

MICHIGAN STRATEGIC FUND BOARD
FINAL MEETING AGENDA
May 22, 2018
10:00 am

Public comment – Please limit public comment to three (3) minutes

Communications

A. Consent Agenda

Proposed Meeting Minutes – April 24, 2018
Port of Monroe – MSF Activity Amendment – Shane Schamper
Bagley Forest Property LLC – MCRP Re-approval and Modification – Emanuel Odom
618 South Main, LLC – MCRP Amendment – Lynda Franke
609 E. Kirby Lofts – MCRP Amendment – Lynda Franke
Kroger Company of Michigan – MBDP Amendment – Trevor Friedeberg
Ferrous CAL Co. – MBDP Amendment – Julia Veale
CDBG Action Plan – 2018 Authorization – Christine Whitz

B. Business Investment

a. Business Growth

Wolverine Packing Co. Redevelopment – Brownfield Act 381 Work Plan – Mike Gietzen
Amazon.com Services, LLC – MBDP Grant – Julia Veale
Gerdau Macsteel, Inc. – SESA Award – Trevor Friedeberg

b. Capital Access

Greenville Venture Partners, LLC – Bond Authorization – Chris Cook
Authorization of Amendments or Revisions to Bond Documents – Chris Cook

C. Community Vitality

Michigan Community Capital (MCC) – Attainable Housing Amendment – Julius Edwards
Michigan Community Capital (MCC) – Small Developer Fund Amendment – Julius Edwards
351 West Western LLC and Great Lakes Development Investments, Inc. – MCRP Loan Participation Request – Lindsay Viviano
1140 Broadway Street Redevelopment – Brownfield Act 381 Work Plan – Paula Holtz
Hudson’s Block, Monroe Blocks, One Campus Martius Expansion, and Book Building/Book Tower Redevelopment Projects – Transformational Brownfield Plan – Brittney Hoszkiw

D. Administrative

MSF Background Review Policy – Mark Morante

E. Image/State Branding

Aviareps – Contract Extension – Michelle Grinnell

MICHIGAN STRATEGIC FUND

RESOLUTION 2018-

**APPROVAL OF MAY 2018 CONSENT AGENDA
FOR THE MICHIGAN STRATEGIC FUND BOARD**

WHEREAS, the Michigan Strategic Fund (“MSF”), at its February 2014 board meeting, approved the use of consent agendas at future board meetings pursuant to defined guidelines.

WHEREAS, the MSF, at its February, 2014 board meeting, approved Guidelines for Preparation and Approval of Consent Agendas for the MSF (“Guidelines”).

WHEREAS, pursuant to the recommendation of MSF and MEDC staff, the MSF Board desires to approve the below Consent Agenda items;

NOW, THEREFORE, BE IT RESOLVED, the MSF approves the Consent Agenda items listed below and identified in the final Consent Agenda for this board meeting.

Consent Agenda Items:

Proposed Meeting Minutes – April 24, 2018
Port of Monroe – MSF Activity Amendment
Bagley Forest Property LLC – MCRP Re-approval and Modification
618 South Main, LLC – MCRP Amendment
609 E. Kirby Lofts – MCRP Amendment
Kroger Company of Michigan – MBDP Amendment
Ferrous CAL Co. – MBDP Amendment
CDBG Action Plan – 2018 Authorization

Ayes:

Nays:

Recused:

Lansing, Michigan
May 22, 2018

**MICHIGAN STRATEGIC FUND
PROPOSED MEETING MINUTES
April 24, 2018**

Members Present

Paul Gentilozzi
Larry Koops
Andrew Lockwood (on behalf of Treasurer Khouri)
Terrence J.L. Reeves
Greg Tedder (on behalf of Chairman Mason)
Shaun Wilson

Members joined by phone

Stephen Hicks
Terri Jo Umlor

Members Absent

Carl Camden
Roger Curtis
Wayne Wood

Mr. Tedder called the meeting to order at 10:00 am.

Public Comment: Mr. Tedder asked that any attendees wishing to address the Board come forward at this time. No public comment.

Communications: Jennifer Tebedo, MSF Administrator, advised the Board that the Quarterly Report of the Chief Compliance Officer was provided to them in the briefing packet, along with several program quarterly reports. She also advised the Board that revised material for the HB BM East Lansing LLC project under the Consent Agenda was provided to them at the table.

A. CONSENT AGENDA

Resolution 2018-049 Approval of Consent Agenda Items

Mr. Tedder asked if there were any questions from the Board regarding the items under the Consent Agenda. There being none, Larry Koops motioned for the approval of the following:

Proposed Meeting Minutes – March 27, 2018

NEAPCO Drivelines, Inc. – MBDP Grant Amendment – **2018-50**

LG Electronics Vehicle Components U.S.A. LLC – MBDP Grant Amendment – **2018-051**

Iron Ridge Development – Act 381 Work Plan Amendment – **2018-052**

George F. Eyde Family, LLC (Oliver Towers Redevelopment) – MCRP Loan Participation Re-approval – **2018-053**

HB BM East Lansing LLC (Center City District) – MCRP Loan Participation Amendment (Conversion to Direct Loan) and Re-approval – **2018-054**

Andrew Lockwood seconded the motion. **The motion carried: 8 ayes; 0 nays; 0 recused.**

B. BUSINESS INVESTMENT

B1. Business Growth

Resolution 2018-055 Plastic Trim International, Inc. – MBDP Grant

David Kurtycz, Business Development Project Manager, provided the Board with information regarding this action item. Following brief discussion, Larry Koops motioned for the approval of Resolution 2018-055. Paul Gentilozzi seconded the motion. **The motion carried: 8 ayes; 0 nays; 0 recused.**

Resolution 2018-056 International Trade Office – Request to Issue RFP

Natalie Chmiko, Director International Trade, provided the Board with information regarding this action item. Following brief discussion, Larry Koops motioned for the approval of Resolution 2018-056. Shaun Wilson seconded the motion. **The motion carried: 8 ayes; 0 nays; 0 recused.**

B2. Access to Capital

Resolution 2018-057 Hillcorp Properties, LLC – Bond Authorizing / Request for Extension

Chris Cook, Director Capital Access, provided the Board with information regarding this action item. Following brief discussion, Paul Gentilozzi motioned for the approval of Resolution 2018-057. Andrew Lockwood seconded the motion. **The motion carried: 8 ayes; 0 nays; 0 recused.**

ROLL CALL VOTE: Ayes: Paul Gentilozzi, Stephen Hicks, Larry Koops, Andrew Lockwood (on behalf of Treasurer Khouri), Terrence J.L. Reeves, Greg Tedder (on behalf of Chairman Mason), Terri Jo Umlor, Shaun Wilson; Nays: None; Recused: None

Resolution 2018-058 Evangelical Homes of Michigan – Bond Authorization

Chris Cook, Director Capital Access, provided the Board with information regarding this action item. Following brief discussion, Larry Koops motioned for the approval of Resolution 2018-058. Paul Gentilozzi seconded the motion. **The motion carried: 8 ayes; 0 nays; 0 recused.**

ROLL CALL VOTE: Ayes: Paul Gentilozzi, Stephen Hicks, Larry Koops, Andrew Lockwood (on behalf of Treasurer Khouri), Terrence J.L. Reeves, Greg Tedder (on behalf of Chairman Mason), Terri Jo Umlor, Shaun Wilson; Nays: None; Recused: None

C. COMMUNITY VITALITY

Resolutions 2018-059 & 2018-060 Jackson Entertainment, LLC – MCRP Loan and Act 381 Work Plan

Lindsay Viviano, Community Assistance Team Specialist, provided the Board with information regarding these action items. Following brief discussion, Larry Koops motioned for the approval of Resolutions 2018-059 & 2018-060. Paul Gentilozzi seconded the motion. **The motion carried: 8 ayes; 0 nays; 0 recused.**

Resolution 2018-061 – Façade Restoration Initiative

Lori Mullins, Director Community Development Incentives, and Stacy Esbrook, Regional Director Community Assistance Team, provided the Board with information regarding this action item. Following brief discussion, Larry Koops motioned for the approval of Resolution 2018-061. Terrence J.L. Reeves seconded the motion. **The motion carried: 8 ayes; 0 nays; 0 recused.**

Mr. Tedder adjourned the meeting at 11:02 am.



STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

RICK SNYDER
GOVERNOR

NICK A. KHOURI
STATE TREASURER

January 18, 2018

Ms. Jennifer Tebedo
Board Relations Liaison
Michigan Strategic Fund Office
300 N. Washington Square
Lansing, MI 48913

Dear Ms. Tebedo:

I hereby designate Andrew Lockwood to represent me at Michigan Strategic Fund Meeting, I am unable to attend.

Sincerely,

A handwritten signature in black ink, appearing to be "N.A. Khouri", with a long horizontal stroke extending to the right.

N.A. Khouri
State Treasurer

Cc: Andrew Lockwood

March 28, 2018

Michigan Strategic Fund
300 N. Washington Square
Lansing, MI 48913

RE: Designation of Greg Tedder

To Whom It May Concern:

Pursuant to MCLA 16.51, I hereby confirm my designation of Greg Tedder as the person authorized and empowered to act in my stead as a member of the Michigan Strategic Fund board for scheduled meetings I am not unable to attend.

Sincerely,



Jeff Mason
President & Chairman, MSF
Chief Executive Officer, MEDC

MEMORANDUM

Date: May 22, 2018
To: Michigan Strategic Fund Board
From: Shane Schamper, Compliance Manager
Subject: Port of Monroe (“Applicant” or “Port”)
Request for Amendment to Investment Agreement

Request

The Applicant is requesting an extension to Key Milestone Number Two’s due date under the Investment Agreement (“Agreement”) from April 30, 2018 to August 31, 2018 (the “Request”).

Background

On September 22, 2015, the MSF awarded a MSF Investment to the Port in the amount of up to Three Million Dollars (\$3,000,000). The Port is to use the funds to revitalize its commercial harbor area located on Lake Erie in the City of Monroe for MSF Eligible Activities, including site preparation activities and public infrastructure improvements.

On August 22, 2017, the MSF Board approved an amendment request to extend the due date of Key Milestone Number Two to April 30, 2018.

Current Status

The final milestone, Key Milestone Number Two, was due on April 30, 2018 and the Port has submitted all the necessary requirements of the milestone with the exception of expending \$3,000,000 for MSF Eligible Activities. Through March 31, 2018, \$2,831,158 of the \$3,000,000 MSF Investment has been spent on MSF Eligible Activities. It is anticipated that the difference, \$168,842, will be used over the next three months.

Due to abnormally cold weather in 2018, the project has been unable to complete the final paving of asphalt, which requires two weeks of warm and dry weather in order to cure properly. Therefore, the Port is requesting an extension to Key Milestone Number Two, project completion, until August 31, 2018.

Before and after photos of the project site can be seen on Appendix A.

Recommendation

MEDC Staff recommends approval of an amendment to the MSF Investment Agreement as requested above.

APPENDIX A – Project Before and After Photos



Before Site Preparation - Dock Area

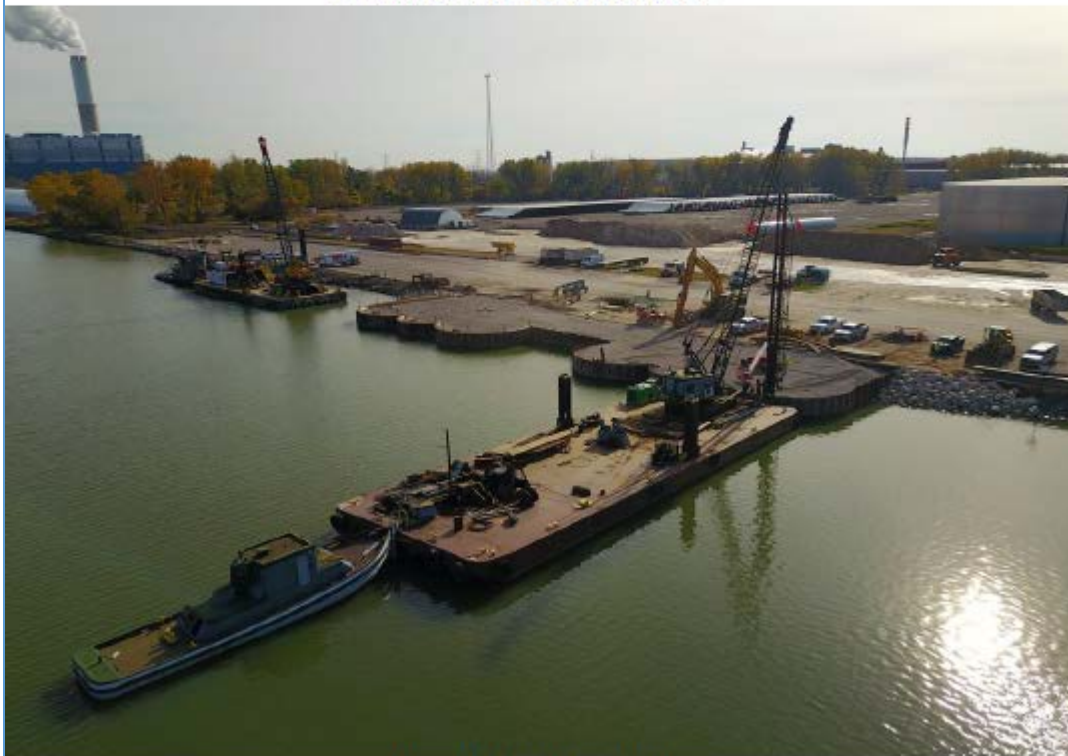


After Site Preparation - Dock Area

Appendix A – Project Before and After Photos



Shoreline Before Dock Construction



Shoreline After Dock Construction

Appendix A – Project Before and After Photos



Before Site Preparation and New Storage Building



After Site Preparation and New Storage Building

MICHIGAN STRATEGIC FUND

RESOLUTION 2018-

APPROVAL OF AN AMENDMENT TO A MSF INVESTMENT AWARD TO PORT OF MONROE

WHEREAS, the Michigan legislature passed legislation establishing the 21st Century Jobs Trust Fund initiative that was signed into law;

WHEREAS, the Michigan Economic Development Corporation (“MEDC”) provides administrative services to the Michigan Strategic Fund (“MSF”) for 21st Century Jobs Trust Fund programs and activities;

WHEREAS, as part of the 21st Century Jobs Trust Fund initiative, and pursuant to MCL 125.2088h(1), the Jobs for Michigan investment fund was created as a permanent fund authorized by the state constitution (“Investment Fund”);

WHEREAS, pursuant to MCL 125.2088(h)(5)(b), the Investment Fund consists of, among other things, return on investments, return on principal, payments made, or other money received by or payable to the MSF under agreements related to grants, loans or investments made by the MSF under Chapter 8A or Chapter 8C;

WHEREAS, pursuant to MCL 125.2088(h)(3), the Investment Fund shall be invested as authorized under Chapter 8A for the purpose of creating incentives for activities arising out of retaining or creating jobs, or increasing capital investment activity, or increasing commercial lending activity or encouraging the development and commercialization of competitive edge technologies, or revitalizing Michigan communities;

WHEREAS, pursuant to Chapter 8A, specifically, MCL 125.2088(b)(2)(c), Investment Fund monies are authorized to be invested for programs or activities authorized under the MSF Act as long as the programs or activities provide for repayment for breach of the written agreement or the failure to meet measureable outcomes;

WHEREAS, pursuant to the MSF Act, specifically, MCL 125.2007(c), the MSF has, among other things, the power to make investments;

WHEREAS, by Resolution 2015-132 on September 22, 2015, the MSF Board awarded a \$3 million Investment Fund to fund the Investment in the Port of Monroe (“Award”);

WHEREAS, by Resolution 2017-125 on August 22, 2017, the MSF Board approved an amendment request to extend the due date of Key Milestone Number Two to April 30, 2018;

WHEREAS, the MEDC recommends that the MSF approve an amendment request to extend the due date of Key Milestone Number Two to August 31, 2018 (the “Amendment Recommendation”)

NOW THEREFORE, BE IT RESOLVED, the MSF Board approves the Amendment Recommendation; and

BE IT FURTHER RESOLVED, the MSF authorizes the MSF Fund Manager to negotiate the final terms and conditions of the final documents necessary to effectuate the Amendment Recommendation.

Ayes:

Nays:

Recused:

Lansing, Michigan
May 22, 2018

MEMORANDUM

Date: May 22, 2018

To: Michigan Strategic Fund (“MSF”) Board

From: Emanuel M. Odom, Program and Investment Specialist

Subject: Bagley Forest Property LLC
Michigan Community Revitalization Program
Request for Approval of a Grant Amendment

Request

Bagley Forest Property, LLC (“Company”) and MEDC staff are requesting approval of an amendment to the Michigan Community Revitalization Program Grant Award approval. The Company and MEDC staff are requesting a waiver of the Minimum Owner Equity Investment parameter in which the “Owner” is required to invest a minimum of 10% of the Total Development Costs (net of developer and other related party fees). The request will not require the MSF to advance any additional monies. The request is being driven by a reclassification of an equity contribution to subordinate debt.

Background

On November 28, 2017, the Michigan Strategic Fund Board approved a \$1,300,000 performance-based grant for the Company. The MCRP approval required that an Agreement be entered into within 120 days of the date of the approval that may be extended for an additional 30 days. The parties were unable to enter into the Agreement by the original expiration date because the Company was finalizing the information required to be submitted as a condition to close on the agreement.

On March 23, 2018, The MSF Fund Manager approved the request to extend the execution deadline of March 28, 2018 to April 27, 2018.

Originally the application depicted the above mentioned loan as a loan to the owner and recognized it as Owner’s Equity in the original write up. However, the equity loan between Bagley Forest Property, LLC (“Borrower”) and Invest Detroit Foundation (“Lender”) cannot be characterized as an equity contribution as it is secured by a lien or subordinate real estate mortgage (5th position) on the subject property. This change has necessitated MEDC staff to recognize a deviation from program parameters and request the proposed amendment to the original approval.

Recommendation

- MEDC staff recommends approval of a waiver of the Minimum Owner Equity Investment parameter in which the “Owner” is required to invest a minimum of 10% of the Total Development Costs (net of developer and other related party fees).
- MEDC staff recommends to reapprove and extend the approval 120 days.

MICHIGAN STRATEGIC FUND

RESOLUTION 2018 -

**APPROVAL OF AN AMENDMENT TO A MICHIGAN COMMUNITY
REVITALIZATION PROGRAM GRANT AWARD FOR
BAGLEY FOREST PROPERTY, LLC**

WHEREAS, the Michigan legislature amended the Michigan Strategic Fund Act, MCL 125.2011 et. seq., to add Chapter 8C (being MCL 125.2090a – MCL 125.2090d) to enable the Michigan Strategic Fund (“MSF”) to create and operate the Michigan Community Revitalization Program (“MCRP”) to provide incentives in the form of grants, loans and other economic assistance for redevelopment of communities in Michigan;

WHEREAS, the Michigan Economic Development Corporation (“MEDC”) provides administrative services to the MSF for the MCRP;

WHEREAS, on December 21, 2011, by Resolution 2011-185, the MSF (i) created the MCRP, (ii) adopted the guidelines for the MCRP, as later amended (“Guidelines”);

WHEREAS, pursuant to SFCR 125.2090-1, the MSF approved the MSF Fund Manager or the MSF President to negotiate the terms and conditions and execute all final documents necessary to effectuate awards and decisions approved under the MCRP, (“Transaction Documents”);

WHEREAS, the Guidelines require that MCRP awards over \$1 million must be approved by the MSF Board;

WHEREAS, by Resolution 2017-200 on November 28, 2017 the MSF Board awarded a performance based grant up to the lesser of 25% of “Eligible Investment” or \$1,300,000 (“Award Request”), along with other general terms and conditions, to Bagley Forest Property LLC or an entity formed or to be formed in the furtherance of the Liv7 Project (“Applicant”);

WHEREAS, on March 23, 2018, the MSF Delegates approved a MCRP amendment to extend the deadline to execute the MCRP written agreement to April 27, 2018;

WHEREAS, The MEDC is recommending a waiver of the Minimum Owner Equity Investment parameter as the original equity contribution is deemed to be subordinate debt secured by the property of the project;

WHEREAS, the Applicant was unable to execute the Transaction Documents by the Original Expiration Date and MEDC is recommending that the MSF Board re-approve the Award Request subject to: (i) available funding, (ii) final due diligence performed to the satisfaction of the MEDC, and (iii) execution of the Transaction Documents within 120 days of the date of this Resolution (“Time Period”), or this Resolution shall have no effect; provided, however, at the sole discretion of the MSF Fund Manager, the Time Period may be extended for up to an additional 60 days (“MCRP Amendment Recommendation”); and

NOW, THEREFORE, BE IT RESOLVED, the MSF Board approves the MCRP Amendment Recommendation;

Ayes:

Nays:

Recused:

Lansing, Michigan
May 22, 2018

MEMORANDUM

Date: May 22, 2018

To: Michigan Strategic Fund Board

From: Lynda Franke, Underwriting and Incentive Structuring Specialist

Subject: 618 South Main, LLC
Michigan Community Revitalization Program
Request for Approval of a Loan Agreement Amendment #6

Request

618 South Main, LLC (“Borrower”) is requesting approval of amendment #6 to the Michigan Community Revitalization Program Loan Agreement (“Agreement”) and any related ancillary agreements to allow the refinancing of the original HUD loan to a new HUD loan, changing the MSF maturity date to match the new HUD loan, raising the annual fee to \$75,000 and applying that payment to the principal balance to fully amortize the principal, per the Borrower’s request dated May 8, 2018.

Background

The Michigan Strategic Fund Board approved a \$3,000,000 loan on November 28, 2012 to the Borrower for redevelopment of a contaminated property into a six story residential building specifically targeted to young professionals in the City of Ann Arbor. The building includes 164 loft-style apartments and two levels of underground parking plus two storage areas for bikes. The project was reauthorized on July 24, 2013.

The first amendment to the project was approved on February 5, 2014 to amend the due date for evidence that certain transactions were closed as contemplated by the senior loan documents and the second and third amendments were approved in April and July 2016, respectively, to extend the Milestone Two due date. The fourth amendment was approved in September 2016 to extend the Milestone Two due date and revise the language in Exhibit G. The fifth amendment was approved in September 2017 and allowed Daniel Ketelaar to be removed as an active manager without triggering a maturity event.

The senior debt consists of a HUD loan. HUD recently introduced a new refinancing program for eligible properties to encourage sustainable investment. The Borrower is eligible for the program due to a recognized green building certification. The HUD program does not allow for refinancing of anything other than the original principal balance. There is also a prepayment penalty on the original loan, which will require an additional owner equity investment of approximately \$1,500,000. The new HUD loan terms include a reduced interest rate and a reduced Mortgage Insurance Premium. These changes provide debt service reduction to the project, providing a return on the new owner equity and allowing a faster repayment of the original MSF incentive.

The current MSF terms are a zero interest loan, with an annual fee of \$30,000 and a balloon at the end of the original 40-year term. MEDC staff proposes increasing the annual fee to \$75,000, which will be applied as principal pay-downs, leaving a zero balance at the end of the new 40-year term.

The project has been completed and all milestones have been submitted. The company is current with reporting requirements.

Recommendation

The MEDC staff recommends approval of amendment #6 to the MCRP Loan Agreement and any related ancillary agreements to allow the refinancing of the original HUD loan to a new HUD loan, changing the MSF maturity date to match the new HUD loan, raising the annual fee to \$75,000 and applying that payment to the principal balance to fully amortize the principal, per the Borrower's request dated May 8, 2018.

MICHIGAN STRATEGIC FUND

RESOLUTION 2018 -

**APPROVAL OF AN AMENDMENT TO A MICHIGAN COMMUNITY
REVITALIZATION PROGRAM LOAN AWARD FOR
618 SOUTH MAIN, LLC**

WHEREAS, the Michigan legislature amended the Michigan Strategic Fund Act, MCL 125.2011 et. seq., to add Chapter 8C (being MCL 125.2090a – MCL 125.2090d) to enable the Michigan Strategic Fund (“MSF”) to create and operate the Michigan Community Revitalization Program (“MCRP”) to provide incentives in the form of grants, loans and other economic assistance for redevelopment of communities in Michigan;

WHEREAS, the Michigan Economic Development Corporation (“MEDC”) provides administrative services to the MSF for the MCRP;

WHEREAS, on December 21, 2011, by Resolution 2011-185, the MSF (i) created the MCRP, (ii) adopted the guidelines for the MCRP, as later amended (“Guidelines”);

WHEREAS, pursuant to SFCR 125.2090-1, the MSF approved the MSF Fund Manager or the MSF President to negotiate the terms and conditions and execute all final documents necessary to effectuate awards and decisions approved under the MCRP, (“Transaction Documents”);

WHEREAS, the Guidelines require that MCRP awards over \$1 million must be approved by the MSF Board;

WHEREAS, by Resolution 2012-167 on November 28, 2012, the MSF Board awarded a MCRP Loan Award to 618 South Main, LLC (“Borrower”), in furtherance of the Project of up to \$3,000,000 (“Award”);

WHEREAS, by Resolution 2016-037 on April 26, 2016, the MSF Board approved a MCRP amendment to extend the Milestone Two due date in the agreement and any related ancillary agreements to June 30, 2016;

WHEREAS, by Resolution 2016-112 on July 26, 2016, the MSF Board approved a MCRP amendment to extend the Milestone Two due date in the agreement and any related ancillary agreements to August 31, 2016;

WHEREAS, by Resolution 2016-157 on September 27, 2016, the MSF Board approved a MCRP amendment to extend the Milestone Two due date in the agreement and any related ancillary agreements to October 31, 2016 and revise Exhibit G;

WHEREAS, by Resolution 2017-151 on September 26, 2017, the MSF Board approved a MCRP amendment to allow the transfer of Daniel Ketelaar’s member interest in both the Borrower and its’ Manager, resulting in the removal of Daniel Ketelaar from active involvement in the management of Manager and Borrower, with all other requirements remaining in place from the original approval.

WHEREAS, the MEDC is recommending that the MSF allow the refinance of the original HUD loan to a new HUD loan with a revised subordination agreement, subject to MSF Fund manager's discretion, change the MSF maturity date to match the new HUD loan, raise the annual fee to \$75,000 and apply those payments to the principal balance to fully amortize the principal, per the Company's request dated May 8, 2018, with all other requirements remaining in place from the original approval.

NOW, THEREFORE, BE IT RESOLVED, the MSF Board approves the MCRP Amendment Recommendation;

Ayes:

Nays:

Recused:

Lansing, Michigan
May 22, 2018

MEMORANDUM

Date: May 22, 2018

To: Michigan Strategic Fund Board

From: Lynda Franke, Underwriting and Incentive Structuring Specialist

Subject: 609 E Kirby Lofts LLC
Michigan Community Revitalization Program
Request for Approval of an Other Economic Assistance-Loan Participation
Agreement Amendment #5

Request

609 E Kirby Lofts LLC (“Company”) is requesting approval of an amendment to the Michigan Community Revitalization Program Other Economic Assistance Loan Participation Agreement (“Agreement”) and any related ancillary agreements. The amendment request dated May 8, 2018 includes a request to remove the Loan Conversion Condition of the full repayment of the Detroit Investment Fund (“DIF”) Bridge Loan and the DIF/University Culture Center Association (“UCCA”) loans. In addition, the Company is requesting an extension of the due date for both the Project Completion Status Submission by Lender and the Conversion of Capital Impact Loan II to September 30, 2018, and to allow the Company to replenish the Operating Reserve account at a rate of \$1,200 per month.

Background

The Michigan Strategic Fund Delegates approved a \$1,000,000 Other Economic Assistance Performance-Based Loan Participation on July 26, 2013, to the Company for the purpose of renovating the historic, but blighted Tushiyah United Hebrew School that was built in 1922 located at 600 and 609 East Kirby in Midtown Detroit into 25 market-rate housing units and a 32 space gated surface lot.

An amendment to the project was approved on October 4, 2013, to change the structure of the original loan, allowing the MSF to participate in a single \$2,050,000 loan with Capital Impact. The MSF share of the loan remained the same at \$1,000,000 with \$300,000 of principal forgiven upon completion. A second amendment to the project was approved on November 10, 2015, to extend the deadline for construction completion six months, to March 22, 2016. A third amendment was approved on June 9, 2016, to extend the deadline for construction completion. A fourth amendment was approved on June 27, 2017 to allow for increase in the award up to 50 percent of the “Eligible Investment”, but not more than \$1,000,000 and to extend the due date for both the Project Completion Status Submission and the Conversion of the Capital Impact Loan II to December 31, 2017.

The project has been completed and a final Certificate of Occupancy was issued in August 2016. The additional time is needed because the property had a slower than anticipated lease-up. The property is now at 92% occupancy, and the loan conversion is anticipated to occur prior to September 30, 2018. The

project's current operations are sufficient to service debt on all adjusted loan balances. A portion of the original bridge loan principal will remain outstanding with interest-only repayments. The Operating Reserve replenishment represents an abundance of caution against unforeseen circumstances.

The Company is current with reporting requirements.

Recommendation

The MEDC staff recommends approval of an amendment to the MCRP Other Economic Assistance Loan Participation Agreement and any related ancillary agreements to allow for the following, per the Company's request dated May 8, 2018:

- 1) Loan Conversion to occur without a complete pay-off of the DIF Bridge Loan and the DIF/UCCA loans;
- 2) Extension of the due date for both the Project Completion Status Submission by Lender and the Conversion of Capital Impact Loan II to September 30, 2018; and
- 3) The Company to replenish the Operating Reserve account at a rate of \$1,200 per month.

MICHIGAN STRATEGIC FUND

RESOLUTION 2018 -

**APPROVAL OF AN AMENDMENT TO A MICHIGAN COMMUNITY
REVITALIZATION PROGRAM OTHER ECONOMIC ASSISTANCE
LOAN PARTICIPATION AWARD FOR
609 E KIRBY LOFTS LLC**

WHEREAS, the Michigan legislature amended the Michigan Strategic Fund Act, MCL 125.2011 et. seq., to add Chapter 8C (being MCL 125.2090a – MCL 125.2090d) to enable the Michigan Strategic Fund (“MSF”) to create and operate the Michigan Community Revitalization Program (“MCRP”) to provide incentives in the form of grants, loans and other economic assistance for redevelopment of communities in Michigan;

WHEREAS, the Michigan Economic Development Corporation (“MEDC”) provides administrative services to the MSF for the MCRP;

WHEREAS, on December 21, 2011, by Resolution 2011-185, the MSF (i) created the MCRP, (ii) adopted the guidelines for the MCRP, as later amended (“Guidelines”);

WHEREAS, pursuant to SFCR 125.2090-1, the MSF approved the MSF Fund Manager or the MSF President to negotiate the terms and conditions and execute all final documents necessary to effectuate awards and decisions approved under the MCRP, (“Transaction Documents”);

WHEREAS, the Guidelines require that MCRP awards over \$1 million must be approved by the MSF Board;

WHEREAS, on July 26, 2013, the MSF Delegates awarded a MCRP Other Economic Assistance Loan Participation Award to 609 E Kirby Lofts LLC, in furtherance of the Project of up to \$1,000,000 (“Award”);

WHEREAS, on October 4, 2013, the MSF Delegates approved a MCRP amendment to change the structure of the original loan, allowing MSF to participate in a single \$2,050,000 loan with Capital Impact;

WHEREAS, on November 10, 2015, the MSF Delegates approved a MCRP amendment to extend the deadline for construction completion;

WHEREAS, on June 9, 2016, the MSF Delegates approved a MCRP amendment to extend the deadline for construction completion;

WHEREAS, by Resolution 2017-087 on June 27, 2017, the MSF Board approved a request to allow for an increase of the award up to 50 percent of “Eligible Investment”, but not more than \$1,000,000 and to extend the due date for both the Project Completion Status Submission by the Lender and the Conversion of the Capital Impact Loan II to December 31, 2017;

WHEREAS, the MEDC is recommending that the MSF approve the amendment recommendation to remove the Loan Conversion Condition of the full repayment of the DIF Bridge Loan and the DIF/UCCA loans, extend the due date for both the Project Completion Status Submission by Lender and the Conversion of Capital Impact Loan II to September 30, 2018, and to allow the Company to replenish the Operating Reserve account at a rate of \$1,200 per month, with all other requirements remaining in place from prior approvals;

NOW, THEREFORE, BE IT RESOLVED, the MSF Board approves the MCRP Amendment Recommendation;

Ayes:

Nays:

Recused:

Lansing, Michigan
May 22, 2018

MEMORANDUM

Date: May 22, 2018

To: Michigan Strategic Fund (“MSF”) Board Members

From: Trevor Friedeberg, Director, Business Development Projects

Subject: Kroger Company of Michigan (“Company”)
Michigan Business Development Program Grant Agreement Amendment

Request

The Company is requesting an amendment to its existing Michigan Business Development Program (MBDP) Grant Agreement to reduce its base employment level requirement from 517 to 385 and to extend the Milestone 1 deadline from February 28, 2018 to July 31, 2018.

