MICHIGAN COMMUNITY REVITALIZATION PROGRAM GUIDELINES

PROGRAM GOALS

The Michigan Strategic Fund (MSF) Act, MCL 125.2011 et. seq. was amended to add Chapter 8C to create and operate the Michigan Community Revitalization Program (MCRP), administered by the Michigan Economic Development Corporation (MEDC) on behalf of the MSF. Community Revitalization will accelerate private investment in areas of historical disinvestment, contribute to Michigan's reinvention as a vital, job-generating state, foster redevelopment of functionally obsolete properties, reduce blight, support the rehabilitation of historic resources, and protect the natural resources of this state. The focus of the MCRP is to encourage and promote capital investment and redevelopment on brownfield and historic preservation sites located in traditional downtowns and high-impact corridors.

ELIGIBLE APPLICANTS

Any person or multiple persons may apply to the MSF for approval of a MCRP incentive associated with a project.

PROJECT CONSIDERATIONS

Projects must meet the Community Development Guidance standards as established by the MEDC, which can be reviewed at: http://www.michiganbusiness.org/cm/Files/Community_Development/2015-Community-Incentive-Guidance.pdf. If the project meets the Community Development Guidance standards, a review of all statutory criteria will be conducted. The following legislative criteria will be evaluated by the MSF for all projects regardless of their applicability to any individual project:

I. The amount of local community and financial support for the project. For example:
   - Community has committed financial support in the form of tax increment revenue or tax abatements.
   - Community has deemed this project a priority and the project type falls within their identified local plans.

II. The applicant's financial need for a community revitalization incentive. For example:
   - A gap in financing is demonstrated via the submitted pro-forma and application.

III. Whether the project is financially and economically sound. For example:
   - Ability to secure all sources of financing for the project.
   - Financial gap no longer exists after MCRP incentive is applied.
   - Reasonable assumptions are used for rental rates and owner occupied space.

IV. Whether the project involves the rehabilitation of a historic resource. For example:
   - Property qualifies as a historic resource as defined in the Eligible Property section of this document.
   - Significant historic restoration and rehabilitation on the resource is to be performed.

- Applicant consultation with the State Historic Preservation Office (SHPO).
- Utilization of federal historic tax credits.

V. The level and extent of environmental contamination. For example:
- Department of Environmental Quality (DEQ) has determined the site a Facility.
- DEQ committed funding for cleanup of the site via a loan or grant.
- Applicant consultation with the DEQ.

VI Competition with existing Michigan businesses. For example:
- Extent of comparable existing businesses in the region.

VII Any other requirements required by the MSF Board

The MSF will evaluate any other legislative criteria as applicable to the specific project including, but not limited to:
- The extent of reuse of vacant buildings and redevelopment of blighted property
- Whether the project promotes mixed-use development and walkable communities
- If the project will act as a catalyst for additional revitalization of the community in which it is located.
- Creation of jobs.
- The level of private sector and other contributions, including, but not limited to, federal funds and federal tax credits.
- Whether the project increases the density of the area.
- Whether the project converts abandoned public buildings to private use.
- Whether the project promotes sustainable development.
- Whether the project addresses area wide redevelopment.
- Whether the project addresses underserved markets of commerce.

LEVEL OF SUPPORT

MSF support for a single project shall not exceed 25% of the eligible investment, 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, legislation allows that annually the MSF may consider support up to three single projects that shall not exceed 50% of the eligible investment up to $10,000,000 for the specific purpose of historic preservation. Further, no part of the MSF support that is in the form of a grant shall exceed $1,500,000 for any project.

ELIGIBLE PROPERTY

Documentation that the project is located on an eligible property is required at the time the application is submitted. While subject to legislative change, eligible property includes one or more of the following:

I. 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 MDEQ who will certify the property as a facility after adequate documentation is received from the developer.

II. Historic Resource: Means a publically 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. These projects must meet the federal Secretary of the Interior's Standards for Rehabilitation and Guidelines for Rehabilitating Historic Buildings, (Standards) (36 CFR 67);

III. Functionally Obsolete: Means that the property 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 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.

IV. Blighted: Means any property that meets any of the following criteria as determined by the respective unit of government, building official, or assessor when applicable:
- 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.

V. Adjacent or Contiguous: Other parcels that are adjacent or contiguous to property described in (I) through (IV), as long as the property is improved and the taxable value is increased for the adjacent and contiguous property in conjunction with the project property.

VI. Any Other Property: "Any Other property" means property that previously met the conditions described in (I), (III) and (IV) within the last 15 years for which assistance will further the program goals of the MCRP

ELIGIBLE INVESTMENT

An eligible investment, as adopted in Resolution 2013-031, Approval of the Definition of Eligible Investment for the MCRP Program, means at least one, or any combination of, the following expenditures which may have occurred prior to the MSF approval of the application and has 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":
- Any fees or costs for alteration, 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;

- 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;
- Any fees or costs for the addition of machinery, equipment or fixtures to an approved project; or
- 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**.**

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.

