 282,000.00
Income	Lake Co.	For Sale (120%)	\$ 293,500.00	\$ 390,000.00 - \$ 293,500.00	= \$ 96,500.00	8	\$ 772,000.00

TOTAL Housing Subsidy	10	\$ 1,054,000.00
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Other Housing Activities Allowed Under Public Act 90 of 2023:	\$ 396,000.00
Developer may utilize the remainder of the TIF capture for the following HOUSING RELATED items:	
<ol style="list-style-type: none"> 1. Site Preparation/Demolition 2. Infrastructure Development 3. Relocations Expenses 4. Plus Other Housing TIF Related Expenses 	

Approved BRA TIF Request	10	\$ 1,450,000.00
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PDL = Potential Development Loss

Affordable Mortgage =
 * Mortgage Limit assumes a 15% down payment plus all other normal monthly fees associated with home ownership for a family of four.

Development Cost =
 ** \$300 per sq. ft. building costs (for a 3 bedroom home) - information provided through application. This includes 10% developer fee/profit.

Discussion Items

TOTAL HOUSING SUBSIDY (THS) CALCULATIONS

- Expected to be utilized in **Sources & Uses** presentations
- Other Ideas or thoughts on this item as a test for reasonableness?

DEFINITIONS

- What needs clarification?
- Planning to finalize “Infrastructure” definition with Program Parameter Document

PROGRAM PARAMETER DOCUMENT(S)

- **GOAL:** Finalized within the next 10 business days

Next Steps

- ❑ Continue collecting **Feedback** from the various constituencies
- ❑ Publication of “**Frequently Asked Questions**” document in mid-October
- ❑ Publication of **Workplan Guidance** in Mid-October
- ❑ Regular “**Updates**” to our program’s website
- ❑ Additional “**Technical Assistance**” Outreach
- ❑ Releasing PILOT “**TIF GAP Lending Program Guidance**” soon

QUESTIONS?

Please send your **Comments & Questions** to:

mshda-tif@michigan.gov

For more **Information & Updates**, please visit:

[MSHDA Housing Tax Increment Financing \(TIF\) Program \(michigan.gov\)](https://michigan.gov/mshda-tif)

THANK YOU FOR YOUR TIME TODAY!



MEDC NON-ENVIRONMENTAL PROGRAM UPDATES

Act 381 Statutory Audit

Audit is ongoing and staff may be reaching out for assistance.

Act 381 BRA Annual Reporting

Staff are currently working on finalizing data for the legislative report.



MICHIGAN DEPARTMENT OF
ENVIRONMENT, GREAT LAKES, AND ENERGY

EGLE Brownfield Program Updates

JANET MICHALUK AND DAN GOUGH

REMEDICATION AND REDEVELOPMENT DIVISION

BROWNFIELD ASSESSMENT AND REDEVELOPMENT SECTION

EGLE Brownfield Program Updates



A photograph of a modern, multi-story building with a mix of light beige and dark grey exterior panels. The building features large windows and balconies. On the ground floor, there are two Subway restaurant storefronts. A silver SUV is parked on the street in front of the building. A teal text box is overlaid on the left side of the image.

Annual Act 381 Portal Data Verification Process Update



MICHIGAN DEPARTMENT OF
ENVIRONMENT, GREAT LAKES, AND ENERGY

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800-662-9278 | www.Michigan.gov/EGLE

Q & A SESSION

THANK YOU

Additional questions? Contact us today.

MEDC: Rob Garza, garzar8@michigan.org

EGLE: Dan Gough, goughd1@michigan.gov

MSHDA: Chad Benson, bensonc@michigan.gov