Background

On June 27, 2017, the Michigan Strategic Fund approved a \$2,078,000 award for the Company under the MBDP. The Company proposed to expand operations in Chesterfield, Michigan, creating 377 Qualified New Jobs and investing over \$24 million.

On January 23, 2018, the Michigan Strategic Fund approved an amendment to its existing agreement for the Company to include additional entities performing work at the project for purposes of Qualified New Job creation.

The Company had a discrepancy in the base employment number because the information was originally submitted by a third party that included active and inactive employees. When the Company ran internal reports of active employees, the delta between the two figures was realized. Therefore, in order to meet the grant agreement requirements, the Company is requesting the base be adjusted from 517 to 385.

Recommendation:

MEDC Staff recommends the following (collectively, “Recommendation”):

- a) Amend the June 27, 2017 approval, as amended, to reduce the base employment requirement from 517 to 385 and extend the Milestone 1 deadline from February 28, 2018 to July 31, 2018;
- b) All other aspects of the approval remain unchanged.

MICHIGAN STRATEGIC FUND

RESOLUTION 2018-

**APPROVAL OF A MICHIGAN BUSINESS DEVELOPMENT PROGRAM
GRANT AMENDMENT TO
KROGER COMPANY OF MICHIGAN**

WHEREAS, the Michigan legislature passed legislation establishing the 21st Century Jobs Trust Fund initiative that was signed into law;

WHEREAS, the Michigan Economic Development Corporation (“MEDC”) provides administrative services to the Michigan Strategic Fund (“MSF”) for 21st Century Jobs Trust Fund programs;

WHEREAS, pursuant to MCL 125.2088r, the MSF shall create and operate the Michigan Business Development Program (“MBDP”) to provide grants, loans and other economic assistance to qualified businesses that make qualified investments or provide qualified new jobs in Michigan;

WHEREAS, on December 21, 2011, by Resolution 2011-184, the MSF (i) created the MBDP, and (ii) adopted the guidelines for the MBDP (“Guidelines”);

WHEREAS, pursuant to SFCR 125.2088r-1, the MSF approved the MSF Fund Manager or the MSF President to negotiate the terms and conditions and execute all final documents necessary to effectuate awards and decisions approved under the MBDP in accordance with the Guidelines (“Transaction Documents”);

WHEREAS, the Guidelines require that MBDP awards over \$1 million must be approved by the MSF Board;

WHEREAS, the MSF Board approved a \$2,078,000 Michigan Business Development Program Performance based grant on June 27, 2017 to establish a new dry-goods distribution center in Chesterfield Township, make investments and create jobs related to general warehousing and storage (the “Project”);

WHEREAS, the MSF Board approved an amendment to the Company’s Business Development Program Performance based grant on January 23, 2018 to include additional entities performing work at the project for purposes of Qualified New Job creation;

WHEREAS, the Company requests that the MSF Board approve an amendment to the Michigan Business Development Program performance-based grant to reduce the required Base Employment Level from 517 to 385 and extend the Milestone 1 deadline from February 28, 2018 to July 31, 2018 (the “Grant Amendment Request”);

WHEREAS, the MEDC recommends approval of the Grant Amendment Request; and

WHEREAS, the MSF Board wishes to approve the Grant Amendment Request.

NOW, THEREFORE, BE IT RESOLVED, the MSF Board approves the Grant Amendment Request; and

BE IT FURTHER RESOLVED, the MSF authorizes the MSF Fund Manager to negotiate the final terms and conditions of the final documents necessary to effectuate the Grant Amendment Request.

Ayes:

Nays:

Recused:

Lansing, Michigan
May 22, 2018

MEMORANDUM

Date: May 22, 2018

To: Michigan Strategic Fund (“MSF”) Board Members

From: Julia Veale, Development Finance Manager

Subject: Ferrous CAL Co. (“Company”)
*Michigan Business Development Program Other Economic Assistance Agreement
Amendment*

Request

The Company is requesting to change the company name from Ferrous CAL to HyCAL Corp; extend the deadline for the creation of 25 Qualified New Jobs (QNJ) and up to 75 Additional New Jobs; consolidate Key Milestones 5 and 6; and amend Annual Payment and amend Project Status Report requirements.

Background

In June of 2015, Ferrous CAL Co. was approved for a Michigan Business Development Performance-based Other Economic Assistance award in the amount of \$6,000,000 for the remediation and redevelopment of a former steel processing facility in the City of Gibraltar, Wayne County. This project involved the creation of 25 QNJ, with potential for up to 75 Additional New Jobs for a total of 100 new jobs. The project was also expected to result in a Qualified Investment of \$6,500,000 with total capital investment of up to \$50,200,000. Incentive assistance was necessary to cover a portion of the remediation and clean-up costs at the site. The MSF also authorized a Brownfield Work Plan for eligible activities along with MDEQ Brownfield grant/loan and Work Plan in support of the project. The incentive assistance requires repayment utilizing the tax increment revenue generated by the redevelopment of the property. The amount to be repaid will be computed upon completion of the final milestone, after a \$500,000 credit is applied for 25 QNJ and \$20,000 credit is given for each subsequent new job, up to 75 additional new jobs, above the 25 required jobs.

The Company has made great strides in redeveloping and remediating the 560,000 square foot facility including the abatement of lead, asbestos and hazardous materials, selective demolition and infrastructure improvements. The Company has also successfully installed a state-of-the-art, first of its kind, continuous annealing line (CAL). The CAL is a technological first in that it utilizes hydrogen quenching in the cooling phase to create advanced high-strength steel grades. To date, the Company has invested \$68,000,000 in the project.

The start-up of this new and complex production line has come with unexpected delays. Testing and debugging of the new equipment required more effort than expected. This, along with the relocation of two slitting units from the Wayne facility to the Gibraltar facility, have significantly delayed the start-up timeframe. As a result the Company cannot meet the requirement of 25 QNJ above the base level of 35 by June 30, 2018. As of this date, the Company has 44 employees. Expectations are that job targets for both

Qualified New Jobs and Additional New Jobs will be met as the CAL continues to ramp-up with the future addition of second and third shifts.

Recommendation

MEDC Staff recommends the following (collectively, "Recommendation"):

- a) Amend the **June 8, 2015** approval in accordance with the attached Term Sheet;
- b) All other aspects of the approval remain unchanged.

MICHIGAN STRATEGIC FUND

**RESOLUTION 2018-
APPROVAL OF AMENDMENT TO
THE MICHIGAN BUSINESS DEVELOPMENT PROGRAM OTHER
ECONOMIC ASSISTANCE
TO FERROUS CAL**

WHEREAS, the Michigan legislature passed legislation establishing the 21st Century Jobs Trust Fund initiative that was signed into law;

WHEREAS, the Michigan Economic Development Corporation (“MEDC”) provides administrative services to the Michigan Strategic Fund (“MSF”) for 21st Century Jobs Trust Fund programs;

WHEREAS, pursuant to MCL 125.2088r, the MSF shall create and operate the Michigan Business Development Program (“MBDP”) to provide grants, loans and other economic assistance to qualified businesses that make qualified investments or provide qualified new jobs in Michigan;

WHEREAS, on December 21, 2011, by Resolution 2011-184, the MSF (i) created the MBDP, and (ii) adopted the guidelines for the MBDP (“Guidelines”);

WHEREAS, pursuant to SFCR 125.2088r-1, the MSF approved the MSF Fund Manager or the MSF President to negotiate the terms and conditions and execute all final documents necessary to effectuate awards and decisions approved under the MBDP in accordance with the Guidelines (“Transaction Documents”);

WHEREAS, the Guidelines require that MBDP awards over \$1 million must be approved by the MSF Board;

WHEREAS, the MSF Board approved a \$6,000,000 performance based Michigan Business Development Program Other Economic Assistance on June 8, 2015 for the expansion of for the remediation and redevelopment of a former steel processing facility in the City of Gibraltar, Wayne County (the “Project”);

WHEREAS, the Company requests that the MSF Board approve an amendment to the performance based Michigan Business Development Program Other Economic Assistance to change the company name from Ferrous CAL Co. to HyCAL Corp; extend the deadline for the creation of 25 Qualified New Jobs (QNJ’s) and up to 75 Additional New Jobs; consolidate Key Milestones 5 and 6; and amend Annual Payment and amend Project Status Report requirements, along with other gernal terms and conditions which are outlined the amended term sheet attached as Exhibit A (the “Amendment Request”);

WHEREAS, the MEDC recommends approval of the Amendment Request; and

WHEREAS, the MSF Board wishes to approve the Amendment Request.

NOW, THEREFORE, BE IT RESOLVED, the MSF Board approves the Amendment Request; and

BE IT FURTHER RESOLVED, the MSF authorizes the MSF Fund Manager to negotiate the final terms and conditions of the final documents necessary to effectuate the Amendment Request.

Ayes:

Nays:

Recused:

Lansing, Michigan
May 22, 2018

**MICHIGAN BUSINESS DEVELOPMENT PROGRAM
Performance Based Grant Amendment - Term Sheet**

The following is a summary of the highlights of the amendment and basic terms for which the Company desires grant support from the Michigan Strategic Fund ("MSF") under the Michigan Business Development Program ("MBDP"). While the MBDP is operated and funded through the MSF, recommendation for approval of a MBDP Incentive Amendment is presented by the Michigan Economic Development Corporation ("MEDC") to the MSF.

Date: May 22, 2018

Company Name: Ferrous CAL Co. ("Company" or "Applicant")

Project Address ("Project"): 27800 West Jefferson Avenue
Gibraltar, Michigan 48173

MBDP Incentive Type: Performance Based Other Economic Assistance

Current Status of the MBDP Incentive, as set forth in the final MBDP Incentive Award Agreement ("Agreement"):

- **Maximum Amount of MBDP Incentive:** Up to \$6,000,000 ("MBDP Incentive Award")
- **Base Employment Level:** 35
- **Total Qualified New Job Creation:** 25
(above Base Employment Level)
- **Qualified Investment:** \$6,500,000
- **Key Milestones:** The terms and conditions of each of the Key Milestones are outlined in Exhibit B of the Agreement, and include:
 - **Milestones 1 – 3:** Up to \$6,000,000 Funds disbursed for eligible brownfield and rail enhancement costs related to the Project outlined in Exhibit E of the Agreement.

Status: The Company has satisfied the requirements of Milestones 1 – 3 and the maximum award amount has been disbursed.
 - **Milestone 4:** None Upon completion of Milestones 1 through 3, and upon demonstrated creation of 25 Qualified New Jobs above the Base Employment Level, verification 100 percent of funds disbursed from Milestones 1-3 have been spent in accordance with Exhibit E of the Agreement, and verification from Michigan Department of Environmental Quality and AKT Peerless that Eligible Activities were done in accordance with the Act 381 Work Plan by no later than June 30, 2018.

\$6,500,000 of the Qualified Investment and maintained the Base Employment Level by no later than December 31, 2018.

o **Milestone 5:** None Upon completion of Milestones 1 through 4, and upon demonstrated creation of 25 Qualified New Jobs above the Base Employment Level and upon verification 100 percent of funds disbursed from Milestones 1-3 have been spent in accordance with Exhibit E of the Agreement, and verification from Michigan Department of Environmental Quality and AKT Peerless that Eligible Activities were done in accordance with the Act 381 Work Plan by no later than December 31, 2019.

o **Milestone 6:** None Upon completion of Milestones 1 through 5, and upon demonstrated creation of up to 75 Additional New Jobs above the Base Employment Level and Qualified New Jobs by no later than December 31, 2021.

- **Annual Payment:** The amount of the Award to be repaid shall be calculated as of June 30, 2022 based upon the total amount of the Award Disbursements less any credits applied. Credits will be calculated based on the following:
 - o If 25 Qualified New Jobs are created by December 31, 2019, a credit in the amount of \$500,000 shall be applied to the Principal.
 - o An additional credit shall be given for each Additional New Job created by December 31, 2021 and maintained through December 31, 2022 ("Term"), in the amount of \$20,000 per Additional New Job created up to 75, upon completion of Milestone 6. If at any time through the Term the Company eliminates an Additional New Job, the Principal shall be increased by \$20,000 per eliminated Additional New Job.

Interest on the outstanding Principal shall be calculated at one percent (1%) per annum with accrual to commence January 1, 2021.

- **Project Status Report:** Quarterly reports due April 15th, July 15th, November 15th, January 15th of each year following the execution of the Agreement and continuing until March 31, 2017.

Any final MBDP Incentive Amendment is contingent upon several factors, including: (i) submission by the Company of a completed amendment application and all other documentation required under the MBDP (ii) approval of an award by the MSF, and (iii) execution of a final Amendment containing the established milestones, repayment terms, reporting requirements, and all other detailed terms and conditions, required by the MSF.

If the Company is interested in the MEDC pursuing a recommendation to the MSF for a possible MBDP Incentive Award Amendment for the Company along the above parameters, please sign and date this Term Sheet. If the MEDC does not receive the signed Term Sheet from the Company by May 8, 2018, the MEDC may not be able to proceed with any recommendation to the MSF.

Acknowledged as received by:

HyCAL Corp

By:



Printed Name:

DAVID A. HILL

Its:

CHIEF FINANCIAL OFFICER

Dated:

5-08-2018

Michigan Economic Development Corporation

By:



Printed Name:

Julia Veale

Its:

BDPM

Dated:

5/8/18

MEMORANDUM

Date: May 22, 2018
To: Michigan Strategic Fund Board
From: Christine Whitz, Director, Community Development Block Grant Program
Subject: *Community Development Block Grant Program 2018 Action Plan*

Request

Michigan Economic Development Corporation (MEDC) staff recommends the Michigan Strategic Fund (MSF) authorize the Fund Manager to submit the final Community Development Block Grant (CDBG) 2018 Action Plan as part of the Consolidated Plan, in coordination with the Michigan State Housing Development Authority (MSHDA), to the U.S. Department of Housing and Urban Development (HUD) for their consideration.

Background

HUD allocates CDBG funding to the State of Michigan, through the MSF, for further distribution to eligible Units of General Local Government to carry out State approved activities.

The State of Michigan's Housing and Community Development Consolidated Plan is submitted pursuant to a HUD rule (24 CFR Part 91, 1/5/95) as a single submission covering the planning and application aspects of HUD's CDBG, Emergency Shelter Grant (ESG), HOME Investment Partnership (HOME) and Housing Opportunities for Persons with AIDS (HOPWA) formula programs. While the MSHDA submits the Consolidated Plan on the State's behalf, the MSF has authority over the attached Action Plan (Exhibit A) related to CDBG funds.

The details on the selection criteria for each program are general in the Action Plan, but are further defined in the CDBG Application Guide that was approved by the MSF June 27, 2017. Project periods and grant amounts will be determined and tailored for each specific project proposal.

The public comment period for the Action Plan started on April 6, 2018, and ended on May 7, 2018. Any public comments received that would be appropriate to be implemented and would require substantial changes to the Action Plan will be brought back to the MSF Board for consideration at the June MSF meeting.

Recommendation

After reviewing the programs and regulations, staff has concluded that the programs identified are in compliance with the federal CDBG regulations, and recommends the MSF authorizes the Fund Manager to submit the final CDBG 2018 Action Plan as part of the Consolidated Plan, in coordination with the MSHDA, to HUD for their consideration.

MICHIGAN STRATEGIC FUND

RESOLUTION 2018- _____

**APPROVAL OF COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM 2018 ACTION
PLAN**

WHEREAS, Executive Order 1999-1, issued pursuant to Article V of the Michigan Constitution of 1963 and the laws of State of Michigan, consolidated the State’s economic development functions and programs and their accompanying powers of the Michigan Strategic Fund (“MSF”);

WHEREAS, Executive Order 1999-1 transferred from the Michigan Jobs Commission to the MSF all authority, powers, duties, functions, grants, and responsibilities, including the functions of budgeting, procurement, personnel, and management related functions, of the Community Development Block Grant (“CDBG”) program;

WHEREAS, The CDBG program has policies, criteria, and parameters that are enumerated in the 2017 Application Guide, as amended (the “Criteria”). The MSF, by Resolution 2015-039, authorized and approved the Consolidated Plan and the Criteria and, by Resolution 2017-086;

WHEREAS, pursuant to SFCR 10.1-1, the MSF approved the MSF Fund Manager or the MSF President to negotiate the terms and conditions and execute all final documents necessary to effectuate awards or decisions approved under the CDBG program;

WHEREAS, the MSF submitted the 2015 Consolidated Plan to HUD on or about May, 2015, and was accepted by HUD;

WHEREAS, the MSF desires to authorize the Fund Manager, in coordination with the Michigan State Housing Development Authority, to submit the final 2018 Action Plan as part of the Consolidated Plan to HUD;

NOW, THEREFORE, BE IT RESOLVED, that the MSF Board authorizes the Fund Manager, in coordination with the Michigan State Housing Development Authority, to submit the final CDBG 2018 Action Plan, pursuant to the Consolidated Plan, to HUD. The MSF President or Fund Manager is authorized to modify the Action Plan prior to submission to HUD on the MSF’s behalf so long as the final terms and conditions are consistent with this resolution of the MSF Board and not otherwise materially adverse to the interests of the MSF.

Ayes:

Nays:

Recused:

Lansing, Michigan
May 22, 2018

DRAFT FY18 ACTION PLAN DOCUMENT FOR PUBLIC COMMENT

Executive Summary

AP-05 Executive Summary - 24 CFR 91.200(c), 91.220(b)

1. Introduction

The State of Michigan's Housing and Community Development Consolidated Plan is submitted pursuant to a U.S. Department of Housing and Urban Development (HUD) rule (24 CFR Part 91, 1/5/95) as a single submission covering the planning and application aspects of HUD's Community Development Block Grant (CDBG), Emergency Solutions Grant (ESG), HOME Investment Partnership (HOME), Housing Opportunities for Persons with AIDS (HOPWA) and the Housing Trust Fund (HTF) formula programs. The purpose of the 2015-2020 Consolidated Plan is to describe programs and activities that will be undertaken in conjunction with HUD programs by the state of Michigan within the next 5 years. Funding from these programs is awarded to the State by HUD and administered by the Michigan State Housing Development Authority, the Michigan Strategic Fund, and the Michigan Department of Health and Human Services. Each of the programs and activities that are proposed are described in detail within the following documents.

The programs and activities to be provided in year four of the five year plan (July 1, 2018 - June 30, 2019) address the housing and community development needs and goals identified within the State of Michigan's Consolidated Plan. The 2015 Consolidated Plan references strategies developed to address the following goals of the programs that it covers during the five-year period July 1, 2015 through June 30, 2020.

These goals are to:

- Expand the availability and supply of safe, decent, affordable, and accessible rental housing for low and extremely low-income individuals and families;
- Improve and preserve the existing affordable housing stock and neighborhoods;
- Increase sustainable homeownership opportunities for individuals and families by reducing the costs of homeownership;
- Make homeless assistance more effective and responsive to local need through local autonomy and movement toward a continuum of care;
- Develop linkages between the housing and service sectors to provide greater housing opportunities for households with special needs;
- Establish a suitable living environment and expand economic opportunities for low and moderate-income people through economic and community infrastructure development;

- Reduce incidences of spot and/or area blight to improve safety and revitalize downtown districts;
- Respond to community's urgent needs or unique opportunities to support economic and community development; and
- Support communities and businesses in job creation and business assistance.

This consolidated submission specifies the State of Michigan's plan to use federal funds to implement housing and community development activities under five HUD-funded formula programs.

2. Summarize the objectives and outcomes identified in the Plan

This could be a restatement of items or a table listed elsewhere in the plan or a reference to another location. It may also contain any essential items from the housing and homeless needs assessment, the housing market analysis or the strategic plan.

Housing programs authorized through FY18 by the National Affordable Housing Act (NAHA) represent a significant source of funding through which states, like Michigan, may address their need for affordable housing.

These programs include the: Community Development Block Grant (CDBG) program; HOME investment partnership program; Housing Trust Fund (HTF); HOPE program; Shelter Plus Care program; Supportive Housing for the Elderly (Section 211); Emergency Solutions Grant (ESG) program; Supportive Housing program; Moderate Rehabilitation Single Room Occupancy program; Housing Opportunities for Persons With AIDS (HOPWA) program; Technical Assistance; Revitalization of Severely Distressed Public Housing program; and the Low-Income Housing Preservation program.

The state has identified job creation, job training, blight elimination, infrastructure assistance and responding to unique community development needs and opportunities as the desired outcomes in the next five years.

MSHDA endorses the objectives of the Housing and Economic Recovery Act of 2008 establishing the Housing Trust Fund to increase and preserve the supply of rental housing for extremely low income families and thereby amends this plan to account for these priorities. Michigan expects to receive an HTF allocation of approximately \$4,851,072.

3. Evaluation of past performance

This is an evaluation of past performance that helped lead the grantee to choose its goals or projects.

The State believes the activities and strategies funded through the Consolidated Plan are making an impact on identified needs. The demand for the programs funded under CDBG, HOME, ESG, HOPWA and HTF remain greater than the funding available. Commitment and disbursement of funds are proceeding on a timely basis. Federal funding is being used to accomplish the major goals cited in the State of Michigan Consolidated Plan. The overall goals of providing affordable housing and a suitable living environment are being accomplished with our homeowner, homebuyer, and rental housing development programs. The overall goal of expanding economic opportunities for low and moderate-income persons is being met with the CDBG economic development program. The State does not believe an adjustment to its strategies is needed at this time.

The 2017 Program Year anticipated achievements are identified within this document and the accomplishment data will be provided in the CAPER. It should also be noted that the HOPWA achievement data will be fully reported within the CAPER.

4. Summary of Citizen Participation Process and consultation process

Summary from citizen participation section of plan.

The Michigan State Housing Development Authority (MSHDA), which is the lead agency responsible for preparing the Michigan Consolidated Plan solicited comments from the public regarding the plan through multiple methods. The formal public comment period will be held between April 6, 2018 through May 7, 2018 and covered the draft document for FY 2018 (subject to amendment). Notice for this period was published in the following newspapers:

- o Michigan Chronicle (Detroit)
- o Alpena News
- o Detroit Newspapers - Detroit Free Press and Detroit News
- o Grand Rapids Press and El Vocero Hispano
- o Lansing State Journal
- o Mining Journal (Marquette)
- o Traverse City Record Eagle
- o Bay City Times
- o Flint Journal
- o Saginaw News
- o Kalamazoo Gazette
- o Daily Press (Escanaba)
- o Jackson Citizen Patriot
- o Herald Palladium (St. Joseph/Benton Harbor)
- o The Times Herald (Port Huron)
- o Monroe News
- o Morning Sun (Mt. Pleasant)
- o Sault Ste. Marie News

- o Muskegon Chronicle
- o The Daily News (Iron Mountain)
- o The Daily Mining Gazette (Houghton)

Notice was also given via an email blast to stakeholders and others interested in the program. The public hearings were held in Lansing and Detroit.

5. Summary of public comments

This could be a brief narrative summary or reference an attached document from the Citizen Participation section of the Con Plan.

The State of Michigan actively solicits comments and feedback from the public on an ongoing basis. Our programs are all outlined on the correlating websites and staff interaction with the public occurs on an ongoing basis.

Public comments will be noted in the final version.

6. Summary of comments or views not accepted and the reasons for not accepting them

The State of Michigan accepts all comments or views on an ongoing basis. For the stakeholders meetings, regional grantee meetings, and any survey responses received, programs and policies are analyzed to ensure that we are providing programs that are tied to meeting the needs of our communities from a health, safety, housing, community, and economic development perspective. In addition, any written programmatic comments will be evaluated at the time that the program parameters are established.

7. Summary

The citizen participation plan incorporated additional efforts to try and attract additional public comments. We post the final Consolidated Plan on facebook and twitter and will continue to accept comments and feedback on a continual basis. We continually encourage citizens to participate in the planning process. MSHDA received very few comments based on the newspaper publication and website posting. Each person has received direct consultation and assistance regarding the steps that can be taken to resolve their inquiries. Everyone is encouraged to send in written comments on their experience with the current program procedures either via e-mail and/or letter.

All attendees at each public hearing are requested to formally sign in (see attached sign-in sheet). There was one attendee. In addition, we requested that all comments be submitted to our office in a written format (see attached written comment). In total, we received one formal comment which was not

directly related to the state receiving the funding source allocation but instead expressed concerns regarding specific non-related funding program parameters.

PR-05 Lead & Responsible Agencies - 91.300(b)

1. Agency/entity responsible for preparing/administering the Consolidated Plan

The following are the agencies/entities responsible for preparing the Consolidated Plan and those responsible for administration of each grant program and funding source.

Agency Role	Name	Department/Agency
HTF Administrator	MICHIGAN	MSHDA
CDBG Administrator	MICHIGAN	MSF
HOPWA Administrator	MICHIGAN	MDHHS
HOME Administrator	MICHIGAN	MSHDA
ESG Administrator	MICHIGAN	MSHDA

Table 1 – Responsible Agencies

Narrative

MSHDA is responsible for the submission of the Consolidated Plan on behalf of the State of Michigan. The Michigan State Housing Development Authority encourages participation in the development of the plan, any substantial amendments to the plan, and the performance report. Participation of low and moderate-income persons is encouraged, particularly those living in slum and blighted areas and in areas where funds are proposed to be used, and by residents of predominantly low and moderate-income neighborhoods, through the following strategies:

All public hearing announcements and comment periods specifically reference the fact that comments are requested on the plan. A hearing is scheduled in a location accessible to low and moderate-income persons and persons with disabilities. These plans will be made available in a format accessible to persons with disabilities upon request, translated upon request, and copies will be made available for free to any Michigan resident upon request.

Consolidated Plan Public Contact Information

Tonya Young, Consolidated Plan Coordinator, MSHDA, 735 East Michigan Avenue, P.O. Box 30044, Lansing, Michigan 48909 or electronically via the Housing Initiatives mailbox e-mail address: hidmailbox@michigan.gov.

AP-10 Consultation - 91.110, 91.300(b); 91.315(l)

1. Introduction

The State supports the continuum concept by providing technical assistance for the development of local continua of care and the Balance of State (BOS) continuum. Additionally, applicants for the State's Emergency Solutions Grant Program must be part of a local continuum of care to be funded.

It should be noted that the State submits a competitive application each year through the Balance of State Continuum of Care for competitive Homeless Assistance Grant (HAG) funds. These funds support the creation of new permanent supportive housing projects, as well as the ongoing operation of over 31 existing projects.

Provide a concise summary of the state's activities to enhance coordination between public and assisted housing providers and private and governmental health, mental health and service agencies

Ending homelessness in Michigan is an achievable goal through well-planned, sustained (long-term) effort, with all partners working toward this common goal. To that end, the State of Michigan created a state Interagency Council on Homelessness (ICH) in January 2015. The Michigan ICH consists of directors from the Michigan departments of Military Affairs, Health and Human Services, Education, Natural Resources, MSHDA, Corrections, Management and Budget, Courts and five members representing the general public.

In addition, Michigan has a state level plan to end homelessness. The state's plan is aligned with "Opening Doors", the federal strategic plan to prevent and end homelessness adopted by the United States interagency council on homelessness.

Describe coordination with the Continuum of Care and efforts to address the needs of homeless persons (particularly chronically homeless individuals and families, families with children, veterans, and unaccompanied youth) and persons at risk of homelessness

The Michigan State Housing Development Authority (MSHDA) and the Michigan Homeless Assistance Advisory Board (MHAAB) representatives work diligently to foster collaborative relationships with private and public sector stakeholder groups and to recruit key personnel from those entities to serve on the Balance of State Continuum of Care planning body. The CoC Planning Body is known as the Michigan Homeless Assistance Advisory Board (MHAAB). There are twenty regular members representing both private and public stakeholders. State officials from the Michigan Department of Education, Veteran's Affairs, and the Michigan Department of Health and Human Services participate in MHAAB and the Michigan ICH and work to meet the needs of chronically homeless, families with children, veterans, youth and survivors of domestic violence.

In addition, the Michigan ICH has a working committee consisting with staff members from the state departments listed above along with staff from the Michigan Coalition Against Homeless, the Coalition Against Homelessness, the Michigan Municipal League, Veteran's Affairs, the United Way, and the Michigan Community Action Agency.

Michigan has held many Project Homeless Connect events across the state. These events were sponsored in part by MSHDA.

Describe consultation with the Continuum(s) of Care that serves the State in determining how to allocate ESG funds, develop performance standards for and evaluate outcomes of projects and activities assisted by ESG funds, and develop funding, policies and procedures for the operation and administration of HMIS

The Balance of State Continuum sponsors the applications for funding by stakeholders in geographic locations of the State that do not apply directly to HUD for HAG funding. The MHAAB provides the leadership and decision-making body for the Balance of State Continuum of Care. It develops annual action plans, establishes funding priorities, engages local continua representatives in planning dialogue, and promotes inter-agency collaboration.

2. Agencies, groups, organizations and others who participated in the process and consultations

Table 2 – Agencies, groups, organizations who participated

1	Agency/Group/Organization	Michigan Homeless Assistance Advisory Board (MHAAB)
	Agency/Group/Organization Type	Housing PHA Services - Housing Services-homeless Services-Health Health Agency Child Welfare Agency Other government - Federal Other government - State Other government - County Other government – Local
	What section of the Plan was addressed by Consultation?	Homeless Needs - Chronically homeless Homeless Needs - Families with children Homelessness Needs - Veterans Homelessness Needs - Unaccompanied youth Homelessness Strategy

<p>Briefly describe how the Agency/Group/Organization was consulted. What are the anticipated outcomes of the consultation or areas for improved coordination?</p>	<p>On behalf of the BOS, the MHAAB is responsible for applying for CoC Program funds annually during the HUD CoC Program Competition. In addition, the MHAAB oversees the HUD ESG Program funds awarded to BOS geographic areas. The Michigan State Housing Development Authority (MSHDA) and the Michigan Homeless Assistance Advisory Board (MHAAB) representatives work diligently to foster collaborative relationships with private and public sector stakeholder groups and to recruit key personnel from those entities to serve on the Balance of State Continuum of Care planning body. The CoC Planning Body is known as the Michigan Homeless Assistance Advisory Board (MHAAB). There are twenty regular members representing both private and public stakeholders. State officials from the Michigan Department of Education, Veteran Affairs, and the Michigan Department of Health and Human Services participate in MHAAB and the Michigan ICH and work to meet the needs of chronically homeless, families with children, veterans, youth and survivors of domestic violence. In addition, the Michigan ICH has a working committee consisting with staff members from the state departments listed above along with staff from the Michigan Coalition Against Homeless, the Coalition Against Homelessness, the Michigan Municipal League, Veteran Affairs, the United Way, and the Michigan Community Action Agency. Michigan has held many Project Homeless Connect events across the state. These events were sponsored in part by MSHDA.</p>
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Identify any Agency Types not consulted and provide rationale for not consulting

Not applicable.