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

- acquisition fees or costs for real property,
- developer fees or costs,
- closing fees or costs,
- legal fees or costs,
- professional fees or costs (other than those included above as part of the Hard Costs),
- title commitment fees or costs,
- title insurance fees, premiums or costs,
- management fees or costs (including Project management and construction management),
- appraisal fees or costs,
- bank or other lender financing, interest, or inspection fees or costs,
- leasing or sales commission fees or costs,
- shared savings, or fees or costs arising from penalties or other reductions in payment from any contract for improvements to the Project,
- performance bond and other risk contingency fees and costs,
- marketing fees or costs,
- LEED certification costs,
- zoning fees or costs (other than those zoning fees or costs paid to a governmental entity included above as part of the Hard Costs),
- taxes, or
- hazard, liability or any other insurance fees and costs.

PROJECT EVALUATION, PROCESS AND MSF SUPPORT

Request for MSF support of projects, includes the following:

- Intake form, pro-forma, financial and supporting documentation and MEDC leadership consideration;
- Letter of Interest, when appropriate;
- A completed application package;
- Financial structure and terms sheet;
- Payment of any required fees;
- Michigan Strategic Fund consideration;
- Development Agreement and milestone completion; and
- Project completion, required reporting following project completion, and 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, to the MEDC.

MICHIGAN COMMUNITY REVITALIZATION PROGRAM
INCENTIVE PARAMETERS

INCENTIVE

All projects requesting a Michigan Community Revitalization Program (MCRP) award shall provide a guaranteed maximum price construction contract, maximize all available senior financing with preference through a federally insured and regulated senior lender**.** Additionally, developer and other related-party fees will be limited to 4% of the total development cost of the project (excluding the aforementioned fees) and any existing incentives will be taken into consideration during the evaluation process. The Michigan Strategic Fund (MSF) may provide support for a project in the form of one or more of the following incentives that shall be performance based:

I. Grant**:**

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.

The following will be the preferred structure of the MSF for a Performance Based Grant:

- Federally insured or regulated Senior Lender in place.
- Maximum CRP Investment: Up to 20% of “Eligible Investment” if the property does not qualify as both historic and brownfield, typically not to exceed $750,000.
- Minimum Owner Equity Investment: 10% of Total Development Costs (net of developer and other related-party fees). Deferred fees will not be counted in the calculation. If “Investor Return” is above a 12% IRR (calculated assuming a 20 year investment horizon, not including value created through sale/refinance of property) staff will require additional investor equity up to 20%. Equity raised through Historic Tax Credit syndication will be considered as part of the requirement (other owner equity must be at least 7% of total development cost).
- Minimum Debt Service Coverage Ratio: 1.20:1.00, calculated based on all scheduled debt service requirements including MCRP award.
- Funding: Following construction completion and issuance of a “Certificate of Occupancy” (in certain cases a temporary “Certificate of Occupancy” will be considered acceptable), and completion of other performance based criteria.

II. Loan Participation:

A “Loan Participation” arrangement requires the presence of a Senior Lender willing to lead the lending relationship and operate within the parameters listed below. It is anticipated the MSF’s investment may have different terms from the Senior Lender’s portion, but operate under the same security and loan agreements. This is typically accomplished through the issuance of a separate promissory note from the Senior Lender that is purchased by the MSF, and execution of a Participation Agreement between the Lending Institution and the MSF drafted by MSF counsel which defines the rights and obligations under the arrangement.

The following is the preferred structure of the MSF for a Loan Participation:

- Federally insured or regulated Senior Lender in place.
- Minimum CRP Investment: $750,000.
- Maximum CRP Investment: Up to 20% of “Eligible Investment” if the property does not qualify as both historic and brownfield.
- Minimum Owner Equity Investment: 10% of Total Development Costs (net of developer and other related-party fees). Deferred fees will not be counted in the calculation. If

"Investor Return" is above a 12% IRR (calculated assuming a 20 year investment horizon, not including value created through sale/refinance of property) staff will require additional investor equity up to 20%. Equity raised through Historic Tax Credit syndication will be considered as part of the requirement (other owner equity must be at least 7% of total development cost).

- Interest Rate: between 1% and a market rate as determined by the project's viability.
- Term: To match that of the senior lender and not to exceed 15 years.
- Amortization: To match that of the senior lender (subordinated to the collateral position to the senior lender).
- Interest Only Period: Up to 36 months (NMTC structures will be accommodated).
- Repayment: Pari Passu with all other lenders. Monthly payments of principal and interest following the interest only period.
- Guarantors: To match that of Senior Lender, with MSF's interest subordinated to the Senior Lender.
- Collateral: To match that of Senior Lender, with MSF's interest subordinated to the Senior Lender.
- Minimum Debt Service Coverage Ratio: 1.20:1.00, calculated based on all scheduled debt requirements including MCRP award.
- Funding: Following loan closing with Senior Lender and completion of other performance based criteria.