Other local/regional/state/federal planning efforts considered when preparing the Plan

Name of Plan	Lead Organization	How do the goals of your Strategic Plan overlap with the goals of each plan?
Continuum of Care	MSHDA	The goal of making homeless assistance more effective and responsive to local need through local autonomy and movement toward continuum of care is being achieved through the process outlined in the plan.

Table 3 - Other local / regional / federal planning efforts

Narrative

MSHDA coordinates with all Continuums of Care throughout the state when allocating ESG funds. HMIS data is used to develop an allocation plan to distribute ESG to all 83 counties in Michigan. Performance measures and outcomes are measured through our statewide HMIS to determine which CoCs are being most successful and which need additional assistance. MSHDA works with Independent Jurisdictions that receive ESG directly from HUD to ensure both state allocated and direct HUD ESG are used in a coordinated fashion. Our statewide HMIS coordinator, Michigan Coalition Against Homelessness, provides HMIS policy guidance and support to all CoCs across the state.

AP-12 Participation - 91.115, 91.300(c)

1. Summary of citizen participation process/Efforts made to broaden citizen participation Summarize citizen participation process and how it impacted goal-setting

The citizen participation comment process has required a high level analysis of the program parameters and funding allocations being proposed in FY18. Goal-setting for FY18 has been a high priority for the programs based on limited resources and high demand for products.

The MEDC conducted customer surveys of all communities asking about their community's needs. The MEDC also has a team of employees who work directly with communities in their assigned regions to help identify community needs and ways that state programs can assist with meeting those needs. These two outreach efforts provide the MEDC with a ground level view of the needs of cities and villages in the state.

As part of the citizen participation process, a public comment period between April 6, 2018 and May 3, 2018 and two public hearings were held.

Citizen Participation Outreach

Sort Order	Mode of Outreach	Target of Outreach	Summary of response/attendance	Summary of comments received	Summary of comments not accepted and reasons	URL (If applicable)
1	Public Hearing	<p>Minorities</p> <p>Non-English Speaking - Specify other language: We offer interpreters on an as needed basis.</p> <p>Persons with disabilities</p> <p>Non-targeted/broad community</p> <p>Residents of Public and Assisted Housing</p> <p>All Michigan Residents</p>	Two public hearings were held in Lansing and Detroit.	There was one attendee at the public hearings and no comments were received.	Not applicable.	
2	Internet Outreach	<p>Non-targeted/broad community</p> <p>All Michigan Residents</p>	Draft Action Plan was posted on our website.	None.	None.	
3	Newspaper Ad	Existing Housing Grantees/Administrators	We received one written comment	The comment was not directly related to the Action Plan programs.	Comment was forwarded to the appropriate MSHDA Division.	

Table 4 – Citizen Participation Outreach

Expected Resources

AP-15 Expected Resources – 91.320(c)(1,2)

Introduction

Anticipated Resources

Program	Source of Funds	Uses of Funds	Expected Amount Available Year 1				Expected Amount Available Remainder of ConPlan \$	Narrative Description
			Annual Allocation: \$	Program Income: \$	Prior Year Resources: \$	Total: \$		
CDBG	public - federal	Acquisition Admin and Planning Economic Development Housing Public Improvements Public Services	30,967,266	0	0	30,967,266	90,000,000	All allocated funds will be awarded during FY17.

Program	Source of Funds	Uses of Funds	Expected Amount Available Year 1				Expected Amount Available Remainder of ConPlan \$	Narrative Description
			Annual Allocation: \$	Program Income: \$	Prior Year Resources: \$	Total: \$		
HOME	public - federal	Acquisition Homebuyer assistance Homeowner rehab Multifamily rental new construction Multifamily rental rehab New construction for ownership TBRA	11,961,896	2,000,000	0	13,961,896	44,699,979	All funding is anticipated to be allocated in FY17.
HOPWA	public - federal	Permanent housing in facilities Permanent housing placement Short term or transitional housing facilities STRMU Supportive services TBRA	1,243,640	0	0	1,243,640	4,113,680	All allocated funds will be awarded during FY17.

Program	Source of Funds	Uses of Funds	Expected Amount Available Year 1				Expected Amount Available Remainder of ConPlan \$	Narrative Description
			Annual Allocation: \$	Program Income: \$	Prior Year Resources: \$	Total: \$		
ESG	public - federal	Conversion and rehab for transitional housing Financial Assistance Overnight shelter Rapid re-housing (rental assistance) Rental Assistance Services Transitional housing	4,987,798	0	0	4,987,798	18,916,548	All allocated funds will be awarded during FY17.
Housing Trust Fund	public - federal	Multifamily rental new construction Multifamily rental rehab	4,851,072	0	0	4,851,072	10,477,378	FY16 and FY17 funds are anticipated to be awarded in FY17.

Table 5 - Expected Resources – Priority Table

Explain how federal funds will leverage those additional resources (private, state and local funds), including a description of how matching requirements will be satisfied

For MSHDA HOME projects, local administrators are encouraged to leverage funds from other housing programs, such as federal weatherization funding, Rural Development, and MSHDA PIP, as well as to provide in-kind services and local housing funding. Leveraging targets and results will be a factor in determining funding awards.

For ESG, MSHDA provides the required matching funds each year from non-Federal Authority grant funds.

For CDBG grants matching and private investment are often required. The MEDC's current goal is to have more than \$200 million in private investment associated with CDBG projects each year.

If appropriate, describe publically owned land or property located within the jurisdiction that may be used to address the needs identified in the plan

CDBG funds may be used for publicly held property. This is most likely in cases of infrastructure projects like streetscapes, parks, trails, public restrooms, parking facilities, and other infrastructure. Grant or loan-funded projects could also take place on publicly owned land or property in the case of blight elimination on property held by a community.

Discussion

Note: Due to decreases in Michigan's HOME allocation, MSHDA has determined that using these funds for the development of additional affordable rental units across the state would produce a larger, more permanent public benefit. Therefore, no funds are being allocated to Tenant Based Rental Assistance (TBRA) or at this time. In addition, no specific funding is being allocated to the Rural Homelessness Grant Program.

Annual Goals and Objectives

AP-20 Annual Goals and Objectives – 91.320(c)(3)&(e)

Goals Summary Information

Sort Order	Goal Name	Start Year	End Year	Category	Geographic Area	Needs Addressed	Funding	Goal Outcome Indicator
1	MSHDA HOME Rental	2015	2020	Affordable Housing	Statewide Distribution	Low to Moderate Income Households (LMMI)	HOME: \$8,971,422	Rental units constructed: 100 Household Housing Unit Rental units rehabilitated: 300 Household Housing Unit
2	MSHDA HOME and MSF CDBG Housing Activities	2015	2020	Affordable Housing	Statewide Distribution	Low to Moderate Income Households (LMMI)	CDBG: \$1,548,363 HOME: \$1,794,284	Rental units constructed: 15 Household Housing Unit Rental units rehabilitated: 40 Household Housing Unit Homeowner Housing Added: 2 Household Housing Unit Homeowner Housing Rehabilitated: 15 Household Housing Unit
3	HOME DPA	2015	2020	Affordable Housing	Statewide Distribution	Low to Moderate Income Households (LMMI)	HOME: \$1,196,190	Direct Financial Assistance to Homebuyers: 80 Households Assisted

Sort Order	Goal Name	Start Year	End Year	Category	Geographic Area	Needs Addressed	Funding	Goal Outcome Indicator
4	ESG	2015	2020	Homeless	Statewide Distribution	Coordinaton of Care	ESG: \$4,987,798	Tenant-based rental assistance / Rapid Rehousing: 200 Households Assisted Homelessness Prevention: 350 Persons Assisted
5	HOPWA	2015	2020	Non-Homeless Special Needs	Statewide Distribution	Health Care Services to residents statewide	HOPWA: \$1,243,640	Tenant-based rental assistance / Rapid Rehousing: 100 Households Assisted Housing for People with HIV/AIDS added: 106 Household Housing Unit HIV/AIDS Housing Operations: 44 Household Housing Unit
6	Economic Development Jobs - MSF CDBG	2015	2020	Non-Housing Community Development	Statewide Distribution	Area Benefit Projects in LMI Areas Job Creation Urgent Need	CDBG: \$5,883,780	Jobs created/retained: 200 Jobs
7	Community Development Jobs - MSF CDBG	2015	2020	Non-Housing Community Development	Statewide Distribution	Job Creation	CDBG: \$1,858,035	Businesses assisted: 10 Businesses Assisted
8	Community Dev. Infrastructure & Facades - MSF CDBG	2015	2020	Non-Housing Community Development	Statewide Distribution	Area Benefit Projects in LMI Areas	CDBG: \$15,483,633	Businesses assisted: 15 Businesses Assisted Other: 20000 Other

Sort Order	Goal Name	Start Year	End Year	Category	Geographic Area	Needs Addressed	Funding	Goal Outcome Indicator
9	Blight Elimination - MSF CDBG	2015	2020	Non-Housing Community Development	Statewide Distribution	Elimination of Blight	CDBG: \$5,574,107	Businesses assisted: 6 Businesses Assisted
10	Housing Trust Fund	2016	2019	Affordable Housing	Statewide Distribution	Low to Moderate Income Households (LMMI)	Housing Trust Fund: \$4,851,072	Rental units constructed: 20 Household Housing Unit
11	CDBG Administration and Technical Assistance	2015	2020	Community Development	Statewide Distribution	CDBG Administration and Technical Assistance	CDBG: \$719,345	Other: 1 Other

Table 6 – Goals Summary

Goal Descriptions

1	Goal Name	MSHDA HOME Rental
	Goal Description	
2	Goal Name	MSHDA HOME and MSF CDBG Housing Activities
	Goal Description	
3	Goal Name	HOME DPA
	Goal Description	
4	Goal Name	ESG
	Goal Description	

5	Goal Name	HOPWA
	Goal Description	
6	Goal Name	Economic Development Jobs - MSF CDBG
	Goal Description	
7	Goal Name	Community Development Jobs - MSF CDBG
	Goal Description	
8	Goal Name	Community Dev. Infrastructure & Facades - MSF CDBG
	Goal Description	
9	Goal Name	Blight Elimination - MSF CDBG
	Goal Description	
10	Goal Name	Housing Trust Fund
	Goal Description	
11	Goal Name	CDBG Administration and Technical Assistance
	Goal Description	

AP-25 Allocation Priorities – 91.320(d)

Introduction:

Below is the allocation percentages outlined within each program. These percentages are best estimates and actual percentages allocated to each priority may fluctuate based on the needs that arise throughout the program year. Any variance within 25% of the original amount allocated will be considered standard and not require an amendment of this plan.

Funding Allocation Priorities

	MSHDA HOME Rental (%)	MSHDA HOME and MSF CDBG Housing Activities (%)	HOME DPA (%)	ESG (%)	HOPWA (%)	Economic Development Jobs - MSF CDBG (%)	Community Development Jobs - MSF CDBG (%)	Community Dev. Infrastructure & Facades - MSF CDBG (%)	Blight Elimination - MSF CDBG (%)	Housing Trust Fund (%)	CDBG Administration and Technical Assistance (%)	Total (%)
CDBG	0	5	0	0	0	19	6	50	18	0	2	100
HOME	75	15	10	0	0	0	0	0	0	0	0	100
HOPWA	0	0	0	0	100	0	0	0	0	0	0	100
ESG	0	0	0	100	0	0	0	0	0	0	0	100
Housing Trust Fund	0	0	0	0	0	0	0	0	0	100	0	100

Table 7 – Funding Allocation Priorities

Reason for Allocation Priorities

The majority of the HOME allocation is dedicated to multi-family rental projects. The allocation is primarily used to expand the availability and supply of safe, decent, affordable and accessible rental housing for low and extremely low-income households. In addition, a portion of the allocation is used to provide for single-family homeowner, homebuyer and/or down payment assistance to low and moderate income households at or below 80% AMI.

The MSF and the MEDC have key results that are considered when evaluating projects. Those key results are increased private investment, job creation, higher wages, square footage improved, supporting safe and affordable housing, and location impact. These factors are considered when evaluating CDBG projects depending on if the goal is business or community development. All projects are required to meet a national objective. Funding priorities may shift, based on project readiness, and the percentages above and dollar amounts in SP-45 for CDBG are estimates, and may fluctuate within 35% of the original established amounts.

How will the proposed distribution of funds will address the priority needs and specific objectives described in the Consolidated Plan?

The needs outlined within the Consolidated Plan indicate that households below 80% AMI are in need of affordable rental units. This distribution formula will address their need by providing additional affordable rental units.

The distribution of CDBG funds reflects the need for job creation, infrastructure improvements, safe and affordable housing and blight elimination. Many job creation projects are grants for job training. The needs assessment shows that one of the ways that individuals move from low to middle skill jobs is by attaining on the job training. CDBG urgent need projects are not assigned funding in this action plan, as there is no way to foresee the use of urgent need funds, but these funds may be used if a need arises.

AP-30 Methods of Distribution – 91.320(d)&(k)

Introduction:

Distribution Methods

Table 8 - Distribution Methods by State Program

1	State Program Name:	CDBG Competitive Applications - Community Development
	Funding Sources:	CDBG
	Describe the state program addressed by the Method of Distribution.	<p>There are currently two competitive programs that the MSF may engage in at its discretion.</p> <p>Infrastructure Capacity Enhancement – (ICE)</p> <p>Assist Units of General Local Government (UGLGs) in making necessary improvements to their existing public infrastructure systems.</p> <p>Downtown Infrastructure Grant – (DIG)</p> <p>Provides public infrastructure improvement funding to projects located in a traditional downtown.</p>

<p>Describe all of the criteria that will be used to select applications and the relative importance of these criteria.</p>	<p>Applications for competitive allocations will be publicly announced, when possible, to potential applicants and will identify specific selection criteria. Each program has its own application, both of which provide specific criteria.</p> <p>Projects must be located in a Community listed on the CDBG Low and Moderate Income Community Customer list and the project must benefit the entire community. The applicant must be a Non-Entitlement Community.</p>
<p>If only summary criteria were described, how can potential applicants access application manuals or other state publications describing the application criteria? (CDBG only)</p>	<p>MSF CDBG Program: https://www.miplace.org/programs/community-development-block-grant/</p> <p>CDBG Program Application Guide: https://www.miplace.org/globalassets/media-documents/cdbg/cdbg-application-guide-07.2016.pdf</p> <p>CDBG Program Low & Moderate Income Community Customers and Low & Moderate Income Project Areas: http://www.michiganbusiness.org/cm/Files/CDBG/CDBG-Low-Mod-Income-Customer-List.pdf</p>

<p>Describe the process for awarding funds to state recipients and how the state will make its allocation available to units of general local government, and non-profit organizations, including community and faith-based organizations. (ESG only)</p>	
<p>Identify the method of selecting project sponsors (including providing full access to grassroots faith-based and other community-based organizations). (HOPWA only)</p>	

<p>Describe how resources will be allocated among funding categories.</p>	<p>Program guidelines are used to identify the methodology of applying for funding. Funding allocations are determined in each program's action plan. The dollar amounts and percentages in the action plan are estimates and variation is expected.</p>
<p>Describe threshold factors and grant size limits.</p>	<p>For MSF CDBG projects, the screening guidelines in the Application Guide are considered to be thresholds that must be met or exceeded for a particular project to receive funding. Each program has its own threshold factors and grant size limits.</p>

	<p>What are the outcome measures expected as a result of the method of distribution?</p>	<p>Outcome measures are identified within the Annual Goals and Objectives section of this report (AP-20). The objectives and outcomes for the programs funded under the Consolidated Plan formula funding are identified in this plan and outcomes will be provided as part of the CAPER submission.</p>
2	<p>State Program Name:</p>	<p>CDBG Homeowner Housing Rehabilitation & Emergency Repair - CDBG Local Program Income</p>
	<p>Funding Sources:</p>	<p>CDBG</p>
	<p>Describe the state program addressed by the Method of Distribution.</p>	<p>The funds described under this Method of Distribution are composed of program income held by or on behalf of local governments generated from past housing grants. These funds will not be distributed by MSF but are available to the local governments that generated the program income, subject to compliance with all applicable CDBG rules and regulations.</p> <p>The State may consider whether the local government is or will be unable to comply with the requirements and the extent to which the program income is unlikely to be applied to continue the activity within the reasonably near future.</p>

<p>Describe all of the criteria that will be used to select applications and the relative importance of these criteria.</p>	<p>Applications will be approved by local administrators, subject to compliance review.</p>
<p>If only summary criteria were described, how can potential applicants access application manuals or other state publications describing the application criteria? (CDBG only)</p>	<p>24 CFR 570.489 - PROGRAM ADMINISTRATIVE REQUIREMENTS: https://www.gpo.gov/fdsys/granule/CFR-2012-title24-vol3/CFR-2012-title24-vol3-sec570-489 8-F Program Income Policy for CDBG Grantees: https://www.miplace.org/link/c0d5f382651341399b5f6266fd064d14.aspx</p>

<p>Describe the process for awarding funds to state recipients and how the state will make its allocation available to units of general local government, and non-profit organizations, including community and faith-based organizations. (ESG only)</p>	
<p>Identify the method of selecting project sponsors (including providing full access to grassroots faith-based and other community-based organizations). (HOPWA only)</p>	

<p>Describe how resources will be allocated among funding categories.</p>	<p>In accordance with 24 CFR 570.489(e)(3)(a) Program Income retained must be used to continue the activity from which it was derived. Program guidelines were used to identify the methodology of applying for funding. Funding allocations are determined in each program's action plan. Funds described under this Method of Distribution are set aside for housing activities, or the original activity of the initial grant that generated the program income.</p>
<p>Describe threshold factors and grant size limits.</p>	<p>Per 24 CFR 570.489(e)(2)(i) Program Income, must be received in excess of \$35,000 in a single year.</p>

	What are the outcome measures expected as a result of the method of distribution?	Outcome measures are identified within the Annual Goals and Objectives section of this report (AP-20). The objectives and outcomes for the programs funded under the Consolidated Plan formula funding are identified in this plan and outcomes will be provided as part of the CAPER submission.
3	State Program Name:	CDBG Loan Fund Program
	Funding Sources:	CDBG
	Describe the state program addressed by the Method of Distribution.	The intended purpose of the CDBG Loan Program (CLP) is to provide loans to eligible small businesses, or UGLGs, to meet a National Objective, typically by creating job opportunities for Low to Moderate Income (LMI) individuals. The funds described under this Method of Distribution are composed of program income held by or on behalf of local governments in revolving loan funds. These funds are not distributed by the MSF but are available to the local governments that generated the income, subject to compliance with all applicable CDBG rules and regulations.

<p>Describe all of the criteria that will be used to select applications and the relative importance of these criteria.</p>	<p>Applications will be approved by local administrators, subject to compliance review.</p> <p>CDBG Revolving Loan Fund (CRLF): A community that has entered into First Restated Grant Agreement with the MSF, and is administering its CDBG RLF locally.</p> <p>CDBG Loan Fund (CLF): A community that has entered into a Sub recipient Agreement with a Regional Loan Fund Administrator, and has sub-granted its program income.</p> <p>Regional Loan Fund Administrator (RLFA): A MSF designated non-profit lender that has entered into a Repaid Funds Agreement, and is administering program income sub-granted by CDBG Loan Funds.</p>
<p>If only summary criteria were described, how can potential applicants access application manuals or other state publications describing the application criteria? (CDBG only)</p>	<p>The Policies, Criteria, and Special Conditions can be found at: Grant Administration Manual (GAM) Chapter 3: CDBG Loan Program: https://www.miplace.org/globalassets/media-documents/cdbg/gam/03-cdbg-loan-program-05.23.17.pdf</p>

<p>Describe the process for awarding funds to state recipients and how the state will make its allocation available to units of general local government, and non-profit organizations, including community and faith-based organizations. (ESG only)</p>	
<p>Identify the method of selecting project sponsors (including providing full access to grassroots faith-based and other community-based organizations). (HOPWA only)</p>	

<p>Describe how resources will be allocated among funding categories.</p>	<p>Funds described under this Method of Distribution are set aside for economic development activities, or the original activity of the initial grant that generated the program income.</p>
<p>Describe threshold factors and grant size limits.</p>	<p>Grant sizes are in part limited by the Loan Policy and Credit Risk Management policies under GAM Chapter 3: CDBG Loan Program, as well as the other policy constraints mentioned in the chapter such as, Term and Amortization Polices, Collateral Standards and Special Conditions.</p>

	What are the outcome measures expected as a result of the method of distribution?	Outcome measures are identified within the Annual Goals and Objectives section of this report (AP-20). The objectives and outcomes for the programs funded under the Consolidated Plan formula funding are identified in this plan and outcomes will be provided as part of the CAPER submission.
4	State Program Name:	CDBG Open Applications
	Funding Sources:	CDBG
	Describe the state program addressed by the Method of Distribution.	This Method of Distribution speaks to CDBG proposals that are considered on a continuous, first come, first served basis for eligible applicants and projects.

<p>Describe all of the criteria that will be used to select applications and the relative importance of these criteria.</p>	<p>CDBG funds for economic and community development activities, administered by the MSF have detailed guidelines in the Application Guide.</p>
<p>If only summary criteria were described, how can potential applicants access application manuals or other state publications describing the application criteria? (CDBG only)</p>	<p>MSF CDBG Program: https://www.miplace.org/programs/community-development-block-grant/ CDBG Program Application Guide: https://www.miplace.org/globalassets/media-documents/cdbg/cdbg-application-guide-07.2016.pdf CDBG Program Low & Moderate Income Community Customers and Low & Moderate Income Project Areas: http://www.michiganbusiness.org/cm/Files/CDBG/CDBG-Low-Mod-Income-Customer-List.pdf</p>

<p>Describe the process for awarding funds to state recipients and how the state will make its allocation available to units of general local government, and non-profit organizations, including community and faith-based organizations. (ESG only)</p>	
<p>Identify the method of selecting project sponsors (including providing full access to grassroots faith-based and other community-based organizations). (HOPWA only)</p>	

<p>Describe how resources will be allocated among funding categories.</p>	<p>There is not a set amount or percentage of funds assigned to each funding category. The amount of resources allocated to each funding category will be determined based on the type of applications received from the local governments. The AP-25 provides allocations based on historical data and input from our citizen participation.</p>
<p>Describe threshold factors and grant size limits.</p>	<p>For MSF CDBG projects, the screening guidelines in the Application Guide are considered to be thresholds that must be met or exceeded for a particular project to receive funding. Planning only grants are limited to \$100,000. All other funding categories do not have grant size limits.</p>

	<p>What are the outcome measures expected as a result of the method of distribution?</p>	<p>Outcome measures are identified within the Annual Goals and Objectives section of this report (AP-20). The objectives and outcomes for the programs funded under the Consolidated Plan formula funding are identified in this plan and outcomes will be provided as part of the CAPER submission.</p>
5	<p>State Program Name:</p>	<p>Housing and Community Development Programs - HOPWA, HOME, ESG, and HTF</p>
	<p>Funding Sources:</p>	
	<p>Describe the state program addressed by the Method of Distribution.</p>	<p>The State uses a combination of methods for distributing funds within the specific HOME, ESG, HOPWA and HTF sections. Methods of distribution may include: competitive awards, need based awards, direct funded awards based on an RFP evaluation, NOFA(s) issued based on funding levels, and on-going open application windows per program parameters.</p>

<p>Describe all of the criteria that will be used to select applications and the relative importance of these criteria.</p>	<p>Applicant criteria is outlined within each program's program parameters as outlined in their program criteria.</p>
<p>If only summary criteria were described, how can potential applicants access application manuals or other state publications describing the application criteria? (CDBG only)</p>	<p>See individual program's above.</p>

<p>Describe the process for awarding funds to state recipients and how the state will make its allocation available to units of general local government, and non-profit organizations, including community and faith-based organizations. (ESG only)</p>	<p>MSHDA will publish and distribute a Notice of Funding Availability (NOFA) statewide, which describes the allocation process through which ESG funds may be awarded. Eligible CoCs will have to submit an Exhibit 1, CoC Update, and be in good standing with MSHDA to receive these funds. Funds will be awarded to the HARA who is recommended by the CoC Body via completion of Exhibit 1. Exhibit 1, CoC Annual Planning Update contains the following information:</p> <ul style="list-style-type: none"> • The community’s four key stakeholders; • List of all current funding sources in the community available for housing and prevention services to the homeless; • Diagram showing the Community’s Service Delivery System; • Description of CoC oversight and evaluation of activities and outcomes of the HARA to ensure agencies are performing satisfactorily and are effectively addressing the needs in the community; • CoC process for building public support and political will for ending homelessness with city and county officials, businesses, and school liaisons; and • Breakdown of ESG allocated amounts and populations to be targeted. <p>Funds are awarded to the HARA are based upon prior applicant performance, applicant capacity, eligibility of project activities, and consistency with the criteria and standards discussed in the NOFA. MSHDA will be receiving its FY17 allocation of \$4,832,076, plus Dearborn’s \$155,722, for a total of \$4,987,798. The additional \$155,722 will be used for eligible ESG activities in Wayne County.</p>
<p>Identify the method of selecting project sponsors (including providing full access to grassroots faith-based and other community-based organizations). (HOPWA only)</p>	<p>MDHHS contracts with seven Project Sponsors that serve all areas of the state, except the Detroit EMSA (Wayne County) and the Warren EMSA (Lapeer, Livingston, Macomb, Monroe, Oakland, and St. Clair counties). The Project Sponsors include 1 Health Department, 1 Hospital, and 5 nonprofit agencies. All Sponsors provide tenant-based rental assistance (TBRA), short-term rent, mortgage and utility assistance (STRMU), housing information services, resource identification, permanent housing placement and supportive services (mainly housing case management).</p>

<p>Describe how resources will be allocated among funding categories.</p>	<p>Program guidelines are used to identify the methodology of applying for funding. Funding allocations are determined in each program's action plan. The dollar amounts and percentages in the action plan are estimates and variation is expected.</p>
<p>Describe threshold factors and grant size limits.</p>	<p>All program criteria, including threshold factors and grant size limits, are identified within each program's action plan.</p>

What are the outcome measures expected as a result of the method of distribution?	Outcome measures are identified within the Annual Goals and Objectives section of this report (AP-20). The objectives and outcomes for the programs funded under the 2017 Consolidated Plan formula funding are identified in this plan and outcomes will be provided as part of the CAPER submission.
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Discussion:

AP-35 Projects – (Optional)

Introduction:

The State of Michigan does not determine specific projects prior to receiving the allocated dollars.

#	Project Name

Table 9 – Project Information

Describe the reasons for allocation priorities and any obstacles to addressing underserved needs

HUD requires the State to identify any obstacles to addressing underserved needs. The main obstacle is the lack of state, federal, and private resources to address the level of need identified in the State's 2015 Consolidated Plan Housing and Homeless Needs Assessment.

AP-38 Project Summary
Project Summary Information

AP-40 Section 108 Loan Guarantee – 91.320(k)(1)(ii)

Will the state help non-entitlement units of general local government to apply for Section 108 loan funds?

Available Grant Amounts

Acceptance process of applications

AP-45 Community Revitalization Strategies – 91.320(k)(1)(ii)

Will the state allow units of general local government to carry out community revitalization strategies?

No

State’s Process and Criteria for approving local government revitalization strategies

AP-50 Geographic Distribution – 91.320(f)

Description of the geographic areas of the state (including areas of low-income and minority concentration) where assistance will be directed

The State has been broken down into prosperity regions. In general, the State distributes the formula funds through a competitive process and cannot predict the ultimate geographic distribution of the assistance. The method of distribution for the Emergency Solutions Grant Program is based on allocation to geographic areas.

CDBG: The program distributes funds in non-entitlement communities throughout the State. Additional consideration may be given to projects that participate in our state’s Redevelopment Ready Communities (RRC) program and the Michigan Main Street program.

Geographic Distribution

Target Area	Percentage of Funds
Statewide Distribution	100

Table 10 - Geographic Distribution

Rationale for the priorities for allocating investments geographically

The rationale for the priorities of each funding source allocation is more fully described in each program's guidelines.

Discussion

Affordable Housing

AP-55 Affordable Housing – 24 CFR 91.320(g)

Introduction:

One Year Goals for the Number of Households to be Supported	
Homeless	0
Non-Homeless	206
Special-Needs	250
Total	456

Table 11 - One Year Goals for Affordable Housing by Support Requirement

One Year Goals for the Number of Households Supported Through	
Rental Assistance	0
The Production of New Units	100
Rehab of Existing Units	350
Acquisition of Existing Units	0
Total	450

Table 12 - One Year Goals for Affordable Housing by Support Type

Discussion:

Michigan will use funds for 'Acquisition of Existing Units', however all acquired units will be produced or rehabilitated, so this field was left blank so as not to duplicate the unit count.

AP-60 Public Housing - 24 CFR 91.320(j)

Introduction:

The State does not own or operate public housing in Michigan; consequently, no initiatives are planned in this area.

Actions planned during the next year to address the needs to public housing

Not applicable.

Actions to encourage public housing residents to become more involved in management and participate in homeownership

Not applicable.

If the PHA is designated as troubled, describe the manner in which financial assistance will be provided or other assistance

Not applicable.

Discussion:

AP-65 Homeless and Other Special Needs Activities – 91.320(h)

Introduction

Describe the jurisdictions one-year goals and actions for reducing and ending homelessness including

Reaching out to homeless persons (especially unsheltered persons) and assessing their individual needs

MSHDA's Chief Housing Solutions Officer chairs the Michigan Interagency Council on Homelessness (MI ICH). This council consists of leaders from seven other state agencies and four other interested parties. In addition, a team of state and non-profit leaders meet monthly to further develop and strengthen the Campaign to End Homelessness in Michigan. The Campaign began in 2006 and several pilot programs and initiatives were developed, many of which have become common practice in the day-to-day work of ending homelessness. The Campaign also has four on-going statewide workgroup that address housing, communications, technology, and training needed to further our goal of ending homelessness.

Addressing the emergency shelter and transitional housing needs of homeless persons

Through the Emergency Solutions Grant Program (ESG) and the PATH Program CoC's provide outreach to people living on the streets and in shelters. Through a MSHDA grant to the Michigan Coalition Against Homelessness (MCAH), Continua of Care hold Project Homeless Connect events to provide housing outreach to people living in homelessness, food, haircuts, dental work, etc. MSHDA also provides media/awareness and training on conducting a Point in Time account.

Helping homeless persons (especially chronically homeless individuals and families, families with children, veterans and their families, and unaccompanied youth) make the transition to permanent housing and independent living, including shortening the period of time that individuals and families experience homelessness, facilitating access for homeless individuals and families to affordable housing units, and preventing individuals and families who were recently homeless from becoming homeless again

MSHDA's ESG follow the HUD HEARTH regulations in making maximum amounts of ESG available to CoC Bodies to provide to shelters. MSHDA provides an Domestic Violence (DV) grant to the Michigan Department of Health and Human Services (MDHHS). These funds are awarded to DV shelters statewide. MSHDA works closely with the MDHHS who has contracts with the Salvation Army to provide hotel/motel rooms when shelters are full. CoCs use a state-wide common assessment and prioritization tool to ensure resources are used efficiently and households are provided the most appropriate housing

intervention.

Helping low-income individuals and families avoid becoming homeless, especially extremely low-income individuals and families and those who are: being discharged from publicly funded institutions and systems of care (such as health care facilities, mental health facilities, foster care and other youth facilities, and corrections programs and institutions); or, receiving assistance from public or private agencies that address housing, health, social services, employment, education, or youth needs

MSHDA has aligned our Michigan's Campaign to End Homelessness Action Plan 2017-2019 with HUD's Plan on ending homelessness. In working to end homelessness, MSHDA preferences all of our Housing Choice Vouchers (approximately 28,000+) to people who are living in homelessness, i.e., people on the homeless preference waiting list are given a voucher before people on the regular (non-homeless preference) waiting list. Through the federal Low Income Housing Tax Credit (LIHTC) Program MSHDA creates housing for all homeless populations. MSHDA provides a dollar-for-dollar match to HUD's ESG funding. MSHDA mandates that CoCs use a percentage of their ESG for rapid re-housing. MSHDA works to keep ESG case management costs reasonable thereby enabling ESG dollars to reach the public in the form of prevention and rapid re-housing.

Discussion

AP-70 HOPWA Goals – 91.320(k)(4)

One year goals for the number of households to be provided housing through the use of HOPWA for:	
Short-term rent, mortgage, and utility assistance to prevent homelessness of the individual or family	106
Tenant-based rental assistance	100
Units provided in permanent housing facilities developed, leased, or operated with HOPWA funds	44
Units provided in transitional short-term housing facilities developed, leased, or operated with HOPWA funds	0
Total	250

AP-75 Barriers to affordable housing – 91.320(i)

Introduction:

The State created the Interagency Partnership Team as a means to target and coordinate the funding decisions of the State agencies to enhance community and housing development. State field staff serve as liaisons between local applicants and State departments to streamline and facilitate development approvals.

The housing data within this Consolidated Plan, demonstrates the tremendous number of Michigan households with unmet housing needs. The housing needs of very low, low and moderate income levels are widespread. The scarcity of affordable housing impacts the State as a whole from a geographical (urban, suburban, and rural) distribution/availability perspective which impacts all current and/or incoming residents.

Actions it planned to remove or ameliorate the negative effects of public policies that serve as barriers to affordable housing such as land use controls, tax policies affecting land, zoning ordinances, building codes, fees and charges, growth limitations, and policies affecting the return on residential investment

The barriers to affordable housing are as multi-faceted as the State's population. Some of the major barriers facing affordable housing include: aging and insufficient infrastructure, a lack of regional housing strategy, negative public perception of affordable housing, and high project costs with limited rates of return. Local opposition to affordable housing sometimes makes it difficult and expensive to construct or renovate units, and undermines efforts to win political support for funding, zoning, and project approval. Some potential solutions that have been examined include: the creation of new funding sources (or at least maintaining current funding levels if possible on the programs already in existence), changes in zoning to allow for flexibility and density, rent control, tax credit financing, action plans for underutilized properties, and the use key resources such as nonprofit organizations. Housing is a universal need for a community, at all income levels, and its availability and sustainability is key to preserving the quality of life and making sure that the "live, work and play" placemaking component is maintained within the neighborhoods.

Discussion:

AP-85 Other Actions – 91.320(j)

Introduction:

Actions planned to address obstacles to meeting underserved needs

MSHDA has adopted an Analysis of Impediments to Fair Housing Choice in Michigan's non-entitled communities. MSHDA is currently working on analyzing our programs and policies to make sure they are aligned with the nine goals identified within the plan.

Actions planned to foster and maintain affordable housing

The State of Michigan continues to struggle with federal budget cuts that have a trickle-down impact on all of our programs. As a result of limited resources, our agencies are having to continually streamline our programs and make targeted, strategic, funding decisions to enable our agencies to continue to provide affordable housing assistance. Competition for our available funds, the tremendous need, and our limited resources make this task extremely difficult.

Actions planned to reduce lead-based paint hazards

Funding is allocated to reduce lead-based paint hazards in the assisted homes and/or units. Additional attention is being given to align our services with those of other State agencies. Training opportunities for current, and to develop additional, lead-based paint certified contractors is ongoing and an important priority for MSHDA.

Actions planned to reduce the number of poverty-level families

The State programs are designed to provide affordable housing to families and/or to provide additional economic opportunities through job creation.

Actions planned to develop institutional structure

The Regional Prosperity Initiative is aligning services and programs offered by the State of Michigan to better serve the population. In addition, streamlining of policies, programs, and paperwork is a top priority.

Actions planned to enhance coordination between public and private housing and social

service agencies

As part of the ICC's comprehensive agenda, conducting assessments of local needs in conjunction with local leaders to create greater community prosperity is also planned. A major component of each assessment is working to identify programs and funding that will support initiative(s) of both the public and private sector on a regional basis.

Discussion:

Program Specific Requirements

AP-90 Program Specific Requirements – 91.320(k)(1,2,3)

Introduction:

Community Development Block Grant Program (CDBG)

Reference 24 CFR 91.320(k)(1)

Projects planned with all CDBG funds expected to be available during the year are identified in the Projects Table. The following identifies program income that is available for use that is included in projects to be carried out.

1. The total amount of program income that will have been received before the start of the next program year and that has not yet been reprogrammed	0
2. The amount of proceeds from section 108 loan guarantees that will be used during the year to address the priority needs and specific objectives identified in the grantee's strategic plan.	0
3. The amount of surplus funds from urban renewal settlements	0
4. The amount of any grant funds returned to the line of credit for which the planned use has not been included in a prior statement or plan	0
5. The amount of income from float-funded activities	0
Total Program Income:	0

Other CDBG Requirements

1. The amount of urgent need activities	0
2. The estimated percentage of CDBG funds that will be used for activities that benefit persons of low and moderate income. Overall Benefit - A consecutive period of one, two or three years may be used to determine that a minimum overall benefit of 70% of CDBG funds is used to benefit persons of low and moderate income. Specify the years covered that include this Annual Action Plan.	70.00%

HOME Investment Partnership Program (HOME)

Reference 24 CFR 91.320(k)(2)

1. A description of other forms of investment being used beyond those identified in Section 92.205 is as follows:

The Key to Own program is a down payment assistance program, which can only be used by MSHDA Housing Choice Voucher Participants (Section 8) and is combined with a FHA or Conventional 97% first mortgage. The down payment assistance is provided in the form of a second mortgage for a

Annual Action Plan
2018

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maximum amount of \$3,500 toward payment of the refinancing costs to allow the participant to get a better rate and term. In order to be eligible, the borrower must not have more than \$10,000 in liquid cash assets. This program is available to a borrower(s) whose income does not exceed 80% of the area median income, adjusted for family size, except where lower by state law. The sales price limits will be identical to those in effect for the regular MSHDA loan program. The second mortgage is a forgivable loan due on sale or transfer of the property, or when the property ceases to be the principal residence of the mortgagor, or when the mortgagor repays in full any mortgage loans encumbering the property that are senior to the debt.

2. A description of the guidelines that will be used for resale or recapture of HOME funds when used for homebuyer activities as required in 92.254, is as follows:

The regulations stipulate that the initial homebuyer may sell the property during the term of affordability provided that the initial homebuyer repays the HOME subsidy upon resale (the "recapture" option). MSHDA will utilize the recapture option in its homebuyer programs. Under the recapture option, MSHDA will secure the amount of HOME-funded homebuyer subsidy provided to an eligible homebuyer with a forgivable mortgage pro-rated monthly for the affordability period. The term of the mortgage will depend upon the amount of HOME assistance provided to the buyer (5, 10, or 15 years). Repayment is required if any of the following actions take place within the affordability period: sale, transfer, or conveyance (voluntarily or involuntarily) through foreclosure or otherwise, or if the property ceases for any other reason to be the buyer's principal place of residence, or if they default on liens existing at the time of closing.

Resale/Recapture does not apply to Rental Projects.

3. A description of the guidelines for resale or recapture that ensures the affordability of units acquired with HOME funds? See 24 CFR 92.254(a)(4) are as follows:

Recapture provisions will be utilized for our homebuyer assistance programs.

MSHDA allows HOME-assisted homebuyers to sell their unit at any time during the period of affordability to any willing buyer and at the price the market will bear. MSHDA imposes recapture provisions via a written agreement and recorded lien between MSHDA and the homebuyer.

The lien could be in the format of a deferred, forgivable, or a partially deferred/partially forgivable lien based on the policy determinations outlined within either MSHDA or MSHDA's Grantee's program guidelines.

The amount subject to recapture is limited to the direct subsidy amount which is the HOME

investment that includes down payment assistance, closing costs, or other HOME assistance provided directly to the homebuyer) and/or the difference between the fair market value of the property and a reduced sales price attributable to HOME development assistance.

The amount subject to recapture is limited to the net proceeds available from the sale which are calculated based on: sales price minus repayment of senior loans (non-HOME funds) and customary closing costs. The nature of the sale (voluntary, short sales, and/or involuntary sales including foreclosures) does not impact the calculation of net proceeds.

Resale/Recapture does not apply to Rental Projects.

4. Plans for using HOME funds to refinance existing debt secured by multifamily housing that is rehabilitated with HOME funds along with a description of the refinancing guidelines required that will be used under 24 CFR 92.206(b), are as follows:

In an effort to refinance and rehabilitate multifamily transactions with existing debt, MSHDA makes available annually a combined total of approximately \$18 million of MSHDA HOME and Preservation Funds exclusively in the Authority's Gap Financing Program. Participation in the Gap Financing Program requires the applicant to also obtain tax-exempt bond-funded permanent financing from MSHDA. Although both gap funding types will be made available to projects without regard to whether they are a new construction, adaptive reuse, acquisition/rehabilitation, or preservation transaction, most loans are preservation transactions.

For purposes of allocating these limited resources, MSHDA has determined that these funds can be best put to use through a public Notice of Funding Availability (NOFA). The gap funds will be committed and closed over a 9-12 month period. The Gap Financing Program Guidelines describe what types of projects will be eligible and the allocation process through which these funds will be awarded.

In addition, MSHDA may also make available a portion of the HOME funding for the purpose of creating permanent supportive housing transactions that may include refinancing and rehabilitating multi-family developments. The allocation of these funds is also handled through a NOFA similar to the Gap Financing Program Guidelines.

**Emergency Solutions Grant (ESG)
Reference 91.320(k)(3)**

1. Include written standards for providing ESG assistance (may include as attachment)

Please go to www.michigan.gov/mshda, click on Homeless Program Funding, click on ESG for ESG policy and procedures.

2. If the Continuum of Care has established centralized or coordinated assessment system that meets HUD requirements, describe that centralized or coordinated assessment system.

Recipients of BOS ESG are required to have a Housing Assessment and Resource Agency (HARA) for each CoC. A *minimum* of forty percent (40%) of each CoCs ESG funds are required to be given to the HARA from the CoC award. The HARA is the centralized point of intake. HARAs are required to use the Service Prioritization Decision Assistance Tool (SPDAT) to guide the household to the right support intervention and housing. HARAs are the only agencies providing ESG prevention and rapid re-housing funds within the CoCs. Each HARA is required to employ a Housing Resource Specialist to ensure that landlord relationships exist and people living in homelessness are rapidly re-housed.

3. Identify the process for making sub-awards and describe how the ESG allocation available to private nonprofit organizations (including community and faith-based organizations).

BOS ESG funds are awarded statewide based upon poverty and homelessness data. Each CoC body determines how to best fund agencies in their area to end homelessness. All ESG recipients are required to be non-profit agencies. In addition, CoC Bodies must describe their fair funding process annually and that plan is required to be submitted to MSHDA.

4. If the jurisdiction is unable to meet the homeless participation requirement in 24 CFR 576.405(a), the jurisdiction must specify its plan for reaching out to and consulting with homeless or formerly homeless individuals in considering policies and funding decisions regarding facilities and services funded under ESG.

The CoC for the Michigan Balance of State is known as the Michigan Homeless Assistance Advisory Board (MHAAB). MHAAB has an individual that was homeless and sex trafficked, and she sits on bi-monthly MHAAB meetings. In addition, MSHDA as an agency has a current or former HCV tenant on its Board of Directors. Each Local Planning Body and CoC Body is advised to have a person that formerly lived in homelessness attending their local planning meetings. Michigan's governor has

created the Michigan Interagency Council on Ending Homelessness which consists of staff from MSHDA, the Michigan Department of Health and Human Services, Michigan Department of Education, Veteran Affairs, Michigan Association of United Ways, the Michigan League for Public Policy, and Michigan Community Action Agency who represent people living in homelessness and poverty in Michigan. This committee, known as the Michigan ICH, meets bi-monthly to strategize and direct the Campaign to End Homelessness in Michigan.

5. Describe performance standards for evaluating ESG.

MSHDA ESG employs a Housing Compliance Specialist who monitors ESG annually on a statewide basis. This Specialist conducts an annual financial audit which includes accounting and record keeping. The Housing Compliance Specialist insures all applicable ESG program forms are submitted. This position reviews documentation of homelessness, household income limit, and habitability inspection. In addition, MSHDA employs four Homeless Assistance Specialists who oversee Michigan's ten regions. The Homeless Specialist oversees ESG on a data-based grant management system known as MATT 2.0. Quarterly ESG draws, billing, and reporting are completed via MATT 2.0. Quarterly Progress Reports are submitted to the Homeless Assistance Specialist. The progress reports identify length of shelter stay, increase in income, services provided, etc.

The MSF intends to provide the Total Program Income amounts in an update to the PY 17 Action Plan after the end of PY 16 in order to collect the financial reporting from our Revolving Loan Funds Grantees and Grantees that have generated Program Income over the course of the year.

MEMORANDUM

Date: May 22, 2018

To: Michigan Strategic Fund Board

From: Mike Gietzen, Sr. Business Development Project Manager
Lori LaPerriere, MCRP and Brownfield Program Specialist

Subject: City of Detroit Brownfield Redevelopment Authority
Request for Approval of an Act 381 Work Plan
Wolverine Packing Co. Redevelopment Project

Request

The proposed project will be undertaken by Wolverine Packing Co. (Company) and will take a blighted and underutilized eight acre site and transform it into a tax producing, job creating development located at 4225 East Dequindre Street in Detroit, Wayne County, Michigan. The project qualifies for an Act 381 work plan because it is blighted.

In order to alleviate Brownfield conditions and prepare the proposed project site for redevelopment, the City of Detroit Brownfield Redevelopment Authority is seeking approval of local and school tax capture for MSF eligible activities in the amount of \$2,131,165.

Without State assistance, the project would likely not move forward in the City of Detroit. The Plan indicates there are contaminants and substantial demolition debris buried on-site. The eligible activities will alleviate Brownfield conditions across the site and make it suitable for redevelopment, and protect human health and the environment. Without Brownfield tax increment reimbursement, the cost burden related to Brownfield conditions would make the project financially unfeasible.

It is anticipated that the project will result in total capital investment in the amount of \$40 million, along with the creation of approximately 50 permanent full-time equivalent jobs with an average hourly wage of \$18.00. Construction is anticipated to begin in the second or third quarter of 2018 and eligible activities will be completed within approximately one year of the project start.

Background

Wolverine Packing Co. is a large meat wholesale processor and distributor with 500 employees currently in the City of Detroit. The Company currently has seven different facilities within the Eastern Market District with all facilities currently at capacity or land locked for expansion. The Company is experiencing a lack of sufficient freezer space and production space is at capacity. In order to increase production, the Company has identified an underutilized eight acre site within the Eastern Market District to construct a new 144,000 square foot cold storage facility which would include freezer space, a mezzanine production area, and shipping and receiving docks.

In addition to the new 144,000 square foot facility, the project plans include the use of urban storm water management and green infrastructure to reduce the impact of this development on the city's infrastructure and to improve the environment. Planned green features include bioswales, porous pavers, and storm water detention areas.

Wolverine Packing is also coordinating with the City of Detroit to rehabilitate Forest Park, which is located on the west-adjointing site. This rehabilitated park will provide a much-needed recreational and green space for the neighborhood and provide an amenity for Wolverine's employees. These activities and associated costs are not included in this work plan.

Established in 1937, Wolverine Packing Co. is a fourth generation family owned and operated business. The Company operates seven facilities within the City of Detroit's Eastern Market District, employing upward of 500 employees. The Company stocks over 250 brands and over 4,000 different products from lamb and veal to multiple ground beef items, steak cutting, and value added production. The Company has not received previous incentives from the Michigan Strategic Fund (MSF).

The MEDC has completed civil and criminal background checks in accordance with the MSF Background Review Policy. No issues were identified.

Appendix A addresses the programmatic requirements and **Appendix B** includes a project map and renderings.

Recommendation

MEDC staff recommends approval of local and school tax capture for the Act 381 eligible activities totaling \$2,131,165. Utilizing the current state to local capture ratio, the amount of school tax capture for this project is estimated at \$865,069.

APPENDIX A – Programmatic Requirements & Screening Guidelines

Property Eligibility

The project is located within the boundaries of the City of Detroit which is a Qualified Local Governmental Unit, and has been deemed blighted by the City Planning Commission.

The property is the subject of a Brownfield Plan, duly approved by the City of Detroit on November 21, 2017.

In addition, the project is requesting from the MDEQ \$702,663 in TIF to assist with environmental eligible activities.

Key Statutory Criteria

Act 381 requires the following information to understand and explain the benefits of the project.

a) Overall Benefit to the Public:

This project will take a currently blighted, underutilized, former mixed-use site and transform it into a tax-producing, job-creating development. It is anticipated that 100 temporary construction related jobs will be created and 50 permanent full-time equivalent jobs will be created for Wolverine's future operations. Wolverine expects more than half of the new jobs to be filled by Detroit residents and has committed to a process that will maximize the number of Detroiters filling the available jobs. Completion of the eligible activities outlined in this work plan will also reduce overall urban/historic fill and contaminant levels at the site. This environmental improvement will have a long-term positive effect on public health at and in the vicinity of the site. In addition, the rehabilitation of the west-adjointing Forest Park will provide a valuable recreational and green space for the neighborhood.

b) Jobs Created (Excluding Construction and other Indirect Jobs):

This project is expected to create approximately 50 new, full-time jobs. These jobs will include positions across all production associates (packing products, quality control, and machine operator) and order selectors (pull and pack customer orders).

c) Area of High Unemployment:

The City of Detroit unadjusted jobless rate was 9.5% in February 2018. This compares to the statewide seasonally adjusted average of 4.8% in February 2018.

d) Level and Extent of Contamination Alleviated:

Eligible activities include removal and legal disposal of an estimated 25,500 tons of urban/historic fill that contains various contaminants exceeding Part 201 generic residential cleanup criteria. The redevelopment will also significantly reduce storm water from infiltrating into and through the contaminated urban/historic fill, as it currently does, given that site is primarily grass-covered.

- e) **Reuse of Functionally Obsolete Buildings and/or Redevelopment of Blighted Property:**
The City of Detroit Planning Commission has determined that the property qualifies as “blighted” under the definition of Act 381 because the property has substantial demolition debris buried onsite so that the property is unfit for its intended use.
- f) **Whether Project will Create a New Brownfield Property in the State:**
No new Brownfields will be created by this project.
- g) **Whether the Project is Financially and Economically Sound:**
From the materials received, the MEDC infers that the project is financially and economically sound.
- h) **Other Factors Considered:**
The City of Detroit is contributing a 12-year Industrial Facilities Tax exemption for the project.

Tax Capture Breakdown

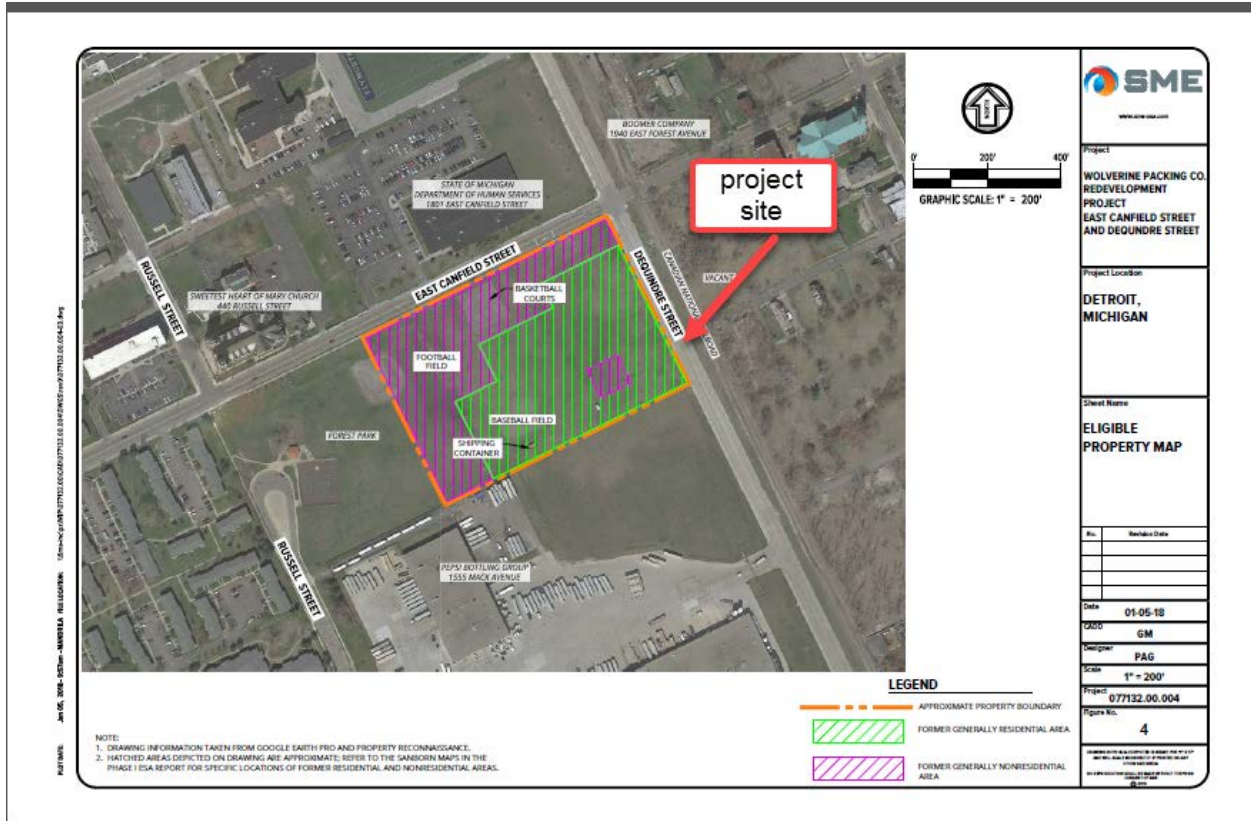
There are 65.3244 non-homestead mills available for capture, with school millage equaling 24 mills (36.74%) and local millage equaling 41.3244 mills (63.26%). Tax increment capture will begin in 2019 and is estimated to continue for 12 years. However, the City of Detroit has approved 12-year Industrial Facilities Tax exemption that begins in 2019 and is in place for the duration of the anticipated capture period. As a result, the capture ratio for this project is 42.06% state school capture and 57.94% local capture. The requested tax capture for MSF eligible activities breaks down as follows:

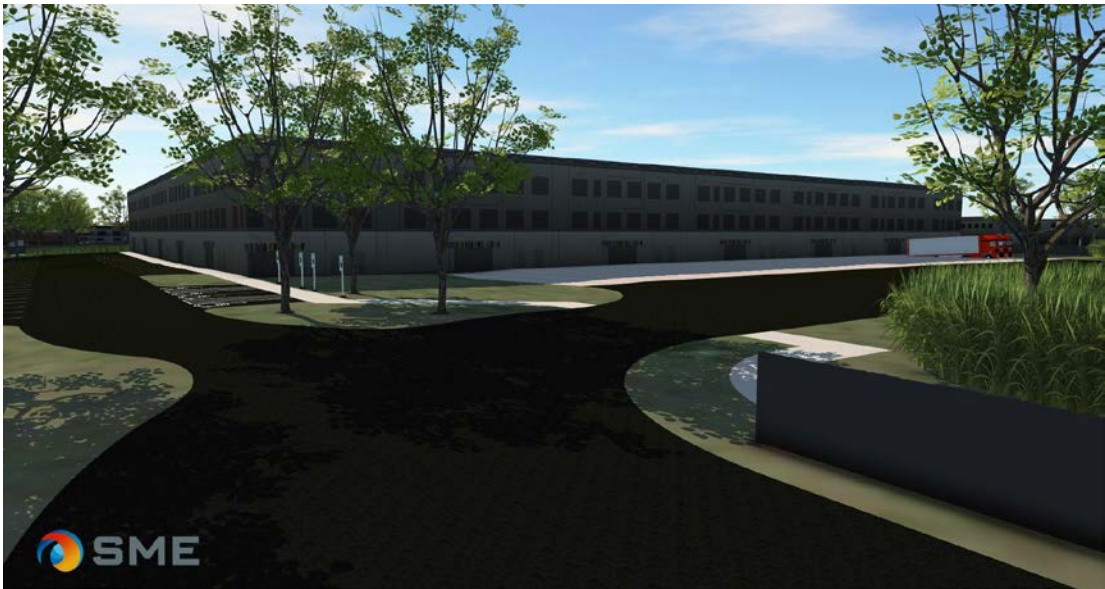
School tax capture	(42.06%)	\$	865,069
Local tax capture	(57.94%)	\$	<u>1,266,096</u>
TOTAL		\$	2,131,165

Cost of MSF Eligible Activities

Demolition	\$	40,000
Infrastructure Improvements		92,200
Site Preparation	+	<u>1,694,900</u>
Sub-Total	\$	1,827,100
Contingency (15%)	+	<u>274,065</u>
Sub-Total	\$	2,101,165
Brownfield/Work Plan Preparation	+	15,000
Brownfield/Work Plan Implementation	+	<u>15,000</u>
TOTAL	\$	2,131,165

APPENDIX B - Project Map and Renderings





MICHIGAN STRATEGIC FUND

RESOLUTION 2018 -

**APPROVAL OF A BROWNFIELD ACT 381 WORK PLAN
CITY OF DETROIT BROWNFIELD REDEVELOPMENT AUTHORITY
WOLVERINE PACKING COMPANY REDEVELOPMENT PROJECT**

WHEREAS, the Michigan Economic Growth Authority (“MEGA”) has been established by 1995 PA 24, as amended (the “Act”);

WHEREAS, 2002 PA 727 amended 1996 PA 381, MCL 125.2651 et seq, to empower local brownfield redevelopment authorities to request the MEGA Board to approve a brownfield project work plan and, thereby, capture taxes levied for school operating purposes for the project;

WHEREAS, Executive Order 2012-9 transferred all the authority, powers, duties, functions, responsibilities, records, personnel, property, unexpended balances of appropriations, allocations or other funds of the MEGA to the MSF;

WHEREAS, captured school operating tax revenues may be used under 1996 PA 381 as amended, for infrastructure improvements that directly benefit eligible property, for lead, asbestos, or mold abatement, and for demolition and site preparation that are not response activities under the Natural Resources and Environmental Protection Act, 1994 PA 451;

WHEREAS, the City of Detroit Brownfield Redevelopment Authority (the “Authority”) has submitted a work plan for property located at 4425 E. Dequindre Street within the City of Detroit, known as Wolverine Packing Company Redevelopment Project (the “Project”);

WHEREAS, the City of Detroit is a “qualified local governmental unit” and is eligible to provide a) demolition; b) lead, asbestos, or mold abatement; c) public infrastructure improvements; d) site preparation; e) brownfield and work plan preparation; f) brownfield and work plan implementation and g) interest as provided under 2007 PA 204 and;

WHEREAS, the Authority is requesting MSF approval to capture additional taxes levied for school operating purposes to provide for the reimbursement of the cost of eligible activities on an eligible property; and

WHEREAS, the Michigan Economic Development Corporation (“MEDC”) provides administrative services to the MSF, and has reviewed the application and recommends approval of the Brownfield Work Plan by the MSF Board.

NOW, THEREFORE, BE IT RESOLVED, the MSF Board authorizes the Authority to capture taxes levied for school operating purposes in substantially the same proportion as 42.06% to 57.94% ratio currently existing between school and local taxes for non-homestead properties, to reimburse the cost of site preparation, demolition, and infrastructure improvements, contingency, Brownfield work plan preparation, and Brownfield work plan Implementation as presented in the work plan dated March 14, 2018. Any change in millage that increases the capture percentage of school taxes in the ratio above by more than 5 percentage points must be approved by the MSF Board. The authorization is based on the Authority capturing all available local operating mills for the term of the capture period. The authorization for the capture of taxes levied for school operating

purposes is based on costs of MSF eligible activities with a maximum of \$2,101,165 for the principal activity costs of non-environmental activities and a contingency, a maximum of \$15,000 for Brownfield/Work Plan preparation, and a maximum of \$15,000 for Brownfield/work plan implementation, and with the capture of taxes levied for school operating purposes being limited to a maximum of \$865,069.

BE IT FURTHER RESOLVED, that the MSF Board authorizes the MSF Fund Manager, to provide written notification to the Authority, in the form of a letter which incorporates the terms set forth in this Resolution and consistent with the limitations of the Act, and that this approval is further conditioned upon the Authority, or the City, as appropriate, maintaining adequate records regarding: a) all taxes captured for the project; and b) receipts or other appropriate documentation of the cost of eligible activities. The records shall be made available for review upon request by MSF or MEDC staff.

BE IT FURTHER RESOLVED, that no taxes levied for school operating purposes shall be used to reimburse interest costs related to the eligible activities for the Project.

Ayes:

Nays:

Recused:

Lansing, Michigan
May 22, 2018

MEMORANDUM

Date: May 22, 2018

To: Michigan Strategic Fund (“MSF”) Board Members

From: Julia Veale, Business Development Project Manager

Subject: Amazon.com Services, Inc. (“Company” or “Applicant”)
Michigan Business Development Program Performance-based Grant Request

Summary

This is a request from the Applicant for a \$4,000,000 performance-based grant. This project involves the creation of 1,000 qualified new jobs and a capital investment of up to \$150,000,000 in Gaines Charter Township, Kent County.

The Applicant has demonstrated a need for the funding. The Company is planning construction of a new sortation and fulfillment center that would primarily service customers in the Midwest. The Company is under a restrictive timeline and is also considering Ohio, Wisconsin, Illinois and Indiana as alternative sites. Labor recruitment has been identified by the applicant as important criteria for site selection; incentive assistance is necessary to assist in finding appropriate talent and meeting tight deadlines.

Background

Founded in 1994, Amazon.com is the largest internet-based retailer in the world by total sales and market capitalization. The Company started as an online bookstore, later diversifying to sell DVDs, Blu-rays, CDs, video downloads/streaming, MP3 downloads/streaming, audiobook downloads/streaming, software, video games, electronics, apparel, furniture, food, toys and jewelry. Customer reviews, 1-Click shopping, personalized recommendations, Prime, Fulfillment by Amazon, AWS, Kindle, Fire tablets and TVs, Amazon Echo, and Alexa are some of the products pioneered by Amazon.

The Applicant has received incentives from the MSF in the past. In December of 2016, the Company was awarded a \$7.5 million Michigan Business Development Program performance based grant for the creation of 1,000 jobs in the City of Livonia, Wayne County. The Company celebrated the Livonia facility’s grand opening on March 23, 2018; 1,300 full time employees have been hired at the site.

The Applicant also received a second Michigan Business Development Program Grant award of \$5 million on June 27, 2017 for the creation of 1,600 jobs and investment of \$140 million in the City of Romulus, Wayne County. Everything is moving forward with the completion of site preparation for construction and the project is on track.

Additionally, the applicant received a third Michigan Business Development Program performance-based grant of \$4.5 million for the creation of 1,025 Qualified New Jobs and a capital investment of up to \$40 million in the Charter Township of Shelby, Macomb County. Everything is moving forward with site preparation for construction and the project is on track.

The Applicant plans to construct a new build to suit fulfillment center in Gaines Charter Township in Kent County. The project will bring \$150,000,000 in investment for state of the art robotics and logistics equipment and create 1,000 jobs related to general warehousing and storage. In addition to offering an excellent benefit package, the Company offers a 95% prepaid tuition program for associates. This project will further amplify the Company's commitment to Michigan and continue to create more jobs in the West Michigan region.

The MEDC has completed civil and criminal background checks in accordance with the MSF Background Review Policy. No issues were identified.

Considerations

- a) The Applicant is a "Qualified Business", as defined in MCL 125.2088r(7)(b), that is located and operates in Michigan.
- b) The project will be located in Gaines Charter Township in Kent County. Gaines Charter Township has offered a "staff, financial, or economic commitment to the project" in the form of a tax abatement, which amounts to a reduction in property taxes of approximately 50%, which will help reduce the overall cost of doing the project in Michigan.
- c) The Applicant has demonstrated a need for the funding. The Company has examined other sites in other Midwestern States. To meet the Company's hiring needs, there is concern about the availability and ability to hire the appropriate workforce. This incentive assistance will help the Company offset the costs related to talent recruitment and will make the case that Michigan is the prime location for this project.
- d) The Applicant plans to create 1,000 Qualified New Jobs above a statewide base employment level of 1,706.
- e) Pursuant to the program guidelines, the following was taken into consideration for the proposed project: project is not a retail project; project is not a retention project; involves out-of-state competition; has a net positive return to Michigan; has a strong level of investment; and employer benefits are available to all associates.