III. Equity Investment:

Typically, equity investments will be limited to projects located in geographic markets considered transitional or tertiary by MEDC staff or projects with HUD/FHA financing as the primary source of financing.

The following is the preferred structure of the MSF for an Equity Investment:

- Federally insured or regulated Senior Lender in place.
- Minimum CRP Investment: $750,000.
- Maximum CRP Investment: Up to 20% of "Eligible Investment" if the property does not qualify as both historic and brownfield.
- Minimum Owner Equity Investment: 10% of Total Development Costs (net of developer and other related-party fees). Deferred fees will not be counted in the calculation. If "Investor Return" is above a 12% IRR (calculated assuming a 20 year investment horizon, not including value created through sale/refinance of property) staff will require additional investor equity up to 20%. Equity raised through Historic Tax Credit syndication will be considered as part of the requirement (other owner equity must be at least 7% of total development cost).
- Maximum Investment Term: 20 years with exemptions for HUD financed projects.
- Legal Fees: Developer to cover all MSF out of pocket expenses, $15,000 deposit required prior to MSF Board. If the anticipated award is approved by the MSF, the outside counsel legal fee shall become non-refundable. If the anticipated award is not approved by the MSF, then the remaining balance of the outside counsel legal fee, if any, shall be returned to the applicant. All third party costs in excess of the $15,000 shall be the responsibility of the applicant and due at time of invoice by outside counsel.
- Funding: Following satisfaction of all senior lender closing conditions and other performance based criteria.
- MSF Role: Limited Liability and Non Managing Member/Partner.
- MSF Rights: The following are some of the rights the MSF would anticipate under an equity arrangement:
  - Ownership changes.
  - Management changes.
  - Material increases in debt financing.
  - Decisions on sale of project.
  - Put right for violation of MSF requirements (personally guaranteed by owners).

Parameters for Cash Flow Splits:

1. MSF Preferred Return: Annual preferred return between 2-6% cumulative cash-on-cash return.

2. Investor Group Return: Annual cumulative cash-on-cash return not to exceed 10%.
   a. The lesser of a Pro Rata or 70/30 (Investor to MSF) split of cash flow thereafter based on the MSF's and Investor Group's initial equity investments.

Parameters for Split of Proceeds from Sale or Refinance

1. Pro Rata Split of proceeds until the MSF's and Private original principal investments have been repaid.
2. 100% of proceeds to the MSF until a 2-6% cumulative return has been achieved by the MSF.
3. 100% of proceeds to the Investor Group until a 10% cumulative return is achieved by the Investor Group.
4. The lesser of a Pro Rata or 70/30 (Investor to MSF) split, thereafter.
   Example: If the MSF's investment is 15% of the equity invested then the split would be 85/15 (Investor to MSF).

IV. Direct Loan:

Typically direct loans are not used for this program and will only be used under special circumstances. They may include flexible terms and conditions, all of which must be acceptable to the MSF, including without limitation, below market interest rates, extended grace and repayment provisions, forgivable terms and no security, or some security (which also may be subordinated).

The following is the preferred structure of the MSF for a Direct Loan:

- Federally insured or regulated Senior Lender in place.
- Minimum CRP Investment: $750,000.
- Maximum CRP Investment: Up to 20% of "Eligible Investment" if the property does not qualify as both historic and brownfield.
- Minimum Owner Equity Investment: 10% of Total Development Costs (net of developer and other related-party fees). Deferred fees will not be counted in the calculation. If "Investor Return" is above a 12% IRR (calculated assuming a 20 year investment horizon, not including value created through sale/refinance of property) staff will require additional investor equity up to 20%. Equity raised through Historic Tax Credit syndication will be considered as part of the requirement (other owner equity must be at least 7% of total development cost).
- Interest Rate: between 1% and a market rate as determined by the project's viability.
- Legal Fees: Developer to cover all MSF out of pocket expenses, $15,000 deposit required prior to MSF Board. If the anticipated award is approved by the MSF, the outside counsel legal fee shall become non-refundable. If the anticipated award is not approved by the MSF, then the remaining balance of the outside counsel legal fee, if any, shall be returned to the applicant. All third party costs in excess of the $15,000 shall be the responsibility of the applicant and due at time of invoice by outside counsel.
- Term: Not to exceed 7 years.
- Amortization: Not to exceed 300 months.
- Interest Only Period: Up to 36 months (NMTC structures will be accommodated).
- Repayment: Pari Passu with all other lenders. Monthly payments of principal and interest following the interest only period.
- Guarantors: Personal guarantees of the owners.
- Collateral: Security interest in the underlying project.
- Minimum Debt Service Coverage Ratio: 1.20:1.00, calculated based on all scheduled debt requirements including MCRP award.
- Funding: Following construction completion and issuance of a "Certificate of Occupancy" (in certain cases a temporary "Certificate of Occupancy" will be considered acceptable), and completion of other performance based criteria.