Recommendation

MEDC Staff recommends the following (collectively, "Recommendation"):

- a) Approval of the MBDP Proposal as outlined in the attached term sheet (collectively, "MBDP Proposal");
- b) Closing the MBDP Proposal, subject to available funding under the MBDP at the time of closing ("Available Funding"), satisfactory completion of due diligence (collectively, "Due Diligence"), finalization of all MBDP transaction documents; and
- c) Commitment will remain valid for 120 days with approval for the MSF Fund Manager to extend the commitment an additional 60 days.

MICHIGAN STRATEGIC FUND

RESOLUTION 2017-

**APPROVAL OF A MICHIGAN BUSINESS DEVELOPMENT PROGRAM GRANT TO
AMAZON.COM SERVICES, INC.**

WHEREAS, the Michigan legislature passed legislation establishing the 21st Century Jobs Trust Fund initiative that was signed into law;

WHEREAS, the Michigan Economic Development Corporation (“MEDC”) provides administrative services to the Michigan Strategic Fund (“MSF”) for 21st Century Jobs Trust Fund programs;

WHEREAS, pursuant to MCL 125.2088r, the MSF shall create and operate the Michigan Business Development Program (“MBDP”) to provide grants, loans and other economic assistance to qualified businesses that make qualified investments or provide qualified new jobs in Michigan;

WHEREAS, on December 21, 2011, by Resolution 2011-184, the MSF (i) created the MBDP, and (ii) adopted the guidelines for the MBDP (“Guidelines”);

WHEREAS, pursuant to SFCR 125.2088r-1, the MSF approved the MSF Fund Manager or the MSF President to negotiate the terms and conditions and execute all final documents necessary to effectuate awards and decisions approved under the MBDP in accordance with the Guidelines (“Transaction Documents”);

WHEREAS, the Guidelines require that MBDP awards over \$1 million must be approved by the MSF Board;

WHEREAS, Amazon.com Services, Inc. (“Company”) has requested a performance based MBDP grant of up to \$4,000,000 (“Grant Request”), along with other general terms and conditions which are outlined in the term sheet attached as Exhibit A (“Term Sheet”); and

WHEREAS, the MEDC recommends that the MSF approve the Company’s Grant Request in accordance with the Term Sheet, subject to: (i) available funding, (ii) final due diligence performed to the satisfaction of the MEDC; and (iii) execution of the Transaction Documents, within 120 days of the date of this Resolution (“Time Period”), or this Resolution shall have no effect; provided however, at the sole discretion of the MSF Fund Manager, the Time Period may be extended for up to an additional 60 days (“MBDP Award Recommendation”).

NOW, THEREFORE, BE IT RESOLVED, the MSF Board approves the MBDP Award Recommendation.

Ayes:

Nays:

Recused:

Lansing, Michigan
May 22, 2018



MICHIGAN BUSINESS DEVELOPMENT PROGRAM Performance Based Incentive - Term Sheet - Definitions

This document contains terms and definitions, which will be used to structure this incentive. While the MBDP is operated and funded through the MSF, recommendation for approval of a MBDP incentive award is presented by the Michigan Economic Development Corporation ("MEDC") to the MSF. Exhibit A will be presented to the MSF for consideration.

Terms and Definitions:

Base Employment Level: The number of jobs currently maintained in Michigan by the Company based on data submitted by the Company to the MEDC reflecting the Company's employment level in Michigan prior to the proposed project. The Base Employment Level, including identification of the Company data used to establish this level, shall be included in the final MBDP Incentive Award agreement ("Agreement") between the MSF and the Company.

Qualified New Job Creation: The minimum number of total Qualified New Jobs the Company shall be required to create in Michigan (above the Base Employment Level), in addition to satisfying other milestones if applicable, to be minimally eligible to receive the full amount of the MBDP Incentive Award. Each Qualified New Job must be performed for consideration by a Michigan resident (whose Michigan income taxes are withheld as required), and each Qualified New Job must be in excess of the Base Employment Level. The final terms and conditions of the requirements for the minimum number of Qualified New Jobs that must be created, including provisions addressing disbursements of portions of the MBDP Incentive Award, shall be included in the final Agreement.

Company Investment: The Company anticipates investment of up to \$150,000,000 for new construction and machinery and equipment or any combination thereof, for the Project.

Municipality Support. One of the conditions of execution of the final Agreement is the requirement that the municipality shall have committed to provide: "staff, financial, or economic commitment to the project" in the form of a tax abatement on eligible real and/or personal property. The final terms and conditions demonstrating this support shall be included in the final Agreement.

Disbursement Milestones: The final terms and conditions of each of the disbursements of any portion of the MBDP Incentive Award shall be included in the final Agreement, including that before any disbursement is made to the Company, the Company must have maintained: (i) the Base Employment Level (exclusive of the number of Qualified New Jobs then created) and (ii) any Qualified New Jobs created for which disbursements by the MSF have been made, and the Company must otherwise be in compliance with all terms and conditions of the final Agreement, and further shall include:

- a. Disbursement Milestone 1:** Up to \$1,900,000 Upon demonstrated creation of 475 Qualified New Jobs above the Base Employment Level and verification of final approval of municipality support by no later than August 31, 2019.
- b. Disbursement Milestone 2:** Up to \$200,000 Upon completion of Disbursement Milestone 1, and upon demonstrated creation of 50 additional Qualified New Jobs (for a total of 525 Qualified New Jobs) above the Base Employment Level, by no later than August 31, 2020.
- c. Disbursement Milestone 3:** Up to \$1,900,000 Upon completion of Disbursement Milestone 1 and Disbursement Milestone 2, and upon demonstrated creation of 475 additional Qualified New Jobs (for a total of 1000 Qualified New Jobs) above the Base Employment Level, by no later than August 31, 2021.

MICHIGAN ECONOMIC
DEVELOPMENT CORPORATION

Repayment Provisions: Repayment provisions are required by law. The Repayment terms and conditions will be effective through the Term of the Agreement and shall be defined in the final Agreement. The final repayment provisions may require repayment of some or all of the disbursements made by the MSF, including if the Company moves 25% or more of their employees out of Michigan, if the Company fails to maintain the Base Employment Level in Michigan, if the Company fails to maintain the Qualified New Jobs incented by this Award.

Reporting Requirements: Periodic reporting will be required with this program. The detailed information needed from the Company will be included in the final Agreement, but will include Project reporting for such things as: amount of proposed incentive, amount of actual incentive received by Company; amount of proposed and actual investment made by Company for Project; the committed number of new jobs and the actual number of new jobs created as a result of the Project.

Public Announcements: The Company shall not make, or cause, any announcement of the proposed MBDP Incentive Award parameters outlined in this letter before the date of approval by the MSF of the MBDP Incentive Award, unless prior authorized and coordinated with the MEDC. At the request and expense of the MSF or the MEDC, the Company will cooperate with the MSF or the MEDC to promote the Project through one or more of the placement of a sign, plaque, media coverage or other public presentation at the Project or other location acceptable to the Parties.

This Term Sheet is intended to constitute a term sheet, only. The terms and conditions of this Term Sheet shall not bind either the parties hereto or their successors, assigns or agents unless or until the parties enter into a final agreement addressing the matters contained herein. There is no legally binding or enforceable contract between the parties pertaining to the subject matter of this Term Sheet, as of the date of the Term Sheet is signed, and statements of intent or understandings herein shall not be deemed to constitute any offer, acceptance, or legally binding agreement and do not create any rights or obligations for or on the part of any party hereto.



EXHIBIT A
MICHIGAN BUSINESS DEVELOPMENT PROGRAM
Performance Based Incentive - Term Sheet - Summary

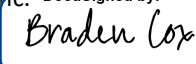
The following is a summary of the highlights of the project and basic terms for which the Company desires grant support from the Michigan Strategic Fund ("MSF") under the Michigan Business Development Program ("MBDP").

Date: May 2, 2018

- Company Name:** Amazon.com Services, Inc. and/or its affiliates and subsidiaries.
- Project Location:** Gaines Township
- MBDP Incentive Type:** Performance Based Grant
- Maximum Amount of MBDP Incentive:** Up to \$4,000,000
- Base Employment Level:** At least 1,706
- Qualified New Jobs:** At least 1,000 at Project Address
- Municipality Supporting Project:** Gaines Township has agreed to provide staff, financial or economic assistance in support of the project.
- Start Date for Measurement of Creation of Qualified New Jobs:** Date of MSF Board Approval
- Term of the Agreement:** February 28, 2022
- Milestone Based Incentive:** Disbursements will be made over a three year period and will be performance based on job creation as follows:
Milestone 1: \$1,900,000 for the creation of 475 jobs.
Milestone 2: \$200,000 for the creation of 50 jobs.
Milestone 3: \$1,900,000 for the creation of 475 jobs.

The detailed numbers, and statutorily required repayment and reporting provisions, will be reflected in the subsequent transaction documents.

Acknowledged as received by:

Amazon.com Services, Inc. DocuSigned by:

 By: _____
31293776662466...
 Printed Name: Braden Cox
 Its: vice President

Michigan Economic Development Corporation
 By: _____
 Printed Name: _____
 Its: _____

May 15, 2018

MEMORANDUM

Date: May 22, 2018

To: Michigan Strategic Fund (“MSF”) Board Members

From: Trevor Friedeberg, Director, Business Development Projects

Subject: Gerdau Macsteel, Inc. (“Company” or “Applicant”)
State Essential Services Assessment Exemption Request

Summary

This is a request from the Company for a fifteen year State Essential Services Assessment Exemption. This project will result in up to \$115 million in Qualified Investments in Eligible Personal Property in the city of Monroe, Monroe County. Additionally, the project involves the retention of up to 530 total jobs as a result of the project.

The Company’s project exceeds the \$100 million in Qualified Investment in Eligible Personal Property required to be eligible for the maximum incentive in an Eligible Distressed Area. However, the State Essential Services Assessment Exemption Guidelines require Qualified Investment to be made over a three year period. This project will involve Qualified Investment taking place over a five year period. Due to the significant amount of investment to make the facility more efficient and viable for many years and the substantial number of jobs being retained at the facility as a result of the modernization efforts, staff is recommending a waiver to the guidelines to allow Qualified Investment to be considered over a five year period. The State Essential Services Assessment Exemption legislation does not preclude investments taking longer than a three year period from qualification of the incentive.

The Applicant has demonstrated a need for the funding. Current energy prices are causing the overall product cost to be higher in Michigan than at sister plants in Arkansas, Minnesota, Texas, and Tennessee, which are competing for investment as well. Lower taxes in southern states also contribute to lower overall operating costs, which gives the Company the ability to better compete with larger steel manufacturers. The ability for the Company to receive incentive assistance will help make the case for continuing investment in Michigan, which will in turn lead to the retention of jobs in Monroe.

Background

Incorporated in 1963, the Company is one of the largest steel producers in North America manufacturing products servicing the construction, automotive, agricultural and energy markets. The Company’s North American business divisions focus on long and special steel products such as rebar, beams and piling, merchant bar quality, special bar quality and wire rod.

The Company has received incentives from the MSF in the past. In 2011, the Company was awarded a five year MEGA Retention Credit for the retention of 778 employees and capital investment of \$66.9 million. The Company has successfully closed out the credit with the last eligible year being 2016.

In Monroe, the Company produces special bar quality (SBQ) steel. There are several types of sizes of products made at the Monroe facility currently. After the project, capacity will increase from 525k tons to 750k tons of 210mm billets to be converted into high quality base and used in the automotive manufacturing process. The improved product flow and efficiencies provided by this investment will allow the Company to offer new sizes, types, and qualities of products that will further diversify its offerings to existing/expanding customers. The Company plans to invest up to \$115 million in new equipment for this retooling to allow increased product shipments from the city of Monroe, Monroe County.

Considerations

- a) The Applicant is an “Eligible Claimant”, as defined in Public Act 92 of 2014, which will claim an exemption for Eligible Personal Property.
- b) The Applicant is eligible for a fifteen year State Essential Services Assessment Exemption based on the following:
 - a. The Project will be located in the city of Monroe, which is an Eligible Distressed Area; and
 - b. The Project will result in Qualified Investments of up to \$115 Million in Eligible Personal Property.
- c) The Qualified Investments will be made after MSF approval and completed within five years of commencement of the Project.
- d) The Applicant agrees to pay a one-time administrative fee in the amount of \$10,000 payable to the MEDC upon completion of the first performance milestone.
- e) The Applicant has demonstrated a need for the funding. Current energy prices are causing the overall product cost to be higher in Michigan than at sister plants in Arkansas, Minnesota, Texas, and Tennessee, which are competing for investment as well. Lower taxes in southern states also contribute to lower overall operating costs, which gives the Company the ability to better compete with larger steel manufacturers. The ability for the Company to receive incentive assistance will help make the case for continuing investment in Michigan, which will in turn lead to the retention of jobs in Monroe.
- f) The Applicant plans to retain up to 530 jobs at its Monroe facility.
- g) Pursuant to the program guidelines, the following was taken into consideration for the proposed project: The project will result in significant investment and job retention in Michigan; the project will result in a net-positive return to this state; the investment will be placed in an existing facility; level of investment is very high; the project has strong links to Michigan suppliers; there was out-of-state competition for this investment.

Exemption Value Breakdown

The fifteen year State Essential Services Assessment Exemption is estimated to be worth \$2,407,000. The requested exemption breaks down as follows:

	Years 1 – 5 (2.4 mills)	Years 6 – 10 (1.25 mills)	Years 11 – 15 (0.9 mills)	Total
State ESA Exemption Amount	\$1,380,000	718,750	308,250	\$2,407,000

Recommendation

MEDC Staff recommends the following (collectively, “Recommendation”):

- a) Approval of the State Essential Services Assessment Exemption for up to fifteen years for up to \$115 million in Qualified Investments in Eligible Personal Property;
- b) A waiver to the guidelines to allow for investment to occur over a 5 year period;
- c) Closing the State Essential Services Assessment Exemption, is subject to satisfactory completion of due diligence (collectively, "Due Diligence") and finalization of all transaction documents; and
- d) Commitment will remain valid for 120 days with approval for MSF Fund Manager to extend the commitment an additional 60 days.

MICHIGAN STRATEGIC FUND

**RESOLUTION
2018-**

**GERDAU MACSTEEL, INC.
STATE ESSENTIAL SERVICE ASSESSMENT EXEMPTION APPROVAL**

WHEREAS, the Michigan Economic Development Corporation (“MEDC”) provides administrative services to the MSF;

WHEREAS, the Michigan legislature passed legislation, 2014 PA 80, to revise the personal property tax system so as to allow individuals, small businesses and large businesses to thrive and create jobs in the State of Michigan, but which needed to be approved by the qualified electors of the State of Michigan;

WHEREAS, on August 5, 2014, the qualified electors of the State of Michigan approved the legislation to revise the personal property tax system. This revision shall take effect January 1, 2015. The approval also enacted 2014 PA 92 and 2014 PA 93, the State Essential Services Assessment Act (“SESA”) and the Alternative State Essential Services Assessment Act (“Alternative SESA”);

WHEREAS, the SESA and the Alternative SESA authorized the creation and operation of the SESA and Alternative SESA Exemption Program by the Michigan Strategic Fund (“MSF”) pursuant to MCL 211.1059;

WHEREAS, on October 28, 2014, the MSF Board approved the SESA and Alternative SESA Exemption Program Guidelines;

WHEREAS, Gerdau Macsteel, Inc. (the “Company”) has requested that the MSF Board approve a SESA exemption of up to fifteen (15) years for qualifying investment of up to \$115 million in eligible personal property, as defined in the SESA and Alternative SESA Exemption Program Guidelines, in the city of Monroe (the “SESA Exemption Request”);

WHEREAS, the MEDC recommends that the MSF Board 1) approve a waiver to the Program Guidelines to allow Qualified Investment to occur over a five year period; 2) approve the SESA Exemption Request; 3) require a onetime administrative fee in the amount of \$10,000 payable to the MEDC upon completion of the first performance milestone; and 4) authorize the MSF Fund Manager to execute all final documents necessary to effectuate the SESA Exemption Request; and

WHEREAS, the MSF Board desires to 1) approve a waiver to the Program Guidelines to allow Qualified Investment to occur over a five year period; 2) approve the SESA Exemption Request; 3) require a onetime administrative fee in the amount of \$10,000 payable to the MEDC upon completion of the first performance milestone; and 4) authorize the MSF Fund Manager to execute all final documents necessary to effectuate the SESA Exemption Request.

NOW, THEREFORE, BE IT RESOLVED, the MSF Board 1) approves a waiver to the Program Guidelines to allow Qualified Investment to occur over a five year period; 2) approves the SESA Exemption Request; 3) requires a onetime administrative fee in the amount of \$10,000 payable to the MEDC upon completion of the first performance milestone; and 4) authorizes the MSF Fund Manager to execute all final documents necessary to effectuate the SESA Exemption Request.

Ayes:

Nays:

Recused:

Lansing, Michigan
May 22, 2018

MEMORANDUM

Date: May 22, 2018

To: Michigan Strategic Fund Board

From: Christopher Cook, Director, Capital Access

Subject: *Private Activity Bond – Authorizing
Greenville Venture Partners, LLC
Solid Waste - \$12,000,000 - New*

Request:

Greenville Venture Partners, LLC (“Greenville”) a State of Michigan LLC, is requesting private activity bond financing for the purpose of assisting in the acquisition and installation of solid waste disposal facilities in connection with the conversion of raw milk into usable finished dairy products at a dairy condensing plant (the “Dairy Project”) to be located near or about 6501 South Fitzner, Greenville, Montcalm County, Michigan. The proposed financing will include capital expenditures associated with removing accumulated solids within the processing equipment and piping, and related wastewater treatment systems, that will enable Greenville to pretreat its effluent prior to being discharged into the local municipal treatment system for further processing.

Background:

Greenville is a subsidiary of Foremost Farms USA, Cooperative. Foremost Farms was created in 1995 through a consolidation of Wisconsin Dairies Cooperative in Wisconsin and Golden Guernsey Dairy Cooperative in Milwaukee. Also in 1995, Foremost Farms acquired the Morning Glory Farms Region of Associated Milk Producers, Inc.

Description of Dairy Project:

The Dairy Project consists of the construction of a dairy condensing facility. Greenville indicates the construction of this facility will provide long term market access for its member owners in the State of Michigan. Milk production in the State is projected to continue to grow at a rate that continues to exceed existing dairy plant processing capacities in Michigan. This facility will provide an outlet to process excess milk supply contained in the State.

It is estimated that approximately 33 new jobs will be created as a result of this project.

The following incentives have been offered:

Michigan Business Development Program	\$412,500
Michigan Department of Agriculture and Rural Development (MDARD) Program	\$500,000
Transportation Economic Development Fund	\$400,000
MI Works! Service Centers	\$378,612
PA 198 Property Tax Abatement (Real Property; 12 years)	\$2,331,000
6 Mill State Education Tax Abatement (12 years)	\$555,000

Plans of Finance:

The Bonds will be secured with a letter of credit provided by CoBank, ACB.

Recommendation:

Based upon a determination by Dickinson Wright PLLC and the State of Michigan Attorney General's office that the proposed financing complies with state and federal law requirements for tax-exempt financing, staff recommends the adoption of a Bond Authorizing Resolution in an amount not to exceed \$12,000,000.

RESOLUTION TO AUTHORIZE THE ISSUANCE OF THE MICHIGAN
STRATEGIC FUND VARIABLE RATE DEMAND LIMITED OBLIGATION
REVENUE BONDS, (GREENVILLE VENTURE PARTNERS, LLC PROJECT)
SERIES 2018
(THE "BONDS")

Resolution 2018-__

A. The Michigan Strategic Fund (the "Fund") is authorized by 1984 PA 270, as amended (the "Act"), to issue bonds for the purpose of making loans to pay the costs of a project (as defined in the Act).

B. Greenville Venture Partners, LLC, a Michigan limited liability company (the "Obligor"), has requested a loan from the Fund to be used to finance eligible costs of: (i) the acquisition, construction, installation and equipping of certain solid waste disposal facilities in connection with the conversion of raw milk into usable finished dairy products at a dairy condensing plant to be located near or about 6501 South Fitzner, Greenville, Montcalm County, Michigan (collectively the "Project"); (ii) paying capitalized interest on the Bonds; and (iii) paying costs of issuing the Bonds. Proceeds of the Bonds will be used for the installation of (i) machinery and equipment for removing accumulated solids within dairy processing equipment and piping and (ii) related wastewater treatment systems that will enable Obligor to pretreat its effluent prior to being discharged into the local municipal treatment system. The Project will be owned and operated by the Obligor.

C. The Obligor has requested the Fund to issue the Bonds in a principal amount of not to exceed \$12,000,000 pursuant to this resolution (the "Resolution") and a trust indenture (the "Trust Indenture"), between the Fund and Wells Fargo Bank, National Association, as trustee (the "Trustee") dated as of May 1, 2018, relating to the Bonds to obtain funds which will be loaned to the Obligor pursuant to a loan agreement, dated as of May 1, 2018, between the Fund and the Obligor (the "Loan Agreement") to pay costs of the Project.

D. The principal of, and up to 45 days interest on, the Bonds will be secured by an irrevocable direct-pay letter of credit (the "Letter of Credit") to be issued by CoBank, ACB (the "Bank") in favor of the Trustee.

E. The Bonds will be purchased by The Frazier Lanier Company Incorporated, as underwriter (the "Underwriter"), pursuant to a bond purchase agreement among the Underwriter, the Fund, and the Obligor (the "Bond Purchase Agreement").

NOW, THEREFORE, Be It Resolved by the Board of the Fund:

SECTION 1. Issuance of Bonds; Limited Obligation. For the purpose of making the loan requested by the Obligor, the issuance of the Bonds is authorized.

The terms of the Bonds shall be substantially in the form contained in the Trust Indenture, with the changes permitted or required by action of the Fund or the Trust Indenture. The Bonds shall bear the manual or facsimile signature of a member of the Fund's Board of Directors (a "Member") or of a person authorized by Board Resolution to sign Bond documents on behalf of the Fund (an "Authorized Officer"), and the official seal of the Fund (or a facsimile of the seal) shall be impressed or imprinted on the Bonds.

The Bonds and the interest and any premium on the Bonds are not a debt or obligation of the State of Michigan or a general obligation of the Fund within the meaning of any constitutional or statutory limitation and do not constitute a charge against the credit or taxing powers of the State of Michigan or the general funds or assets of the Fund (including funds relating to other Fund loans or activities), but shall be a limited obligations of the Fund payable solely from the revenues derived from the Loan Agreement and otherwise as provided in the Trust Indenture.

SECTION 2. Approval, Execution and Delivery of Documents. The forms of the following documents, on file with the staff of the Fund and on which have been endorsed by the staff of the Fund the date of adoption of this Resolution, are approved:

- a. Loan Agreement (including the form of Promissory Note)
- b. Trust Indenture
- c. Bond Purchase Agreement

Any Member and Authorized Officer are authorized to execute and deliver the Bond Purchase Agreement and any Member or Authorized Officer is authorized to execute and deliver the remaining documents identified in this Section, including acceptance and endorsement of the Promissory Note, in substantially the forms approved, with any changes as are considered necessary or desired by him or her, permitted by the Act or otherwise by law, and not materially adverse to the Fund.

SECTION 3. Completion of Document Terms. Any Member may approve the initial interest rate applicable to the Bonds, which shall not be more than 10% per annum, and the principal amount of the Bonds, which shall not be greater than \$12,000,000. Approval of those terms shall be evidenced by the Member's execution of the Bond Purchase Agreement.

SECTION 4. Acknowledgement of Collateral Documents. The forms of the Letter of Credit between the Obligor and the Bank, and the remarketing agreement

between the Obligor and The Frazier Lanier Company Incorporated, on file with the staff of the Fund and on which have been endorsed by the staff of the Fund the date of adoption of this Resolution, are acknowledged with the changes made by the parties as are permitted by the Act or otherwise by law, and not materially adverse to the Fund.

SECTION 5. Sale and Delivery of the Bonds. A Member or an Authorized Officer shall execute, seal, and deliver the Bonds upon receipt of the following documents and payment of the purchase price for the Bonds:

- a. an opinion of bond counsel to the Fund acceptable to the Fund and the Attorney General of the State of Michigan (the "Attorney General"),
- b. an opinion of counsel to the Obligor and necessary certificates and representations of the Obligor acceptable to the Fund, the Attorney General, and bond counsel, and
- c. an approving opinion of the Attorney General.

Upon receipt, the proceeds of the Bonds shall be paid over to the Trustee to be credited in accordance with the Trust Indenture.

SECTION 6. Designation of Certain Parties. Wells Fargo Bank, National Association's acceptance of duties as Trustee shall be evidenced by its execution of the Trust Indenture.

SECTION 7. Official Statement. The use and distribution by the Underwriter of an Official Statement to solicit offers to purchase the Bonds, in substantially the form on file with the Fund and on which an Authorized Officer shall endorse the date of adoption of this Resolution, is approved. Any Member or Authorized Officer is authorized to approve changes in the Official Statement as may be necessary or desirable, permitted by the Act or otherwise by law, and not materially adverse to the Fund.

SECTION 8. Authorization of Filings, Submissions and Other Documents. Any Member or Authorized Officer, as well as counsel to the Fund, is authorized to apply for or submit, execute, and deliver the other certificates, documents, opinions, and papers to any party or governmental agency as may be required by the Loan Agreement, the Trust Indenture, the Letter of Credit, of the Bond Purchase Agreement or as may be necessary to effectuate the valid issuance, sale and delivery of the Bonds as tax-exempt bonds and otherwise as contemplated by those documents.

SECTION 9. Conflict and Effectiveness. All resolutions or other proceedings of the Fund in conflict with this Resolution are repealed to the extent of the conflict. This Resolution shall become effective upon adoption. If the Bonds are not

delivered to their original purchaser on or before June 22, 2018, the authority granted by this Resolution shall lapse.

Adopted.

Ayes:

Nays:

May 22, 2018 Meeting
Lansing, Michigan

MEMORANDUM

Date: May 22, 2018

TO: Michigan Strategic Fund Board

From: Christopher Cook, Director of Capital Access

Subject: *Private Activity Bond –
Authorization of Amendments or Revisions to Bond Documents Related to
Reduction in Corporate Tax Rate Contained in the Tax Cuts and Jobs Act of 2017*

Request:

The proposed resolution requests that the MSF Board approve signature authority of an authorized officer of the MSF to document changes related to indentures or loan documents as needed as described below relating to the Tax Cuts and Jobs Act of 2017.

Background:

On December 22, 2017, the Tax Cuts and Jobs Act, P.L. No. 115-97, (the “Tax Cut Act”) was signed into law. One specific provision of the Tax Cut Act was the reduction of the corporate tax rate from 35% to 21%. The change in the maximum corporate tax interest rate may result in an increase in the bond interest rate.

MSF staff have been advised by the Attorney General’s office and certain prior bond counsel to the MSF that in recent years many of the private placement or direct purchase transactions authorized by the MSF for private activity bond financing have included provisions commonly referred to as “interest rate step-up”, “gross-up”, “yield protection” or “margin rate factor” provisions in qualified bonds (the “Change in Tax Law Provisions”). These Change in Tax Law Provisions are designed to protect the bank because a tax exemption at a 21% maximum corporate tax rate is not as valuable as a tax exemption at a 35% maximum corporate tax rate. The Change in Tax Law Provisions generally have a formula to increase the interest rate on the bonds to essentially cover the loss in value to the bank. Many banks are amenable to amending or revising these provisions which are generally contained in the indenture, the bonds themselves and tax documents.

The underlying rationale behind the Change in Tax Law Provisions is to keep the bank whole in the case of a corporate rate reduction because such a reduction reduces the bank's 'taxable equivalent yield' of the tax exempt rate.

The Attorney General's office has provided the following example from a recent legal article of the "taxable equivalent yield" and the consequence of a fully implemented Change in Tax Law Provision's impact on the bond interest rate:

"At a 35% corporate tax rate, a 5% interest rate on a tax exempt obligation has a taxable equivalent yield of 7.69% ($0.05/(1-0.35)$), because that rate reduced by a 35% tax is 5%. At a 21% corporate tax rate, the equivalent yield of that 5% rate is only 6.33% ($0.05/(1-0.21)$). The rate adjustment, sometimes referred to as a "margin rate factor"..... [in the above circumstances] the factor would be ...1.2154.

With an original interest rate of 5% the adjusted (bond interest) rate resulting from the recent tax legislation would be 6.079% (0.05×1.2154).

In the example above at an original 5% interest rate, if fully enforced, the bond interest rate would increase to 6.079%."

Many banks are amenable to amending or revising (or waiving) these provisions which are generally contained in the indenture. Because of the amendments/revisions to the Change in Tax Law Provisions, other documents, including the bonds themselves and tax documents, may require changes. The changes only impact the bank and the borrower and have no adverse impact on the MSF. This resolution provides authorized officers the authority to authorize the changes to the bond documents which might otherwise require formal Fund approval.

Recommendation:

Based upon review and recommendation by the Attorney General's office it is recommend the MSF Board approve this request.

MICHIGAN STRATEGIC FUND

A RESOLUTION PROVIDING FOR AN AUTHORIZED OFFICER TO AUTHORIZE AMENDMENTS OR REVISIONS TO BOND DOCUMENTS RELATED TO THE REDUCTION IN THE CORPORATE TAX RATE CONTAINED IN THE TAX CUTS AND JOBS ACT OF 2017

Resolution No. 2018-

At a meeting of the Michigan Strategic Fund held on _____, 2018 in
Lansing, Michigan

PRESENT:

ABSENT:

The following resolution was moved and seconded:

A. The Michigan Strategic Fund (the “**Fund**”) is authorized by 1984 PA 270 (the “**Act**”), to issue bonds for, among other things, the purpose of making loans to enterprises (the “**Borrowers**”), to finance part or all of project costs of a project as defined in the Act and to pay costs of issuing bonds.

B. On December 22, 2017 the Tax Cuts and Jobs Act, P.L. No. 115-97, (the “**Tax Cut Act**”) was signed into law. Many provisions of the Tax Cut Act are likely to impact municipal finance transactions, but specifically the Tax Cut Act reduced the maximum corporate tax rate from 35% to 21%.

C. In recent years many of the private placement or direct purchase transactions authorized by the Fund have included provisions commonly referred to as “interest rate step-up”, “gross up”, “yield protection” or “margin rate factor” provisions in qualified bonds (the “**Change in Tax Law Provisions**”). The intent and effect of the Change in Tax Law Provisions are generally to compensate the bondholder (and since the bondholder is typically a bank, the “**Bank**” or “**Banks**”) for the reduced tax benefit of holding tax-exempt bonds in a lower income tax regime (that is, to reflect that an income tax exemption is worth less to a bondholder if it avoids income taxes at the newly enacted 21% rate than if it avoids income taxes at a 35% rate). The Change in Tax Law Provisions are intended to preserve the same after-tax yield to the bondholder in comparison to taxable investment alternatives. The Change in Tax Law Provisions commonly contain a formula, based on the difference between 35% and the newly enacted 21% maximum corporate tax rate (referred to herein as the “interest rate step-up”).

D. The Change in Tax Law Provisions have a number of variations, which include, but are not limited to, automatic interest rate step-up; discretionary

interest rate step-up at the option of the Bank; interest rate step-up requiring notice and not effective until notice is provided; interest rate step-up that increases the rate by formula; or interest rate step-up conditioned on the Bank asserting an interest rate step-up on similarly situated borrowers.

E. The Change in Tax Law Provisions if applicable may be contained in or impact certain bond documents, including but not limited to the indenture, the bonds, and tax documents.

F. As a consequence of the Change in Tax Law Provisions, the Fund bonds for the projects with Change in Tax Law Provisions in their bond documents are subject to an increase in the interest rate on the bonds. Exhibit A sets forth those Fund transactions known to be impacted and which the parties desire to make amendments or revisions related to Change in Tax Law Provisions to the bond documents.

G. In certain cases Banks have not acted to impose the Change in Tax Law Provisions as of yet and in certain other cases the Bank and Borrower impacted by the increased bond interest rate are seeking to negotiate amendments or revisions (in some cases waivers) to the Change in Tax Law Provisions of the bond documents and other affected provisions (including related amendments to the interest on the bonds or the formula for determining the applicable interest rate on the bonds). Such amendments or revisions may require amendments or revisions to other bond documents, including tax documents in similarly situated transactions.

IT IS RESOLVED by the Board of Directors of the Fund that:

Each of the Michigan Strategic Fund Manager and the Authorized Bonding Officer (“Authorized Officer”) is hereby individually authorized, directed and empowered, for and on behalf of the Fund, to execute and deliver any amendment or revision to a Change in Tax Law Provision triggered by the Tax Cut Act or other affected provisions (including related amendments to the interest on the bonds or the formula for determining the applicable interest rate on the bonds), including any such provision in the bond indenture, bonds, tax documents or other document or any additional documents as may be required to effect a reissuance of such bonds for federal tax purposes to which any such Bank and Borrower agree and to which the Fund is a party, including but not limited to bond documents in the transactions set forth in Exhibit A, which amendment or revision in the judgment of the Authorized Officer, in consultation with bond counsel and the Department of Attorney General, will have no material adverse effect on the Fund.

Adopted.

Ayes:

Nays:

Abstentions:

2018-0216628-A/MFA/MSF Resolution for Tax Cut & Jobs Act of 2017/MSF Resolution clean

EXHIBIT A

LIST OF IMPACTED TRANSACTIONS

Michigan Strategic Fund
Multi-Modal Limited Obligation Revenue and Refunding Bonds
(YMCA of Greater Grand Rapids Obligated Group),
Series 2016A, 2016B and 2016C

And such other similarly situated transactions.

MEMORANDUM

Date: May 22, 2018

To: Michigan Strategic Fund (“MSF”) Board Members

From: Julius L. Edwards, Manager, Underwriting and Incentive Structuring

Subject: Amendment of the MSF Investment Fund Award to Michigan Community Capital f/k/a Michigan Magnet Fund for Attainable Housing

Request

Michigan Community Capital (“Company”) and MEDC staff are requesting approval of an amendment to the Investment Fund Award Agreement (“Agreement”) and any related ancillary agreements. The amendment request is to amend Section 4.1(C) of the agreement “Restriction of Third Party Indebtedness” which limits the Company’s ability to incur debt to 20% of the MSF Awards. The Company and MEDC staff is requesting to remove this limit on indebtedness, allowing the Company to secure additional capital to support its mission, but maintain a restriction on the Company pledging or assigning any assets securing the MSF loan. The Company is in the process of securing debt, equity and equity equivalents in excess of \$10 million, which will allow them to provide bridge financing and facilitate other project investments across the state.

Background

The MSF approved a \$10,000,000 Investment Fund Award to MCC at its February 28, 2017 Board meeting to facilitate investment in “Attainable Housing” projects across the state.

Attainable Housing is defined as housing targeted at individuals and families with incomes between 60% and 120% Area Median Income (AMI). Attainable Housing has been identified by staff and partners as an unmet need in many communities across the State as rental rates have continued to increase in many markets in the State, primarily Central Business Districts and other commercial cores. An unanticipated consequence has led to displacement of many residents away from employment centers in those communities.

The MSF approved the following amendments at its August 22, 2017 Board meeting: 1) an increase in the allowable outside financing from 20% of the outstanding MSF Award balance to 20% of MSF Award; and 2) allow for a stand-alone disbursement under the MSF Loan Award that can be utilized to make a loan to a project in Flint, MI known as the Flint Marketplace project.

The MSF approved a \$3,500,000 increase of the MSF Investment Fund Award at its December 19, 2017 meeting.

The MCC currently has two awards with the MSF, this \$13,500,000 award and a \$3,000,000 loan award for a “Small Developer Initiative”. The Company is in compliance with all the requirements of its MSF

awards. To date, \$2,800,000 has been advanced under the current Loan Award covering two projects, one in Grand Rapids and the other in Detroit. The MCC currently has a healthy pipeline of projects, and it is anticipated the entire Loan Award will be advanced within the next 12 months.

Recommendation

MEDC Staff recommends approval of an amendment to the Investment Fund Award Agreement to remove the Company's limit on indebtedness.

MICHIGAN STRATEGIC FUND

RESOLUTION 2018-

APPROVAL OF AN AMENDMENT TO AN INVESTMENT FUND LOAN TO MICHIGAN COMMUNITY CAPITAL (f/k/a MICHIGAN MAGNET FUND)

WHEREAS, the Michigan legislature passed legislation establishing the 21st Century Jobs Trust Fund initiative that was signed into law;

WHEREAS, the Michigan Economic Development Corporation (“MEDC”) provides administrative services to the Michigan Strategic Fund (“MSF”) for 21st Century Jobs Trust Fund programs and activities;

WHEREAS, as part of the 21st Century Jobs Trust Fund initiative, and pursuant to MCL 125.2088h(1), the Jobs for Michigan investment fund was created as a permanent fund authorized by the state constitution (“Investment Fund”);

WHEREAS, pursuant to MCL 125.2088(h)(5)(b), the Investment Fund consists of, among other things, return on investments, return on principal, payments made, or other money received by or payable to the MSF under agreements related to grants, loans or investments made by the MSF under Chapter 8A or Chapter 8C;

WHEREAS, pursuant to MCL 125.2088(h)(3), the Investment Fund shall be invested as authorized under Chapter 8A for the purpose of creating incentives for activities arising out of retaining or creating jobs, or increasing capital investment activity, or increasing commercial lending activity or encouraging the development and commercialization of competitive edge technologies, or revitalizing Michigan communities;

WHEREAS, pursuant to Chapter 8A, specifically, MCL 125.2088(b)(2)(c), Investment Fund monies are authorized to be invested for programs or activities authorized under the MSF Act as long as the programs or activities provide for repayment for breach of the written agreement or the failure to meet measureable outcomes;

WHEREAS, pursuant to the MSF Act, specifically, MCL 125.2007(c), the MSF has, among other things, the power to make loans;

WHEREAS, by resolution 2017-027 on February 28, 2017 the MSF Board approved a \$10,000,000 Investment Fund Award to Michigan Community Capital (“Company”) for investment into the development of Attainable Housing projects;

WHEREAS, by resolution 2017-119 on August 22, 2017 the MSF Board approved amendments to the Investment Fund Award Agreement and other ancillary agreements (“Agreement”) to allow for the following: 1) an increase in the allowable outside financing from 20% of the outstanding MSF Award balance to 20% of MSF Award; and 2) allow for a stand-

alone disbursement under the MSF Award that can be utilized to make a loan to a project in Flint, MI known as the Flint Marketplace project;

WHEREAS, by resolution 2017-218 on December 19, 2017 the MSF Board approved a \$3,500,000 increase to \$13,500,000 for the Investment Fund Award to Michigan Community Capital (“Company”) for investment into the development of Attainable Housing projects;

WHEREAS, Michigan Community Capital (f/k/a Michigan Magnet Fund) has requested to amend the MSF Agreement to remove the current restriction on other debt financing acquired by MCC;

WHEREAS, the MEDC recommends that the MSF Board approve the requested amendment to the Agreement as presented with all other requirements remaining in place;

WHEREAS, the MEDC recommends that the MSF Board delegate to the MSF Fund Manager or MSF Financial Officer the authority to negotiate the final terms and conditions of, and sign, all documents necessary to effectuate the amendment;

NOW THEREFORE, BE IT RESOLVED, the MSF approves the Amendment Recommendation to the Agreement;

BE IT FURTHER RESOLVED, the MSF approves the Delegation to finalize the MSF Agreement.

Ayes:

Nays:

Recused:

Lansing, Michigan
May 22, 2018

MEMORANDUM

Date: May 22, 2018

To: Michigan Strategic Fund (“MSF”) Board Members

From: Julius L. Edwards, Manager, Underwriting and Incentive Structuring

Subject: Investment Fund Award to Michigan Community Capital f/k/a Michigan Magnet Fund for “Small Developer Initiative”

Michigan Community Capital (“Company”) and MEDC staff are requesting approval of an amendment to the Investment Fund Award Agreement (“Agreement”) and any related ancillary agreements. The amendment request is to amend Section 4.1(C) of the agreement “Restriction of Third Party Indebtedness” which limits the Company’s ability to incur indebtedness to 20% of the MSF Awards. The Company and MEDC staff is requesting to remove this limit on indebtedness, allowing the Company to secure additional capital to support its mission, but maintain restrictions on the Company pledging or assigning any assets securing the MSF loan. The Company is in the process of securing debt, equity and equity equivalents in excess of \$10 million which will allow them to provide bridge financing and facilitate other project investments across the state.

Background

The MSF Board approved a request for up to a \$3,000,000 Loan Award from the Investment Fund for Michigan Community Capital (MCC) to focus on providing below market equity investments in projects undertaken by developers with limited experience and limited access to capital due to the limited returns provided by these types of projects. Often these developers hold or control property in tertiary markets but are not able to deliver smart, dense, well-designed projects due to these constraints. The effort is designed to help expose new developers and new products to these markets in order to catalyze and demonstrate how to best utilize key sites. It is anticipated that MCC will employ the Award to initially invest in between three (3) to five (5) projects across the state of Michigan. It is anticipated that the MCC will provide the development team with construction oversight for the project. The Loan Award will be disbursed on a project-by-project basis.

The MCC currently has two awards with the MSF, this \$3,000,000 award and a \$13,500,000 loan award for “Attainable Housing”. The Company is in compliance with all the requirements of its MSF awards. The MSF has yet to disburse any funds under the current Loan Award.

Recommendation

MEDC Staff recommends approval of an amendment to the Investment Fund Award Agreement to remove the Company’s limit on indebtedness.

MICHIGAN STRATEGIC FUND

RESOLUTION 2018-

**APPROVAL OF FUNDING AN INVESTMENT FUND LOAN
TO MICHIGAN COMMUNITY CAPITAL (f/k/a MICHIGAN MAGNET FUND)**

WHEREAS, the Michigan legislature passed legislation establishing the 21st Century Jobs Trust Fund initiative that was signed into law;

WHEREAS, the Michigan Economic Development Corporation (“MEDC”) provides administrative services to the Michigan Strategic Fund (“MSF”) for 21st Century Jobs Trust Fund programs and activities;

WHEREAS, as part of the 21st Century Jobs Trust Fund initiative, and pursuant to MCL 125.2088h(1), the Jobs for Michigan investment fund was created as a permanent fund authorized by the state constitution (“Investment Fund”);

WHEREAS, pursuant to MCL 125.2088(h)(5)(b), the Investment Fund consists of, among other things, return on investments, return on principal, payments made, or other money received by or payable to the MSF under agreements related to grants, loans or investments made by the MSF under Chapter 8A or Chapter 8C;

WHEREAS, pursuant to MCL 125.2088(h)(3), the Investment Fund shall be invested as authorized under Chapter 8A for the purpose of creating incentives for activities arising out of retaining or creating jobs, or increasing capital investment activity, or increasing commercial lending activity or encouraging the development and commercialization of competitive edge technologies, or revitalizing Michigan communities;

WHEREAS, pursuant to Chapter 8A, specifically, MCL 125.2088(b)(2)(c), Investment Fund monies are authorized to be invested for programs or activities authorized under the MSF Act as long as the programs or activities provide for repayment for breach of the written agreement or the failure to meet measureable outcomes;

WHEREAS, pursuant to the MSF Act, specifically, MCL 125.2007(c), the MSF has, among other things, the power to make loans;

WHEREAS, by resolution 2017-219 on December 19, 2017 the MSF Board approved a \$3,000,000 Investment Fund Award to Michigan Community Capital (“Company”) for investment into the Small Developer Initiative;

WHEREAS, Michigan Community Capital (f/k/a Michigan Magnet Fund) has requested to amend the MSF Agreement and other ancillary agreements (“Agreement”) to remove the current restriction on other debt financing acquired by MCC;

WHEREAS, the MEDC recommends that the MSF Board approve the requested amendment to the Agreement as presented with all other requirements remaining in place;

WHEREAS, the MEDC recommends that the MSF Board delegate to the MSF Fund Manager or MSF Financial Officer the authority to negotiate the final terms and conditions of, and sign, all documents necessary to effectuate the amendment;

NOW THEREFORE, BE IT RESOLVED, the MSF approves the Amendment Recommendation to the Agreement;

BE IT FURTHER RESOLVED, the MSF approves the Delegation to finalize the MSF Agreement.

Ayes:

Nays:

Recused:

Lansing, Michigan
May 22, 2018

MEMORANDUM

Date: May 22, 2018

To: Michigan Strategic Fund Board

From: Lindsay Viviano, Community Assistance Specialist
Lynda Franke, Underwriting and Incentive Structuring Specialist
Lori LaPerriere, Brownfield and MCRP Program Specialist

Subject: 351 W. Western LLC and Great Lakes Development Investments, Inc. -
Request for Approval Michigan Community Revitalization Other Economic
Assistance Loan Participation

Request

The proposed project will be undertaken by 351 W. Western LLC and Great Lakes Development Investments, Inc. (Co-Applicants). The project will include new construction of a six-story, mixed-use building on .17 acres located at 351 West Western Avenue in the City of Muskegon. The project is located in downtown Muskegon and qualifies for a Michigan Community Revitalization Program (MCRP) award because it is considered an “other” property that qualifies if the development of the property will promote community revitalization, as determined by the board.

The Co-Applicants are requesting approval of a MCRP award in the amount of \$1,500,000 in the form of an Other Economic Assistance Performance-Based Loan Participation, with up to \$750,000 forgivable following construction project completion and achievement of other performance criteria.

The proposed project is a top city priority and is expected to be catalytic in the downtown revitalization of Muskegon. However, this deal would not be feasible without the proposed MCRP award, which will allow the development team to achieve a reasonable rate of return. It is anticipated that the project will generate approximately a 12% return on equity. The development team has maximized available financing options, securing loans from Community Shores Bank, the Muskegon County Community Foundation and the City of Muskegon. These funds total 63.67% of the total development cost. Additionally, the development team was able to secure non-traditional repayment terms on the financing from the City and Community Foundation. This project is a community-wide priority in that the City of Muskegon is contributing substantially with an Act 255 tax abatement, Neighborhood Enterprise Zone tax abatement, a \$500,000 loan, and a \$12,407 environmental grant for Environmental Testing provided by the EPA. The Muskegon County Community Foundation is contributing with a \$1,500,000 loan. The developer will be contributing equity in an amount equal to approximately 10.80% of the development cost. The proposed \$1,500,000 MCRP award would be employed to fill the remaining financing gap. MCRP detailed structure is provided in **Appendix A**.

The Co-Applicants anticipate that the project will result in total capital investment in the amount of \$7,267,890 along with the creation of approximately 29 permanent full-time equivalent jobs with an average hourly wage of \$19.00.

The project has the following deviations from MCRP parameters: 1) non-historic projects are typically limited to a MCRP investment of 20% or less of “Eligible Investment”. However, market conditions in Muskegon have limited the level of equity and debt financing the developers were able to attract, causing a larger gap than what a 20% cap could remedy. MEDC staff supports the request for up to 25% of “Eligible Investment” due to the aforementioned reasons; 2) the stabilized pro forma reflects a debt service coverage ratio (DSCR) of 1.11 to 1.00, which is below the 1.20 to 1.00 requirement from the MCRP parameters. However, the pro forma measurement does not take into account the 36-month interest only period on the MSF funds. The lower DSCR level and the current market conditions are why MEDC staff recommend that repayments to the MSF be dependent on the project achieving a 1.20 to 1.00 DSCR; 3) the security of the MSF incentive is also an exception. The loans with the City of Muskegon and the Muskegon County Community Foundation will be in 2nd and 3rd collateral positions. The City and Community Foundation believe the security positions to be critical to their involvement. Due to the overall goal of getting this project completed and continuing the momentum to repopulate downtown Muskegon, MEDC staff requests the ability for the MSF security position to be 4th instead of 2nd. Traditionally, under a loan participation arrangement the MSF is in a 2nd security position behind the senior lender; and 4) under the MCRP Guidelines, properties qualifying under the “other” category are to have qualified as a facility, functionally obsolete or blighted within the last 15 years and this property has not qualified as any of those within the last 15 years.

Background

The proposed project includes the new construction of a six-story, 47,760 square foot, mixed-use building in the center of downtown Muskegon. This is the first new construction, multi-family, mixed-use project in downtown Muskegon in several decades. The project will include approximately 3,350 square feet of ground floor retail space, 5,500 square feet of office space on the second and third floors, and the remaining three floors will include 15 residential market-rate apartments. Some of the space may become live/work units. This project is a top city priority as it will bring a high density, mixed-use building to the center of downtown, and will likely set the tone for future downtown development in Muskegon. This is Phase I of what is hoped to become a three-phased development, building on vacant parcels adjacent to this project.

Recent recognition of the assets the Muskegon area has to offer has attracted \$50 million in downtown investments in ten projects as of November 2017. This figure does not include the city’s plans to build a new downtown convention center. Traffic downtown has been trending upward, as well as density and employment. Two residential rehabilitation projects the MSF supported are showing promising rental rates during their lease-up. A new LIHTC residential development will add to density downtown also. The old power plant on the edge of Muskegon Lake changed ownership last year and that demolition is in process.

The Co-Applicants are managed by Joshua Canale and Chris Benedict who have previous work experience in commercial development, however this is their first solo project. They have not previously

received MSF incentives. The MEDC has completed civil and criminal background checks in accordance with the MSF Background Review Policy. No issues were identified.

Appendix B addresses the programmatic requirements and **Appendix C** includes a project map and renderings.

Recommendation

MEDC staff recommends approval of the following (the “Recommendation”):

- a. A MCRP performance-based other economic assistance loan participation in the amount of \$1,500,000;
- b. Waiver of the MCRP parameter that requires a minimum debt service coverage ratio of 1.2 to 1.00;
- c. Waiver of the MCRP parameter that requires an award exceeding 20% of “Eligible Investment” be restricted to historic properties;
- d. Waiver of the MCRP parameter for loan participations that MSF interest is subordinate only to the Senior Lender; and
- e. Waiver of the MCRP Program Guideline which requires that projects qualifying under the “other” category have qualified as either a facility, functionally obsolete or blighted within the last 15 years.

APPENDIX A – MCRP Term Sheet

FINANCING OPPORTUNITY – MCRP OTHER ECONOMIC ASSISTANCE LOAN PARTICIPATION

The project is seeking Michigan Strategic Fund (MSF) participation in coordination with Community Shores Bank (Lender) as the senior lender. The Lender, along with the Borrower, has requested the MSF participate in up to \$1,500,000 of a total of \$7,267,890 in construction to permanent loan financing. The MSF would be pari passu in terms of payments on its share of the loan, but the MSF would allow the collateral to apply first to the Lender's share, the City of Muskegon's loan, and the Muskegon County Community Foundation's loan in an event of liquidation. It is anticipated that disbursements to the project on the loan will be made on a pro-rata basis. Below outlines a summary of the development sources and the proposed structure of the loan participation.

SUMMARY OF DEVELOPMENT SOURCES:

Bank Share	\$2,615,000	35.98%
MSF Share	\$1,500,000	20.64%
City Loan	\$ 500,000	6.88%
County Community Fdn. Loan 1	\$ 500,000	6.88%
County Community Fdn. Loan 2	\$1,000,000	13.76%
City Environmental Grant	\$ 12,407	0.17%
Deferred Dev and Related Party Fees	\$ 355,359	4.89%
Developer Equity	\$ 785,124	10.80%
TOTAL	\$7,267,890	100.00%

LOAN FACILITY

MSF Facility	MCRP Loan Participation
Borrower:	351 W. Western LLC and Great Lakes Development Investments, Inc. or Related Entity
Lender:	Anticipated to be Community Shores Bank
Total Amount of Loans:	Anticipated to be \$4,115,000
Lender Share:	Anticipated to be \$2,615,000
MSF Share:	Up to the lesser of 25% of MCRP Eligible Investment or \$1,500,000
Term:	To match that of the Lender, anticipated to be 78 months
Amortization:	To match that of the Lender, anticipated to be 276 months
Interest Rate:	1% per annum on the MSF Share

Repayment Terms:	<p>Up to 36 months interest only, followed by monthly principal and interest with balance due at maturity.</p> <ul style="list-style-type: none">• Up to \$750,000 of the MSF Share of the loan to be forgiven following construction completion and achievement of other performance milestones.• Payment to the MSF will be based on a minimum Debt Service Coverage Ratio (DSCR) of 1.20:1.
Collateral:	<p>To match that of the Lender, anticipated to be a 1st mortgage and assignment of rents and leases for 351 W. Western, Muskegon, MI. MSF interest to be subordinated to Community Shores Bank, the City of Muskegon, and the Muskegon County Community Foundation loans.</p>
Guarantee:	<p>To match that of the Lender, anticipated to be unlimited personal guarantees of Josh Canale and Christopher Benedict. MSF interest to be subordinated to Community Shores Bank, the City of Muskegon, and the Muskegon County Community Foundation loans.</p>
Fee:	<p>The MSF shall be paid a one-time fee equal to one percent of the MSF's award. The Lender may charge the borrower for this fee.</p>
Funding:	<p>The MSF will fund up to \$1,500,000 to be disbursed following closing of the Loan and achievement of other performance criteria.</p>
Other Conditions:	<p>The MSF's investment will be contingent upon receipt and review of the following:</p> <ul style="list-style-type: none">• Evidence of a minimum owner equity contribution of \$785,000 to the project• Lender commitment and underwriting documentation• Final Development Budget• Executed Guaranteed Maximum Price Construction Contract• Evidence of State approval of Act 255 and NEZ tax abatements

APPENDIX B – Programmatic Requirements & Screening Guidelines

MCRP Program and its Guidelines

On December 21, 2011, the MSF Board approved the Michigan Community Revitalization Program (MCRP) and on September 22, 2015, the MSF Board approved its restated program guidelines. The primary intended objective of the MCRP is to provide incentives to persons that make eligible investments on eligible property in Michigan. The total eligible investment for this project is estimated to be \$6,639,790.

Source of Information

It is the role of the Project Management staff (MEDC Staff) to review for eligibility, completeness, and adherence to MCRP guidelines, the information provided by the applicant and to manage the MSF's investment. Explanatory and background information is supplied in summary form to provide context for the request and is drawn exclusively from materials submitted by the applicant, and, as applicable, from other relevant third party sources utilized by staff.

As required under the MCRP, the following statutory criteria is being considered by the MSF:

A. The importance of the project to the community in which it is located:

This project is the City of Muskegon's top Redevelopment Ready site. The City of Muskegon believes this project will be a catalyst project that will spark other mixed-use development downtown by creating high density commercial and residential space.

B. If the project will act as a catalyst for additional revitalization of the community in which it is located:

This project will act as a catalyst for additional revitalization of the community in that it will provide much needed market rate residential rental housing, commercial, and office space.

C. The amount of local community and financial support for the project:

The City of Muskegon has contributed significantly to this project with an Act 255 tax abatement, Neighborhood Enterprise Zone tax abatement, a \$500,000 loan, and provided an environmental grant for \$12,407 for environmental testing provided by the EPA. The Muskegon County Community Foundation has contributed with a \$1,500,000 loan.

D. The applicant's financial need for a community revitalization incentive:

Development in downtown Muskegon has had a long period of inactivity; it is starting to turn around. Traditional lenders and their appraisers are very cautious on projections of rents and property valuations, which limits the loan funds available to projects in the area. The Co-Applicants are undertaking one of the first new residential construction projects in Downtown Muskegon, which adds to the uncertainty associated with the future performance of the project. The development team has maximized available financing options, securing loans from Community Shores Bank, the Community Foundation and the City of Muskegon. These funds total 63.67% of the total development cost. Additionally, the development team was able to

secure non-traditional repayment terms on the financing from the City and Community Foundation. This project is a community-wide priority in that the City of Muskegon is contributing substantially to the project with an Act 255 tax abatement, Neighborhood Enterprise Zone tax abatement, a \$500,000 loan, and a \$12,407 environmental grant for Environmental Testing provided by the EPA. The Muskegon County Community Foundation is contributing with a \$1,500,000 loan. The developer will be contributing equity in amount equal to approximately 10.80% of the development cost. The proposed \$1,500,000 MCRP award would be employed to fill the remaining financing gap. The final pro forma shows an owner equity return of approximately 12%.

E. The extent of reuse of vacant buildings, reuse of historical buildings, and redevelopment of blighted property:

This property was a vacant lot in downtown Muskegon, where the old shopping mall used to be and will ultimately create a new mixed-use development on what has been a vacant lot for several years.

F. Creation of jobs:

This project is estimated to create 29 full-time equivalent jobs. The average hourly wage is estimated to be \$19.00.

G. The level of private sector and other contributions, including, but not limited to, federal funds and federal tax credits:

Community Shores Bank will be contributing with a loan of \$2,615,000. Owner equity is \$785,124. The City of Muskegon is loaning \$500,000 and granting \$12,407. The Muskegon County Community Foundation is loaning \$1,500,000.

H. Whether the project is financially and economically sound:

MEDC staff believe that there is upside potential for this project that will allow a small return on the MSF incentive. Prior and recent residential rents in downtown have been just over \$1 per square foot. The appraisal conducted last summer arrived at a range of \$.95-\$1.10 per square foot for projections on this project. At the time, there were no comparable properties in downtown Muskegon. It appears from current lease-up of a new product in downtown Muskegon that this property could rent at \$1.25-\$1.35 per square foot. The final pro forma for the project shows a DSCR of 1.11, based on rents around \$1.20 per square foot, if the property were required to make full principal and interest payments in year 1. MEDC staff is recommending a 36 month interest only period, and principal and interest repayment dependent on a minimum DSCR of 1.20. The 2nd floor office space has a signed purchase agreement, both first-floor retail spaces have signed LOIs and a few residential leases have been signed. In addition, the city has committed to fund ten residential leases as a safety net for the project.

I. Whether the project increases the density of the area:

This project increases the density of the area. This property is currently vacant, and this project will create 15 residential apartments on .17 acres of land, along with providing retail and office space.

J. Whether the project promotes mixed-use development and walkable communities:

This project is a mixed-use project in the center of downtown consisting of a ground floor retail, office space, and residential apartments.

K. Whether the project converts abandoned public buildings to private use:

This project is on a vacant lot that was previously owned by Downtown Muskegon Now, which sold the property to the development team for private use.

L. Whether the project promotes sustainable development:

This building will be designed to LEED Certification standards to promote sustainable development.

M. Whether the project involves the rehabilitation of a historic resource:

The project does not involve the rehabilitation of a historic resource.

N. Whether the project addresses area-wide redevelopment:

The community believes this project will spark area-wide redevelopment because it will hopefully be a catalyst for other mixed-use developments in Muskegon's downtown.

O. Whether the project addresses underserved markets of commerce:

This project will create new commercial and retail space in downtown Muskegon.

P. The level and extent of environmental contamination:

The Phase I Environmental Site Assessment indicated that the site was not contaminated and no clean-up was necessary.

Q. If the rehabilitation of the historic resource will meet the federal Secretary of the Interior's standards for rehabilitation and guidelines for rehabilitating historic buildings (36 CFR 67):

The site is not a historic resource.

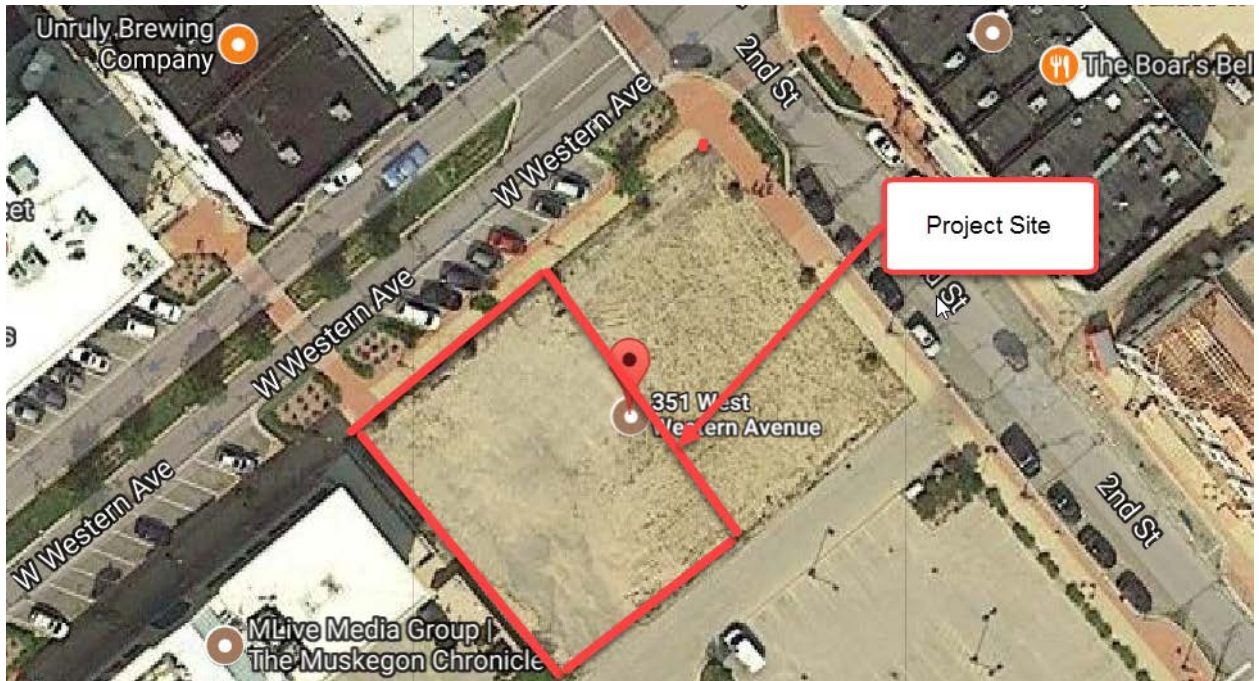
R. Whether the project will compete with or affect existing Michigan businesses within the same industry:

This project will not compete with or affect existing Michigan businesses within the same industry.

S. 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:

No additional criteria needs to be considered.

APPENDIX C – Project Map and Renderings





**MICHIGAN STRATEGIC FUND
RESOLUTION 2018-**

**APPROVAL OF A MICHIGAN COMMUNITY REVITALIZATION PROGRAM
OTHER ECONOMIC ASSISTANCE LOAN PARTICIPATION AWARD TO
351 W. WESTERN LLC AND GREAT LAKES DEVELOPMENT
INVESTMENTS, INC. OR RELATED ENTITY**

WHEREAS, the Michigan legislature amended the Michigan Strategic Fund Act, MCL 125.2011 et. seq., to add Chapter 8C (being MCL 125.2090a – MCL 125.2090d) to enable the Michigan Strategic Fund (“MSF”) to create and operate the Michigan Community Revitalization Program (“MCRP”) to provide incentives in the form of grants, loans and other economic assistance for redevelopment of communities in Michigan;

WHEREAS, the Michigan Economic Development Corporation (“MEDC”) provides administrative services to the MSF for the MCRP;

WHEREAS, on December 21, 2011, by Resolution 2011-185, the MSF (i) created the MCRP, (ii) adopted the guidelines for the MCRP, as later amended (“Guidelines”);

WHEREAS, pursuant to SFCR 2090-1(3), the MSF approved the MSF Fund Manager or the MSF President to negotiate the terms and conditions and execute all final documents necessary to effectuate awards and decisions approved under the MCRP (“Transaction Documents”);

WHEREAS, the Guidelines require that MCRP awards over \$1 million must be approved by the MSF Board;

WHEREAS, it is anticipated that Community Shores Bank (“Lender”) will be providing financing to 351 W. Western LLC, and Great Lakes Development Investments, Inc. and/or related entities (“Proposed Borrower”) of up to \$4,115,000 toward the construction activities and infrastructure improvements to real property (“Project”);

WHEREAS, the Lender and the Proposed Borrower have requested an Other Economic Assistance Performance Based Loan Participation award from the MSF under the MCRP for the Project in an amount not to exceed \$1,500,000 (“Award Request”), along with other general terms and conditions which are outlined in the term sheet attached as Exhibit A (“Term Sheet”);

WHEREAS, the MEDC has recommended that the MSF approve the Award Request in accordance with the Term Sheet and Guidelines, subject to: (i) available funding, (ii) final due diligence performed to the satisfaction of the MEDC; and (iii) execution of the Transaction Documents for the Award Request within 120 days of the date of this Resolution (“Time Period”), or this Resolution shall have no effect; provided however, at the sole discretion of the MSF Fund Manager, the Time Period may be extended for up to an additional 90 days (“MCRP Award Recommendation”);

NOW THEREFORE, BE IT RESOLVED, the MSF Board approves the MCRP Award Recommendation.

ADOPTED

Ayes:

Nays:

Recused:

Lansing, Michigan
May 22, 2018

Exhibit A

MSF Facility	MCRP Loan Participation
Borrower:	351 W. Western LLC and Great Lakes Development Investments, Inc.
Lender:	Anticipated to be Community Shores Bank
Total Amount of Loans:	Anticipated to be \$4,115,000
Lender Share:	Anticipated to be \$2,615,000
MSF Share:	Up to the lesser of 25% of MCRP Eligible Investment or \$1,500,000
Term:	To match that of the Lender, anticipated to be 78 months
Amortization:	To match that of the Lender, anticipated to be 276 months
Interest Rate:	1% per annum on the MSF Share
Repayment Terms:	Up to 36 months interest only, followed by monthly principal and interest with balance due at maturity. <ul style="list-style-type: none">• Up to \$750,000 of the MSF Share of the loan to be forgiven following construction completion and achievement of other performance milestones.• Payment to the MSF will be contingent on a minimum Debt Service Coverage Ratio (DSCR) of 1.20:1.00.
Collateral:	To match that of the Lender, anticipated to be a 1 st mortgage and assignment of rents and leases for 351 W. Western, Muskegon, MI. MSF Interest to be subordinated to Community Shores Bank, the City of Muskegon, and the Muskegon County Community Foundation loans.
Guarantee:	To match that of the Lender, anticipated to be unlimited personal guarantees of Joshua Canale and Christopher Benedict. MSF Interest to be subordinated to Community Shores Bank, the City of Muskegon, and the Muskegon County Community Foundation loans.
Fee:	The MSF shall be paid a one-time fee equal to one percent of the MSF's award. The Lender may charge the borrower for this fee.
Funding:	The MSF will fund up to \$1,500,000 to be disbursed following closing of the Loan and achievement of other performance criteria.

MEMORANDUM

Date: May 22, 2018

To: Michigan Strategic Fund Board

From: Paula Holtz, Community Assistance Team Specialist
Rob Garza, Brownfield and MCRP Senior Program Specialist

Subject: County of Washtenaw Brownfield Redevelopment Authority Request for
Approval of an Act 381 Work Plan
1140 Broadway Street Project

Request

The 1140 Broadway Street Project proposes to redevelop a vacant property into a mixed-use urban-style infill development. The proposed Act 381 work plan will be undertaken by Morningside Lower Town, LLC. The project will redevelop approximately 6.41 acres in the City of Ann Arbor. The project is located adjacent to a downtown and qualifies for an Act 381 work plan because it is a facility.

In order to alleviate Brownfield conditions and prepare the proposed project site for redevelopment, the County of Washtenaw Brownfield Redevelopment Authority is seeking approval of local and school tax capture for MSF eligible activities in the amount of \$5,204,760.

The developer has maximized senior financing and is contributing approximately \$42.3 million (20%) in equity to the project. The eligible activities will alleviate Brownfield conditions across the site and make it suitable for redevelopment and protect human health and the environment. Without Brownfield tax increment reimbursement, the cost burden related to Brownfield conditions would make the project financially unfeasible.

The developer anticipates that the project will result in total capital investment in the amount of approximately \$213,082,183 along with the creation of approximately 25 permanent full-time equivalent jobs with an average hourly wage of \$17.00.

Background

This project will be a three-phase, mixed-use urban-style infill development with 530 residential rental units occupying approximately 384,401 square feet, 86 for-sale condominiums occupying approximately 123,725 square feet, and approximately 4,600 square feet of retail spread over three separate buildings. The project is reserving approximately fifteen dwelling units for live/work housing and an additional fifteen rental units for renters earning 60% of the area median income (AMI). The project will also include a six-story, 147,850 square foot, 451 space parking deck and a single level, 34,129 square foot, 85 space parking structure beneath one of the buildings. The project will provide a significant benefit to the

City of Ann Arbor in the form of investment in transportation-related infrastructure, including the construction of a roundabout, bus shelter improvements, and other pedestrian safety enhancements.

Demolition activities will be necessary to remove residual pavements, building foundations, and abandoned underground utilities. Site preparation activities will include the excavation and removal of historic fill. Public infrastructure improvements including relocation of public utilities in the public right of way (ROW), bus stop improvements, sanitary sewer improvements, and construction of a new roundabout are necessary to support the new development. Private infrastructure improvements including the incorporation of an approximately 1,000,000-gallon, concrete storm water detention system and multiple parking structures are necessary to support the new development.

Neither Morningside Lower Town, LLC, nor its principals, have received prior incentives from the MSF. The MEDC has completed civil and criminal background checks in accordance with the MSF Background Review Policy. No issues were identified.

Appendix A addresses the programmatic requirements and **Appendix B** includes a project map and renderings.

Recommendation

MEDC staff recommends approval of local and school tax capture for the Act 381 MSF eligible activities totaling \$5,204,760. Utilizing the current state to local capture ratio, the amount of school tax capture for this project is estimated at \$1,971,405.

APPENDIX A – Programmatic Requirements & Screening Guidelines

Property Eligibility

The project is located within the boundaries of the City of Ann Arbor, which is a Qualified Local Governmental Unit, and has been determined to be a facility as verified by Michigan Department of Environmental Quality (DEQ) on April 3, 2018.

The property is the subject of a Brownfield Plan, duly approved by the Brownfield Redevelopment Authority of the County of Washtenaw on December 6, 2017 and concurred with by the City of Ann Arbor on December 4, 2017.

In addition, the project is requesting from the DEQ \$4,470,629 in TIF to assist with environmental eligible activities.

Key Statutory Criteria

Act 381 requires the following information to understand and explain the benefits of the project.

a) Overall Benefit to the Public:

The project will result in the redevelopment of underutilized and highly contaminated property on which brownfield redevelopments have been attempted since 2004 and have failed to date. The project will result in multiple transportation-related improvements to Maiden Lane and Broadway Street near the property, which have long been desired by the City of Ann Arbor. This mixed-use development will create needed residential units and commercial space in the Lower Town area of Ann Arbor, near medical and educational institutions and within non-motorized transportation access to the downtown area.

b) Jobs Created (Excluding Construction and other Indirect Jobs):

This project is expected to create approximately 25 full-time equivalent jobs in the commercial, retail, leasing, and maintenance sector.

c) Area of High Unemployment:

The City of Ann Arbor's unadjusted jobless rate is 3.7% as of February of 2018.

d) Level and Extent of Contamination Alleviated:

Large areas of soil and groundwater on the property are contaminated with chlorinated solvents released from a former dry-cleaning operation. Approximately 6,100 cubic yards of highly-contaminated soil will be removed from this source area and properly disposed. Up to an additional 25,000 tons of less-contaminated, geotechnically unsuitable soil and excess soil generated during site grading will also be removed and properly disposed. The remaining contaminated soil will be covered with impervious surfaces to prevent precipitation infiltration and thus reduce leaching of contaminants from soil into groundwater and further migration in groundwater. Active sub slab vapor mitigation systems, which will protect building occupants from exposure to vapor-phase contaminants, will be installed beneath buildings and/or portions of

buildings on the property where intrusion of chlorinated solvent vapors has been shown to present a risk to the health of inhabitants.

e) Reuse of Functionally Obsolete Buildings and/or Redevelopment of Blighted Property:

The project is not qualifying as functionally obsolete or blighted.

f) Whether Project will Create a New Brownfield Property in the State:

No new Brownfields will be created by this project.

g) Whether the Project is Financially and Economically Sound:

From the materials received, the MEDC infers that the project is financially and economically sound.

h) Other Factors Considered:

A Brownfield Plan for this site was adopted by the Washtenaw County Board of Commissioners on December 3, 2003 and a subsequent Work Plan was approved by the MEGA Board on September 14, 2004. The Brownfield Plan was terminated by the Washtenaw County Board of Commissioners on March 1, 2017, as eligible activities failed to occur on eligible property identified in the Brownfield within five years of the local resolution date.

Tax Capture Breakdown

There are 63.1153 non-homestead mills available for capture, with school millage equaling 23.7951 mills (37.70%) and local millage equaling 39.3202 mills (62.30%). Some of the units on eligible property are condominiums and are not subject to the same millage as the rental properties. The blended ratio for the project is shown below. Tax increment capture will begin in 2018 and is estimated to continue for 8 years. The requested tax capture for MSF eligible activities breaks down as follows:

School tax capture	(37.88%)	\$	1,971,405
Local tax capture	(62.12%)	\$	<u>3,233,355</u>
TOTAL		\$	5,204,760

Cost of MSF Eligible Activities

Demolition	\$	90,000
Infrastructure Improvements		4,554,198
Site Preparation	+	<u>221,562</u>
Sub-Total	\$	4,865,760
Contingency (up to 15%)	+	<u>324,000</u>
Sub-Total	\$	5,189,760
Brownfield/Work Plan Preparation	+	<u>15,000</u>
TOTAL	\$	5,204,760

APPENDIX B – Project Map and Renderings



MICHIGAN STRATEGIC FUND

RESOLUTION 2018 -

**APPROVAL OF A BROWNFIELD ACT 381 WORK PLAN
COUNTY OF WASHTENAW BROWNFIELD REDEVELOPMENT AUTHORITY
1140 BROADWAY STREET PROJECT**

WHEREAS, the Michigan Economic Growth Authority (“MEGA”) has been established by 1995 PA 24, as amended (the “Act”);

WHEREAS, 2002 PA 727 amended 1996 PA 381, MCL 125.2651 et seq, to empower local brownfield redevelopment authorities to request the MEGA Board to approve a brownfield project work plan and, thereby, capture taxes levied for school operating purposes for the project;

WHEREAS, Executive Order 2012-9 transferred all the authority, powers, duties, functions, responsibilities, records, personnel, property, unexpended balances of appropriations, allocations or other funds of the MEGA to the MSF;

WHEREAS, captured school operating tax revenues may be used under 1996 PA 381 as amended, for infrastructure improvements that directly benefit eligible property, for lead, asbestos, or mold abatement, and for demolition and site preparation that are not response activities under the Natural Resources and Environmental Protection Act, 1994 PA 451;

WHEREAS, the County of Washtenaw Brownfield Redevelopment Authority (the “Authority”) has submitted a work plan for property located at 1100, 1120, 1140-1142, 1156, and 1160-1170 Broadway Street, and 915, 923, 931, 943, 959 Maiden Lane within the City of Ann Arbor, known as 1140 Broadway Street Project (the “Project”);

WHEREAS, the City of Ann Arbor is a “qualified local governmental unit” and is eligible to provide for a) demolition; b) lead, asbestos, or mold abatement; c) public infrastructure improvements; d) site preparation; e) brownfield and work plan preparation; f) brownfield and work plan implementation and g) interest as provided under 2007 PA 204 and;

WHEREAS, the Authority is requesting MSF approval to capture additional taxes levied for school operating purposes to provide for the reimbursement of the cost of eligible activities on an eligible property; and

WHEREAS, the Michigan Economic Development Corporation (“MEDC”) provides administrative services to the MSF, and has reviewed the application and recommends approval of the Brownfield Work Plan by the MSF Board.

NOW, THEREFORE, BE IT RESOLVED, the MSF Board authorizes the Authority to capture taxes levied for school operating purposes in substantially the same proportion as 37.88% to 62.12% ratio currently existing between school and local taxes for non-homestead properties, to reimburse the cost of site preparation, demolition, and infrastructure improvements as presented in the Work Plan dated February 22, 2018. Any change in millage that increases the capture percentage of school taxes in the ratio above by more than 5 percentage points must be approved by the MSF Board. The authorization is based on the Authority capturing all available local operating mills for the term of the capture period. The authorization for the capture of taxes levied

for school operating purposes is based on costs of MSF eligible activities with a maximum of \$5,189,760 for the principal activity costs of non-environmental activities and a contingency, and a maximum of \$15,000 for Brownfield/Work Plan preparation, and with the capture of taxes levied for school operating purposes being limited to a maximum of \$1,971,405.

BE IT FURTHER RESOLVED, that the MSF Board authorizes the MSF Fund Manager, to provide written notification to the Authority, in the form of a letter which incorporates the terms set forth in this Resolution and consistent with the limitations of the Act, and that this approval is further conditioned upon the Authority, or the County, as appropriate, maintaining adequate records regarding: a) all taxes captured for the project; and b) receipts or other appropriate documentation of the cost of eligible activities. The records shall be made available for review upon request by MSF or MEDC staff.

BE IT FURTHER RESOLVED, that no taxes levied for school operating purposes shall be used to reimburse interest costs related to the eligible activities for the Project.

Ayes:

Nays:

Recused:

Lansing, Michigan
May 22, 2018

MEMORANDUM

Date: May 22, 2018

To: Michigan Strategic Fund Board

From: Brittney Hoszkiw, Senior Community Assistance Team Specialist
Julius Edwards, Commercial Real Estate Investment Manager
Rob Garza, Brownfield and MCRP Senior Program Specialist

Subject: City of Detroit Brownfield Redevelopment Authority
Bedrock Management Services, LLC and Affiliates
Request for Approval of a Transformational Brownfield Plan
The Hudson's Site, Monroe Blocks, One Campus Martius Expansion, and
Book Building and Book Tower Redevelopment Projects

Request

The proposed Transformational Brownfield Plan (TBP) consists of four development sites within downtown Detroit: Hudson's Site, Monroe Blocks, One Campus Martius Expansion, and Book Building and Book Tower. The proposed project will be undertaken by Bedrock Management Services, LLC and its affiliates. The project will redevelop approximately 6 acres and 13 parcels of property within 4 distinct sites located at 1208 Woodward Avenue; 1000 Woodward Avenue; 1265, 1249, and 1201 Washington Boulevard; and 32, 100, 118, and 126 Monroe, 725 and 815 Bates, and 1000 Farmer Street in the City of Detroit.

Bedrock Management Services, LLC ("Applicant" or "Developer") and the City of Detroit Brownfield Redevelopment Authority ("BRA") are requesting approval of a TBP incentive package in the aggregate amount of \$618,019,167 and divided by revenue type as follows:

- a. Local and school property tax capture in the amount of \$229,558,387;
- b. A maximum of \$18,174,854 in construction period withholding tax capture revenues;
- c. A maximum of \$60,647,889 in construction period sales and use tax exemptions;
- d. A maximum of \$307,977,593 in income tax capture revenues and withholding tax capture revenues (post-construction); and
- e. A maximum of \$1,660,444 in local income tax capture revenues (post-construction).

Following construction completion and occupancy of the completed buildings, the project will undergo a re-evaluation based on the certified construction costs and post-construction property tax assessments, which may require the incentive to be adjusted up or down ("true up"). The project is limited to an upward adjustment of up to \$34,433,758 related to the property tax assessment, which would be realized via property tax capture reimbursement over 30 years. The incentive award will be decreased if the actual construction costs or taxable values are less than 90 percent of the amount estimated in the Act 381 Work Plan. The associated MSF Board resolution includes the authorization for this modification per Section 14a(9) of Act 381.

The project qualifies for an Act 381 TBP because each project parcel qualifies as one or more of the following: facility, functionally obsolete, historic resource, an undeveloped property that is eligible property in previously approved Brownfield Plan abolished under Section 14(8) of Act 381, or adjacent and contiguous to one of the qualifying properties. Development of the four, non-contiguous project sites in the plan constitutes a related program of investment under Act 381 because the projects will be undertaken within reasonable succession, are under affiliated ownership, and are reasonably contiguous within the Central Business District.

A summary of the statutorily required third-party Economic and Fiscal Impact Analysis and Underwriting Analysis is provided in **Appendix A**. The underwriting analysis determined that with the full construction costs as estimated by the development team and permanent financing sized to a 1.3 DSCR (per SB Friedman); the project requires the full \$618 million in TBP assistance to be economically viable. The economic and fiscal impact analysis concluded that the project would produce a net fiscal benefit year-over-year throughout the entire capture period, totaling an estimated \$596 million in incremental State taxes on a net present value basis (2017 dollars).

MSF policy states that no more than 25% of the annual allocation of post-construction income tax capture and withholding tax capture revenue be awarded to any one project; however, staff is requesting this provision be waived, as the project has demonstrated the financial need for post-construction income tax capture and withholding tax capture revenue as requested. The project may exceed the guidelines in some years; however, percent of the annual allocation is unknown at this time because the act allows carry forward of unused funds. Therefore the exact figure will be impacted by approved projects in the future and the schedule of their tax capture. Of the \$800 million cap on the total amount of income tax capture revenue and withholding tax capture revenue that can be committed and disbursed according to Act 381 section 14a(21), this TBP is proposing to capture \$307,977,593 or 38 percent of the total.

Background

The TBP will result in total capital investment in the amount of \$2.15 billion, along with the creation of approximately 7,738 permanent full-time equivalent jobs. The developer anticipates the jobs will have an average hourly wage of \$34.

The financial need for transformational brownfield redevelopment incentives results from the difference between development costs and what market rents can support. The transformational brownfield redevelopment incentives included in this plan are necessary as market rents in the City are insufficient to support the cost of complex, high-quality, large-scale, high-rise construction. Construction costs in Detroit have increased substantially in recent years as demand for construction labor and materials has increased at a faster rate than supply. In addition to this market value gap, the dedication of extensive space to public and civic uses and architectural excellence (while critical to local economic development and overall community quality of life) furthers the financial challenge and, in turn, the need for the transformational brownfield incentives to make the project possible. Significant costs are present on the site related to Brownfield conditions.

The TBP includes the following four sites: the Hudson's site, an infill project on the former site of the Hudson's store; Monroe Blocks, multiple infill projects on parcels surrounding Monroe Street; One

Campus Martius (“OCM”) Expansion, the expansion of an existing office building; and the historic rehabilitation of the Book Building and Book Tower. The Developer anticipates an estimated 2,212 new Detroit residents that will occupy approximately 900 new residential units and is expected to generate approximately \$3 billion in total economic output from construction and another \$2.5 billion in annual economic output once the projects are completed throughout Wayne County. Approximately 7,738 new permanent, full-time equivalent jobs are anticipated to be created or supported by the project. In addition, 2,764 average annual construction jobs are anticipated to be created as part of the TBP during the building and renovation process at the four development sites. In total, up to 3.1 million gross square feet of new office, retail, residential, and hotel space will be activated in Downtown Detroit.

Bedrock Management Services, LLC is a full service, Detroit-based real estate firm specializing in leasing, financing, developing, and managing commercial and residential space. Since its founding in 2011, Bedrock and its affiliates have invested more than \$2.2 billion in acquiring, renovating, and developing 90 properties in downtown Detroit, totaling more than 14 million square feet. Bedrock has invested in several key properties in the district. Bedrock and its affiliates have utilized Low Income Housing Tax Credits, Brownfield MBT Tax Credits, Brownfield Tax Increment Financing, and the Michigan Community Revitalization Program for various projects in the past including the 28 Grand micro-unit development, 1215 Griswold, the Madison, and the City Modern Brush Park development projects. The MEDC has completed civil and criminal background checks in accordance with the MSF Background Review Policy. No issues were identified.

Appendix B addresses the programmatic requirements, **Appendix C** includes a project map and renderings, and **Appendix D** includes a summary of the individual projects that make up this TBP.

Recommendation

MEDC staff recommends the following:

- A) Approval of a TBP in the aggregate amount of \$618,019,167 with the ability to adjust up or down at the post-construction re-evaluation. The incentive will be adjusted down if the construction costs are less than 90 percent of the amount estimated in the work plan and the amount of adjustment will be based on maintaining the estimated cash-on-cash return. The maximum that the incentive could be adjusted up is \$34,433,758 (15% of projected property tax reimbursement) based on actual property tax assessment within one year of occupancy.

The incentive shall be disbursed as follows:

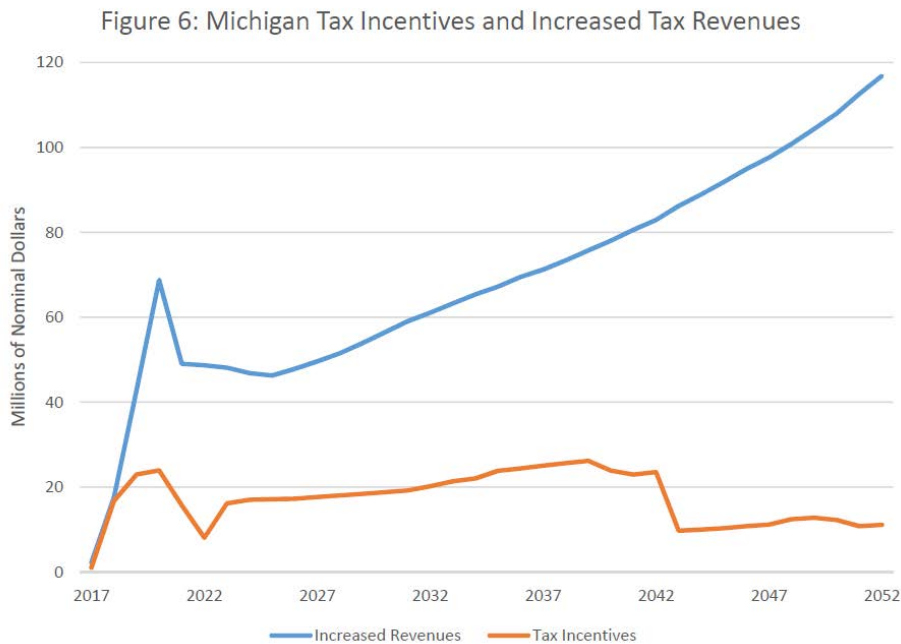
- f. Local and school property tax capture in the amount of \$229,558,387, (with \$52,325,218 million from local millages and \$177,233,169 million from school millages);
 - g. A maximum of \$18,174,854 in construction period withholding tax capture revenues;
 - h. A maximum of \$60,647,889 in construction period sales and use tax exemptions;
 - i. A maximum of \$307,977,593 in income tax capture revenues and withholding tax capture revenues (post-construction); and
 - j. A maximum of \$1,660,444 in local income tax capture revenues (post-construction).
- B) Approval to waive the TBP Guideline policy that no more than 25% of the annual allocation of post-construction income tax capture and withholding tax capture revenue be awarded to any one project.

APPENDIX A – Economic and Fiscal Impact Analysis and Underwriting Analysis

TBPs proposing to use more than \$1.5 million in annual tax capture revenues require an independent economic and fiscal impact analysis conducted by a third-party. Consultants were selected to conduct the analysis by the MEDC and the State Treasurer through a competitive RFP process. The University of Michigan Research Seminar in Quantitative Economic (RSQE) along with the W.E. Upjohn Institute for Employment Research were selected to perform the economic and fiscal impact assessment and SB Friedman Development Advisors were selected to perform the underwriting analysis of the project.

Economic and Fiscal Impact

The economic and fiscal impact assessment analyzed whether the project will generate more State tax revenue than it will capture in State tax incentives, or—as described in the legislation—produce a net “positive fiscal impact” to the State (Sec. 14a. (6)). It concluded that the project will produce a net fiscal benefit year-over-year throughout the entire capture period, totaling an estimated \$596 million in incremental State taxes on a net present value basis (2017 dollars). The consultant team projects that the present value of the gross new tax revenues to the State will total \$861 million, and the present value of the incentives to the developer \$265 million. This translates into an estimated State-benefit-to-incentive ratio of \$3.2 to \$1. Below is Figure 6 from the RSQE assessment, which illustrates the consultant’s estimates of total increase in State tax revenue per year alongside the estimated cost of tax incentives. In this case, both amounts are shown in nominal dollars, meaning that they have not been adjusted for inflation. The value of the increased tax revenue exceeds the cost of the tax revenue in each year of the analysis period. The team’s methodology and application of sensitivity testing is described in the full report. Attached is a letter from the State Treasurer stating his agreement with the findings of the RSQE report, as required in the legislation (Sec. 14a(7)).



Underwriting

The underwriting analysis was guided by the MSF approved TBP Guidelines which include the following assessment items:

- Assessment of how much traditional debt the project should be able to support/attract
- Developer and consultant fees limited to 4% of the total development cost of the project
- Reasonableness assessment of any related-party costs and expenses
- Minimum Owner Equity Investment: 20% of Total Development Costs (net of developer and consulting fees). Deferred fees will not be counted in the calculation
- Minimum Debt Service Coverage Ratio: 1.20:1.00, calculated based on all scheduled debt service requirements
- Leveraged cash-on-cash return not to exceed an average of 15% over life of project (20 year horizon)
- Reasonableness assessment of the proposed rental structure and assumptions
- Reasonableness assessment of the proposed operating expenses
- Reasonableness assessment of the proposed development costs
- Process conducted to analyze and determine the project's economic viability

The underwriting analysis was completed by SB Friedman Development Advisors (SB Friedman). SB Friedman reviewed numerous documents provided by the development team including pro formas, studies, construction documents, etc. They concluded that the majority of the assessment items were addressed appropriately and that the developer's projections and assumptions were reasonable for most items. The exceptions included the amount of debt the project could support, the reasonableness of development costs and the operating costs of the office component of the Hudson's Block. The Applicant had projected that the project could support a Debt Service Coverage Ratio (DSCR) of 1.5 and SB Friedman's analysis concluded that the DSCR should be reduced to 1.3. SB Friedman adjusted the equity-to-debt ratio for the purposes of their analysis. They also reduced the Applicant's projected operating expenses for the Hudson's Block's office component. SB Friedman concluded that if the Developer accurately estimated the total development costs of \$2.15 billion, then the project (with the adjustments mentioned above) will require the full \$618 million incentive. SB Friedman questioned the Developer's total development costs based on their analysis of comparable projects in other Midwestern cities. To address this concern, they conducted a financial scenario for a project that would cost \$1.75 billion with all other variables staying the same. In this scenario they would propose reducing the incentive to \$346.5 million. To further analyze the lower-cost development scenario an analysis was conducted to show the impact of a lower residential rent premium and this resulted in an increase in the need for incentive. Ultimately the recommendation from SB Friedman suggests a multi-step post construction assessment and true up. Staff is recommending that a single post construction re-evaluation be conducted per Section 14a(9) of Act 381 to adjust for the actual construction costs and to adjust for the actual property tax assessment. The Reimbursement Agreement for this project will further detail the post construction cost certification and specific modifications. For example, the costs of the specialized interior fit-out of the residential units within the Hudson's Site shall not be eligible for reimbursement under this Plan, as set forth in the reimbursement agreement. The MSF, Department of Treasury, Detroit Brownfield Redevelopment Authority and the Developer will all be party to the Reimbursement Agreement.



STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

RICK SNYDER
GOVERNOR

NICK A. KHOURI
STATE TREASURER

May 8, 2018

Jeff Mason, President
Michigan Strategic Fund
300 N. Washington Square
Lansing, MI 48913

Dear Mr. Mason:

I have reviewed the third-party analysis, *An Economic and Fiscal Impact Assessment of the Transformational Brownfield Plan Submitted by Bedrock Management Services, LLC*, submitted by the Research Seminar in Quantitative Economics. Given the underlying assumptions in the report, I concur with the conclusion that the plan submitted by Bedrock Management Services, LLC, will have a positive net fiscal impact for the State of Michigan, as set forth in MCL 125.2664a(7).

Sincerely,

A handwritten signature in black ink, appearing to read "N. A. Khouri", written over a horizontal line.

N. A. Khouri
State Treasurer

APPENDIX B – Programmatic Requirements

Property Eligibility

The project is located within the boundaries of the City of Detroit, which is a Qualified Local Governmental Unit. Each property within the project has been determined to be either a facility as verified by Michigan Department of Environmental Quality (DEQ) on March 1, 2018; deemed functionally obsolete as verified by a Michigan Master Assessing Officer (MMAO) assessor on August 22, 2017, August 23, 2017, and September 6, 2017; determined to be a historic resource within the Washington Boulevard Historic District by the local jurisdiction; or is an undeveloped property that is eligible property in previously approved Brownfield Plan abolished under Section 14(8) of Act 381.

The property is the subject of a Brownfield Plan, duly approved by the City of Detroit on November 21, 2017.

Statutory Criteria

It is the role of the Project Management staff (MEDC Staff) to review the information provided by the applicant for eligibility, completeness, and adherence to program guidelines, and to manage the MSF's investment. Explanatory and background information is supplied in summary form to provide context for the request and is drawn exclusively from materials submitted by the applicant, and, as applicable, from other relevant third party sources utilized by staff.

As required under Act 381, the following statutory criteria is being considered by the MSF:

A. The importance of the project to the community in which it is located:

This series of projects is important to the City of Detroit and the region due to the magnitude and impact the projects are anticipated to have. The Hudson's Site and Monroe Blocks are the largest vacant sites in Detroit's Central Business District, covering approximately three city blocks. Hudson's site will be reintroducing high-rise development to Detroit for the first time in 25 years, bringing a product to the market intended to make Detroit a nationally competitive urban center with respect to the attraction of business, jobs and talent. The Book Building and Tower is the largest unrehabilitated historic structure in a City of historic gems. In total, the series of projects will deliver more than 3.1 million gross square feet of new residential, retail, and commercial space into the Detroit market.

B. If the project will act as a catalyst for additional revitalization of the community in which it is located:

The TBP as proposed by Applicant will include approximately 900 new residential units and will result in an estimated 2,212 new Detroit residents. There is anticipated growth in commercial activity in the City with \$3 billion in total economic output generated from construction and another \$2.5 billion in annual economic output throughout Wayne County once the projects are completed. The projects are anticipated to cause employment growth in the City, creating or supporting approximately 7,738 new permanent, full-time equivalent jobs, and creating approximately 2,764 average annual construction jobs during the building and renovation process at the four development sites.

C. The amount of local community and financial support for the project:

The City of Detroit is contributing to the project through local tax abatements under the Neighborhood Enterprise Zone Act (“NEZ”), Commercial Rehabilitation Act (“PA 210”), and Obsolete Property Rehabilitation Act (“OPRA”). These abatements, if approved for the full duration, would result in approximately \$134 million in total property tax abatement across the Transformational Project Sites over the full term. In addition, both the City of Detroit and the Detroit Downtown Development Authority are conveying publicly-owned land for the redevelopment of the Hudson’s Site and Monroe Blocks plan pursuant of the terms of the development agreements.

D. The applicant's financial need for a community revitalization incentive:

The TBP proposes that the Developer will invest \$2.15 billion which will be a combination of equity and debt. A thorough underwriting of the project determined that with the full construction costs as estimated by the development team and a reduced debt service coverage ratio of 1.3 to 1 (the Developer’s projections were 1.5 to 1), the full \$618 million in TBP assistance is required. With the full incentive and with rent revenues projecting significant premiums (up to 135% of current rents), the cash-on-cash return is projected to be 9.9%. The risk associated with bringing 900 new residential units to the city and projecting rent premiums of this magnitude, supports the possibility that the developer’s return could be much lower. The TBP incentive is reimbursed over time based on actual performance of the project.

E. The extent of reuse of vacant buildings, reuse of historical buildings, and redevelopment of blighted property:

The plan includes extensive redevelopment of vacant sites and historic resources including the Book Building and Book Tower, the Hudson’s Site and the Monroe Blocks.

F. Creation of jobs:

The RSQE analysis estimates that the proposed TBP will generate 7,738 jobs directly at the TBP sites, after construction is complete. The developer anticipates the jobs will have an average hourly wage of \$34.

G. The level of private sector and other contributions, including, but not limited to, federal funds and federal tax credits:

The Developer is providing substantial equity in excess of what is required under the TBP Guidelines of 20%. It is anticipated that the developer’s equity contribution will be \$840 million; however, the amount of equity the Developer contributes to the project may change based on financing and final construction costs. Additionally, the developer is anticipating utilizing federal historic tax credits to support the redevelopment of the Book Building and Book Tower.

H. Whether the project is financially and economically sound:

The project has been thoroughly analyzed and is believed to be financially and economically sound.

I. Whether the project increases the density of the area:

By delivering a significant amount of square footage of infill office, retail, residential, and hotel space in the center of Detroit's Central Business District, this project will also add density that is critical to catalyzing and supporting retail and residential development in the surrounding areas.

J. Whether the project promotes mixed-use development and walkable communities:

The plan is for mixed-use development and combines residential, retail, office, event, exhibit, hotel, and public spaces. It promotes the development of walkable communities through the concentration of these different uses in the Central Business District and the creation of a full service environment in a compact area. The Hudson's Site, Monroe Blocks and OCM Expansion are all situated on the Q-Line streetcar system and pedestrian walkways will be incorporated throughout the project.

K. Whether the project converts abandoned public buildings to private use:

The Hudson's site and five of the seven Monroe Blocks' parcels are currently publicly-owned and previously housed abandoned and blighted buildings. This plan proposes converting these publicly-owned properties into transformational developments.

L. Whether the project promotes sustainable development:

The plan promotes sustainable development through the creation of a dense, walkable, mixed-use community. In addition, the Hudson's Site includes pursuing the WELL Building Standard for office space which measures, certifies, and monitors features of the building environment that impact human health. The Monroe Blocks' development will include over one acre of outdoor public space. The OCM Expansion will continue the utilization of energy star technologies.

M. Whether the project involves the rehabilitation of a historic resource:

The Book Building and Book Tower are historic resources and will be comprehensively rehabilitated as part of the project. In addition, the National Theater building's historic arched façade will be preserved within the Monroe Blocks' Project, which will create a historic gateway into the new development, preserving and celebrating its unique historical character.

N. Whether the project addresses area-wide redevelopment:

As a related program of investment covering four sites in Detroit's Central Business District, the project is intended to be a catalyst for revitalization in the surrounding area.

O. Whether the project addresses underserved markets of commerce:

Detroit remains an underserved market of commerce. According to the 2016 Storefront Index, which measures number and density of retail storefronts in the U.S.'s major downtowns, Detroit ranks last out of 52 largest cities evaluated.

P. The level and extent of environmental contamination:

The Monroe Blocks is the only site included in this project that has been determined to be a facility. Two of the larger parcels qualify as facilities and were found to contain concentrations of arsenic, chromium, copper, lead, mercury, silver, zine, benzo(a)pyrene, flouranthene, and

phenanthrene that exceed Part 201 generic cleanup criteria. The developer will conduct due care activities on these parcels.

Q. If the rehabilitation of the historic resource will meet the federal Secretary of the Interior's standards for rehabilitation and guidelines for rehabilitating historic buildings (36 CFR 67):

The Book Building and Book Tower will be rehabilitated in accordance with the Secretary of Interior's Standards for Rehabilitation.

R. Whether the project will compete with or affect existing Michigan businesses within the same industry:

The primary office tenant in these developments is Quicken Loans, who will compete with other lenders in Michigan. The applicant has stated that 95% of Quicken Loans business comes from outside of Michigan.

S. 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:

The Renaissance Zone currently on the Hudson's site will be formally amended prior to reimbursement, which will allow for 100% of income tax capture until its expiration in December 2025.

T. Describe how does the TBP includes provisions for affordable housing:

The Detroit City Council approved an affordable housing agreement between Bedrock Management Services, LLC and the City Housing and Revitalization Department that specifies 20% of the total number of residential units developed in connection with the receipt of incentives from the City will be affordable units.

Property Tax Capture Breakdown

There are 31.6380 non-homestead mills available for capture, with school millage equaling 24 mills (75.86%) and local millage equaling 7.6380 mills (24.14%). The local millage rates are impacted as a result of the eligible property being located within the boundaries of the Detroit Downtown Development Authority (DDA). The tax capture ratio is impacted by an NEZ and PA 210 property tax abatements for the Hudson's Site; NEZ and PA 210 property tax abatements for the Monroe Blocks; and an NEZ and OPRA property tax abatements for the Book Building and Book Tower. The blended ratio for the project is shown below. Tax increment capture is anticipated to begin in 2020 for the One Campus Martius site, 2021 for the Book Building and Book Tower, and 2023 for both the Hudson's Site and Monroe Blocks and is estimated to continue for 30 years on each site, respectively. The requested tax capture for MSF eligible activities breaks down as follows:

School tax capture	(77.21%)	\$ 177,233,169
Local tax capture	(22.79%)	\$ 52,325,218
TOTAL		\$ 229,558,387

Total TBP Revenue Breakdown

Property Tax Capture	\$	229,558,387
Construction Period Sales and Use Tax Exemption		60,647,889
Construction Period Withholding Tax Capture		18,174,854
State Income Tax Capture (post-construction)		51,694,296
Local Income Tax Capture (post-construction)		1,660,444
Withholding Tax Capture (post-construction)	+	<u>256,283,297</u>
ANTICIPATED TOTAL	\$	618,019,167
Property Tax Capture Adjustment Allowance	+	<u>34,433,758</u>
MAXIMUM APPROVAL	\$	652,452,925

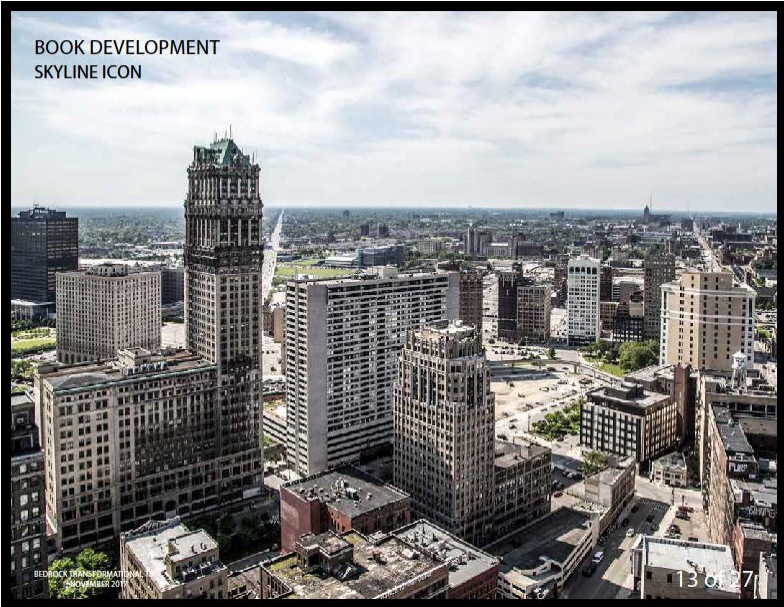
Cost of MSF Eligible Activities

Per Act 381 Section 2(o)(iv), any demolition, construction, restoration, alterations, renovation, or improvement of buildings or site improvements on eligible property, including infrastructure improvements that benefit eligible property are considered eligible activities for TBP's. This project will have an estimated \$2.15 billion in hard costs which will be certified at completion.

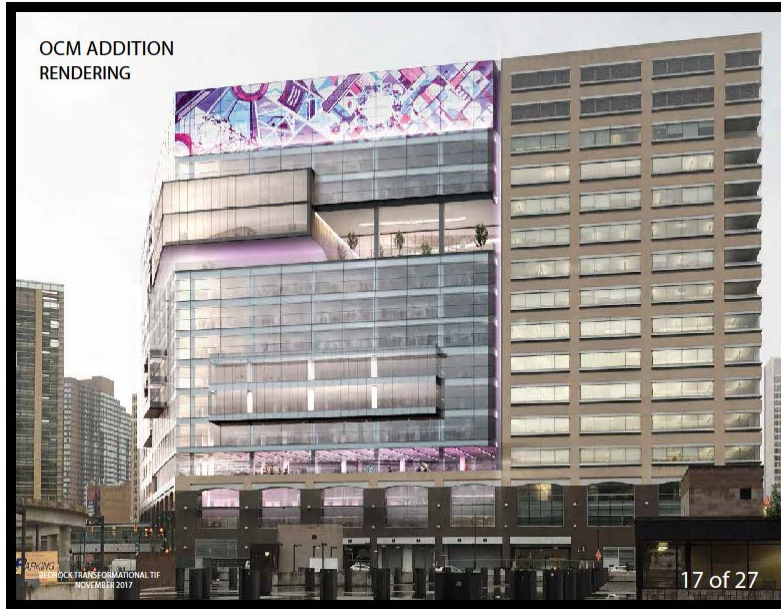
Monroe Blocks



Book Building and Book Tower



One Campus Martius



APPENDIX D – Project Details

TBP SITE INFORMATION

Hudson’s Site housed the former Hudson’s departments store and consists of two tax parcels located at 1208 Woodward Avenue. The property currently consists of a vacant, ground-level site above a four-story underground garage. The site qualifies as eligible property because it is undeveloped property that was eligible property in a previously approved brownfield plan abolished under section 14(8) and functionally obsolete.

The Hudson’s Site will be a landmark destination and visitor attraction and is anticipated to include the tallest tower in the City that will rise to an estimated 800 feet next to a mid-rise podium which will be separated by landscaped public space. The project will also include a public marketplace, a public Sky deck, and flexible space for exhibitions and events. Total construction costs for this site are anticipated to be approximately \$909 million and approximately 1,732 full time equivalent jobs are anticipated to be created. Other local incentives for the project are anticipated to include Neighborhood Enterprise Zone and Commercial Rehabilitation Act tax exemptions. Construction is anticipated to be complete by 2022.

The Hudson’s Site is widely regarded as one of the most important redevelopment priorities in the City of Detroit, and the proposed development is intended to create a landmark economic and cultural asset for the city, region, and State. It is intended to be a destination that will attract visitors and drive ancillary economic impact further enhancing Detroit’s comeback story.

Land Use	Square Footage	Capital Investment
Retail, Food and Beverage Space	102,805	
Event and conference space	167,968	
Office	262,662	
Exhibit space	93,464	
Sky deck	22,950	
330 Residential Units	439,217	
Parking Spaces (700)	183,726	
Back of House (BOH) Space	138,322	
Total	1,411,114	\$909 Million

Revenue Source	Estimated Amount
Property Tax Increment Revenue	\$75,924,210
Construction Sales/Use Tax Exemption	\$28,687,399
Construction Period Tax Capture Revenues	\$8,596,990
Withholding Tax Capture Revenues	\$54,125,842
Income Tax Capture Revenues (State)	\$23,814,315
Income Tax Capture Revenues (City)	\$1,660,444
Total TBP Incentive	\$192,809,200

Monroe Blocks consists of seven tax parcels in an area bound by Monroe Street, Randolph Street, Bates Street, Cadillac Square, and Woodward Avenue. The site is currently primarily a parking lot and vacant parcels. The site qualifies as eligible property because it has been deemed a facility, functionally obsolete, or adjacent and contiguous.

A new, two-phased, mixed-use development will be constructed on each side of Farmer Street. Phase I is located south of Farmer Street and includes a 35-story office tower fronting Campus Martius and an approximately 10-story development containing residential and retail space located just behind the tower. Phase II is located north of Farmer Street and include a 27-story residential tower with retail on the first two floors. The development will include extensive public plaza space occupying what is currently Farmer Street. The project also includes three levels of below-grade parking. Total construction costs for this site are anticipated to be approximately \$830 million and approximately 3,988 full time equivalent jobs are anticipated to be created. Construction for both phases is anticipated to be complete by 2022. Other local incentives that are anticipated for this site include Neighborhood Enterprise Zone designation and Commercial Rehabilitation Act designation.

As part of the planned redevelopment, the National Theater building’s historic arched façade will be preserved, which will create a natural gateway into the new development and both preserve and celebrate its unique historical character.

Land Use	Square Footage	Capital Investment
Retail	169,000	
Office	814,000	
482 Residential Units	433,000	
Parking Spaces (1,261) and Back of House (BOH) space	654,334	
Total	2,070,334	\$830 Million

Revenue Source	Estimated Amount
Property Tax Increment Revenue	\$110,427,696
Construction Sales/Use Tax Exemption	\$20,641,951
Construction Period Tax Capture Revenues	\$6,185,944
Withholding Tax Capture Revenues	\$136,240,726
Income Tax Capture Revenues (State)	\$22,041,340
Total TBP Incentive	\$295,537,657

One Campus Martius Expansion is a condominium to be formed on One Campus Martius that is located at 1000 Woodward Avenue and will house an 11-story expansion on the rear of the building. The existing 14-story building is the headquarters of Quicken Loans Inc. and Meridian Health Plan. When constructed in 2003, it was built to allow for an 11-story expansion but was never developed. The site qualifies as eligible property because the proposed condominium unit is adjacent and contiguous to the Hudson’s Site. The project will provide the office space that is critically needed to attract large-scale tenants and jobs to Detroit. Total construction costs for this site are anticipated to be approximately \$94.8

million and approximately 1,300 full time equivalent jobs are anticipated to be created. Construction is anticipated to be complete by 2019.

Land Use	Square Footage	Capital Investment
Office	250,800	
600 Person Auditorium Space	32,600	
Back of House (BOH) Space	26,800	
Total	310,200	\$94.8 Million

Revenue Source	Estimated Amount
Tax Capture from Property Taxes	\$15,401,173
Construction Sales/Use Tax Exemption	\$2,777,985
Construction Period Tax Capture Revenue	\$832,502
Withholding Tax Capture Revenues	\$47,700,259
Total TBP Incentive	\$66,711,919

Book Building and Book Tower consists of three tax parcels located at 1249, 1265, and 1201 Washington Boulevard. The site consists of a 13-story building, 38-story tower, and a two-story structure known as the Book Arcade. The site qualifies as eligible property because it has been deemed a historic resource and adjacent and contiguous.

The 13-story building and 38-story tower will be redeveloped to support first floor retail space, conference and event space, approximately 200 hotel rooms and up to 95 residential units. The project will also include the demolition of the Book Arcade and the construction of a parking structure containing approximately 400 spaces. Total construction costs for this site are anticipated to be approximately \$311 million and approximately 718 full time equivalent jobs are anticipated to be created. Construction is anticipated to be complete by 2021.

Book Building and Book Tower are some of Detroit’s most treasured historic structures. After being largely vacant for two decades, this project will bring the buildings back to life and serve as a catalyst for the continuing revitalization of the historic Washington Boulevard district. Other local incentive anticipated for this site include Neighborhood Enterprise Zone designation and Obsolete Property Rehabilitation Act designation.

Land Use	Square Footage	Capital Investment
Retail Space	28,890	
Conference and Event Space	49,780	
Office Space	106,400	
Hotel	106,000	
95 Residential Units	143,083	
Parking Spaces (400) and Back of House (BOH) space	157,490	
Total	592,043	\$311 Million

Revenue Source	Estimated Amount
Tax Capture from Property Taxes	\$27,805,307
Construction Sales/Use Tax Exemption	\$8,540,554
Construction Period Tax Capture Revenues	\$2,559,419
Withholding Tax Capture Revenues	\$18,216,470
Income Tax Capture Revenues (State)	\$5,838,641
Total TBP Incentive	\$62,960,391

MICHIGAN STRATEGIC FUND

RESOLUTION 2018 -

**APPROVAL OF A BROWNFIELD ACT 381 TRANSFORMATIONAL BROWNFIELD
PLAN AND ASSOCIATED WORK PLAN
CITY OF DETROIT BROWNFIELD REDEVELOPMENT AUTHORITY
THE HUDSON'S SITE, MONROE BLOCKS, ONE CAMPUS MARTIUS
EXPANSION, AND BOOK BUILDING AND BOOK TOWER
REDEVELOPMENT PROJECTS**

WHEREAS, the Michigan Economic Growth Authority (“MEGA”) has been established by 1995 PA 24, as amended (the “Act”);

WHEREAS, 2002 PA 727 amended 1996 PA 381, MCL 125.2651 et seq, to empower local brownfield redevelopment authorities to request the MEGA Board to approve a brownfield project work plan and, thereby, capture taxes levied for school operating purposes for the project;

WHEREAS, Executive Order 2012-9 transferred all the authority, powers, duties, functions, responsibilities, records, personnel, property, unexpended balances of appropriations, allocations or other funds of the MEGA to the Michigan Strategic Fund (“MSF”);

WHEREAS, Public Act 46 of 2017 amended Act 381 to allow a governing body and the MSF to approve transformational brownfield plans;

WHEREAS, captured school operating tax revenues, construction period tax capture revenues, sales and use tax exemption, income tax capture revenues, withholding tax capture revenues, may be used under 1996 PA 381 as amended, for demolition, construction, restoration, alteration, renovation or improvement of buildings, or site improvements on eligible property, including infrastructure improvements that directly benefit eligible property, or for lead, asbestos, or mold abatement, and for demolition and that are not response activities under the Natural Resources and Environmental Protection Act, 1994 PA 451;

WHEREAS, the City of Detroit Brownfield Redevelopment Authority (the “Authority”) has submitted a work plan for property located at 1208 Woodward Avenue; 1000 Woodward Avenue; 1265, 1249, and 1201 Washington Boulevard; and 32, 100, 118, and 126 Monroe, 725 and 815 Bates, and 1000 Farmer Street within the City of Detroit, known as The Hudson’s Site, Monroe Blocks, One Campus Martius Expansion, and Book Building and Book Tower Redevelopment Projects (the “Project”);

WHEREAS, the City of Detroit is a “qualified local governmental unit” and is eligible to provide for a) demolition; b) lead, asbestos, or mold abatement; c) public infrastructure improvements; d) site preparation; e) brownfield and work plan preparation; f) brownfield and work plan implementation and g) interest as provided under 2007 PA 204;

WHEREAS, the Authority and Bedrock Management Services, LLC (the “Developer”) are requesting MSF approval of the following actions:

- 1) capture of \$229,558,387 in local and school property tax capture revenues, with the ability to increase the property tax capture by an additional \$34,433,758;

- 2) a sales and use tax exemption of up to \$60,647,889 during the construction period of the Project;
- 3) capture up to \$18,174,854 in construction period tax capture revenues; and
- 4) capture up to \$307,977,593 in post-construction income tax capture revenues and post-construction withholding tax capture revenues.

(the aforementioned, collectively, the “Transformational Brownfield Plan Designation”);

WHEREAS, staff is requesting the waiver of the MSF transformational brownfield program guideline that specifies a TBP cannot award more than 25% of the annual allocation to any one project per year (the “Program Guidelines Waiver”); and

WHEREAS, the Michigan Economic Development Corporation (“MEDC”) provides administrative services to the MSF, and has reviewed the application and recommends approval of the Transformational Brownfield Plan Designation and the Program Guidelines Waiver by the MSF Board.

NOW, THEREFORE, BE IT RESOLVED, the MSF Board authorizes the Transformational Brownfield Plan Designation and the Program Guidelines Waiver; and

BE IT FURTHER RESOLVED, that no taxes levied for school operating purposes shall be used to reimburse interest costs related to the eligible activities for the Project; and

BE IT FURTHER RESOLVED, the MSF Fund Manager is authorized to authorized negotiate all final terms and conditions and execute all documents necessary to effectuate the Transformational Brownfield Designation in accordance with the terms set forth in this Resolution and consistent with the requirements of Act 381, as amended.

Ayes:

Nays:

Recused:

Lansing, Michigan
May 22, 2018

The University of Michigan Research Seminar in Quantitative Economics
The W.E. Upjohn Institute for Employment Research

APRIL 30, 2018

**An Economic and Fiscal
Impact Assessment of the
Transformational Brownfield
Plan Submitted by Bedrock
Management Services, LLC**

Hudson's Block, Monroe Blocks, One Campus
Martius Expansion, and Book Building and
Book Tower Redevelopment Project

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About This Series

The Transformational Brownfield Plan Assessment Series is a joint effort by the University of Michigan Research Seminar in Quantitative Economics (RSQE) and the W.E. Upjohn Institute for Employment Research to analyze fiscal and economic effects of Transformational Brownfield Plans, or TBPs. Michigan defines TBPs as brownfield plans that have a transformational impact on local economic and community revitalization while also having an overall positive fiscal impact on the state. State law requires economic and fiscal impact analyses for TBPs that request rewards of at least \$1.5 million. RSQE, in consultation with the Upjohn Institute, will produce up to 25 such analyses, five per year, for the Michigan Economic Development Corporation.

Executive Summary

This report presents an economic and fiscal impact analysis of the Transformational Brownfield Redevelopment Plan for the Hudson’s Block, Monroe Blocks, One Campus Martius Expansion, and Book Building and Book Tower Redevelopment Projects proposed by Bedrock Management Services, LLC (the proposed TBP). The analysis was conducted by a team of researchers from the University of Michigan Research Seminar in Quantitative Economics (RSQE) and the W.E. Upjohn Institute for Employment Research (Upjohn Institute).

We estimate that the proposed TBP will produce a net fiscal benefit of \$596 million to the state of Michigan on a net present value basis, measured in nominal dollars as of 2017. The estimated increase in state tax revenues generated by the proposed TBP through the end of our analysis period in 2052 is \$2.5 billion, with a present value of \$861 million. The total estimated cost of the tax incentives for the developer is \$618 million, with a present value of \$265 million. We estimate that the increase in state tax revenues generated by the proposed TBP will be larger than the cost of the tax incentives in each year of the analysis period. The ratio of the present value of the increase in projected tax revenues to the present value of the total tax incentives is estimated to be 3.2 to 1.

We project that the proposed TBP will generate 7,738 jobs directly at the TBP sites from 2024 to 2052, after the construction period of the project is complete and occupancy has stabilized. We estimate that the proposed TBP will create or support an annual average of 7,927 “net new” job additions statewide in that time. We further project that the proposed TBP will lead to an increase of nearly 16,500 new residents in Michigan by 2052, and an average increase in real statewide personal income of \$706 million per year, in 2009 dollars, over the entire analysis period 2017 to 2052. The increase in real wage and salary income per net job addition averages \$70,000 per year over that period, reflecting the high proportion of net job additions in white-collar industries.

We consider the assumptions in our baseline analysis to be conservative, but we also considered an adverse scenario with less favorable assumptions. In that scenario, the proposed TBP creates or supports an average of 5,902 net job additions statewide in the post-construction period. The estimated increase in state tax revenues generated by the proposed TBP through the end of our analysis period in 2052 is \$1.7 billion, with a present value of \$630 million. Because the cost of the tax incentives is unchanged in this scenario, the proposed TBP generates a net fiscal benefit to the state of \$364 million in present value terms, and the benefit-cost ratio is estimated to be 2.4 to 1. Therefore, we conclude that the proposed TBP will produce a net fiscal benefit to the state of Michigan under a wide range of assumptions and economic circumstances.

Analytical Focus

This document provides estimates of the economic and fiscal impacts on the state of Michigan of the Transformational Brownfield Plan (TBP) for the Hudson’s Block, Monroe Blocks, One Campus Martius Expansion, and Book Building and Book Tower Redevelopment Projects submitted by Bedrock Management Services, LLC to the Michigan Economic Development Corporation (MEDC).

The report was prepared by the University of Michigan Research Seminar in Quantitative Economics (RSQE), in consultation with the W.E. Upjohn Institute for Employment Research (the Upjohn Institute). RSQE is the third-party contractor with the MEDC for the economic and fiscal impact analysis required by statute for Transformational Brownfield Plans that request rewards greater than or equal to \$1.5 million. RSQE and Upjohn received feedback on the analysis methodology from a panel of economic development experts. Short biographies of the report’s authors and the expert panelists are included in Appendix I. Participation on the Expert Panel does not imply agreement with the analysis or responsibility for the estimates contained in the report.

This report does not contain the third party financial and underwriting analysis of the proposed TBP that is also statutorily required for Transformational Brownfield Plans that request rewards greater than or equal to \$1.5 million. That analysis was conducted by a separate contractor, SB Friedman Development Advisors of Chicago (SB Friedman). Several assumptions have been harmonized between the two analyses. The harmonization of these assumptions also does not imply SB Friedman’s agreement with the analysis or responsibility for the estimates contained in this report.

The conclusions in this report are the sole responsibility of the report’s authors. While conducting the analysis, we have made substantial reliance on data and projections provided by the developer of the proposed TBP, Bedrock Management Services, LLC. We have attempted to verify the appropriateness of those key projections, but ultimately, we must rely on information provided by the developer regarding many key pieces of information to conduct the analysis. Material deviations of the actual development from the projections we have analyzed may cause the economic and fiscal impact on the state to be materially different than we project. Similarly, a materially different national or local business environment than we currently anticipate may also cause the economic and fiscal impact on the state to be materially different than we project.

Background of the Bedrock Transformational Brownfield Program

The proposed TBP that we assess in this report is the “Transformational Brownfield Plan for the Hudson’s Block, Monroe Blocks, One Campus Martius Expansion, and Book Building and Book Tower Redevelopment Projects” prepared by Bedrock Management Services, LLC (Bedrock, or the developer).¹

The plan includes projects at four distinct sites near each other in downtown Detroit.² These projects include:

- Restoration and renovation of the historic Book Tower and Building;

¹ The official TBP document, Bedrock (2017), submitted to the City of Detroit is available here: <http://www.degc.org/wp-content/uploads/Final-Bedrock-TBP-As-Submitted-10.12.17.pdf>.

² The TBP legislation allows a single TBP to be composed of separate developments on multiple noncontiguous sites that together comprise a related program of investment.

- Redevelopment on the site of the former Hudson’s Department Store, imploded in 1998, which is planned to be the tallest building in Detroit;
- Redevelopment on a collection of seven contiguous parcels referred to as the “Monroe Blocks,” which currently consist of surface parking lots and several vacant structures, including the National Theatre building;
- An expansion of the office building at One Campus Martius.

The four sites collectively will include office, retail, hotel, residential, event/exhibition, and public space uses.

The TBP submitted by Bedrock calls for a total of \$618,019,167 in captured tax revenues across the four projects based on its own estimates and projections.³ That total consists of 37 percent from the capture of property taxes; 10 percent from construction period sales and use tax exemptions; 3 percent from the capture of construction period income tax; 41 percent from withholding tax capture revenues of future employees at the sites; and 8 percent from income tax capture from future residents at the sites.⁴

Bedrock estimates that the total investment costs across all projects will come to \$2.15 billion, with over 80 percent of that total occurring at the Hudson’s and Monroe Blocks sites. Therefore, Bedrock is projecting to offset approximately 29 percent of the investment costs with captured tax revenues, although the timing of the offsets will differ materially from the timing of the investments.

³ See Attachment F beginning on page 85 of the [TBP document](#), Bedrock (2017), for this projection. As described in the section “Accounting for Economic Impacts of Tax Incentives” later in this document, we have harmonized the projected tax capture with SB Friedman’s estimate of approximately \$601 million. We use this lower figure in our analysis.

⁴ The total tax capture also includes \$1.6 million (0.3 percent of the total) from capture of local income tax from the City of Detroit permitted under the brownfields legislation.

Summary of Michigan’s Transformational Brownfield Program

In the summer of 2017, Michigan Governor Rick Snyder signed legislation that established the Transformational Brownfield Plan (TBP) program in Michigan.⁵ The purpose of the legislation was to provide a new economic tool to motivate developers and businesses to renovate, rehabilitate, and more generally *transform* existing brownfields into local hubs of economic development and community revitalization. The program is directed at larger projects that not only provide modernized workspaces but also raise the amenity value of a place, helping to make Michigan more attractive for both current and prospective residents of the state.⁶ Under the program, developers with an approved TBP are able to capture a share of incremental tax revenue generated by the project for a specified period. We describe the program specifics briefly below. For a more detailed summary, see Michigan Economic Development Corporation (2017).

What is a brownfield?

A “brownfield” is typically defined as a property with either real or potential environmental contamination that restricts the property’s future uses. Under the TBP program, the term brownfield is expanded to include blighted, functionally obsolete, historic, and transit-oriented properties, as well as undeveloped properties that have previously been identified as brownfield-eligible under the existing brownfield program.⁷

What is a Transformational Brownfield Plan?

A TBP is defined as a brownfield plan that “will have a transformational impact on local economic development and community revitalization based on the extent of brownfield redevelopment and growth in population, commercial activity, and employment that will result from the plan.”⁸ The development of the brownfield must be for a mixed-use project that involves some combination of residential, office, retail, and hotel uses, and satisfies a minimum threshold of capital investment that varies by the population of the community containing the brownfield site, as shown in Table 1.

Table 1: Minimum Capital Investments by Community Population

Community Population	Minimum Capital Investment
Greater than or equal to 600,000	\$500,000,000
150,000 to 599,999	\$100,000,000
100,000 to 149,000	\$75,000,000
50,000 to 99,999	\$50,000,000
25,000 to 49,999	\$25,000,000
Less than 25,000	\$15,000,000

⁵ The TBP legislation consists of Michigan Public Acts 46–50 of 2017, which collectively amend the existing Brownfield Redevelopment Financing Act (Act 381 of 1996).

⁶ See State Fiscal Agency (2018) and MEDC (2017).

⁷ MEDC (2017).

⁸ Michigan Public Act 46 of 2017, MCL 125.2652 (vv).

Outline of Tax Incentives for Developers

A developer with an approved TBP can capture shares of specific incremental tax revenues that are generated by the project up to the amount specified by the TBP or for a defined number of years, whichever comes first. Incremental tax revenue is defined as the projected tax revenue generated by the site or sites of the proposed TBP minus the amount of tax revenue generated by the site(s) at the time that the TBP is adopted (i.e., before the project breaks ground). Before the TBP program was established, developers and localities could capture incremental *property* tax revenues, generally under the Brownfield Redevelopment Financing Act of 1996 (PA 381), for up to 30 years. That has not changed and remains one type of tax revenue that can be captured under an approved TBP. However, under Public Acts 46, 48, and 49 of 2017, the TBP program also allows developers to capture

- **Construction Period Income Tax Revenues:** 100% of the amount of state income tax levied and imposed in a calendar year upon wages paid to individuals physically present and working within the eligible property for the construction, renovation, or other improvement of eligible property that is an eligible activity within a transformational brownfield plan.
- **Construction Period Sales and Use Tax Exemptions:** Sales and use tax exemptions for all the purchase or acquisition of tangible personal property that will be affixed and made a structural part of the real property or infrastructure improvements included within the plan.
- **Income Tax Revenues:** 50% of the incremental income tax from individuals domiciled within the eligible property.
- **Withholding Tax Revenues:** 50% of incremental income tax withheld from individuals employed within the eligible property.

The captured revenues can be used to finance TBP eligible activities, which include “demolition, construction, restoration, alteration, renovation, or improvement of buildings or site improvements on eligible property, including infrastructure improvements that directly benefit eligible property” as well as activities typically associated with brownfield development, such as lead, asbestos, or mold abatement.⁹

There are some limits to revenue capture by the developer. First, the tax revenue available to be captured will be limited to an amount that is necessary to make the project economically viable. In other words, the project would not be able to proceed as planned without the tax capture. In addition, while property tax can be captured for up to 30 years, the construction, income, and withholding tax revenues can be captured for up to 20 years.

The legislation sets other limits on total revenue captures across all TBPs over the life of the program. Income and withholding tax capture revenue is limited to a total of \$800 million across all projects, while construction period captures are limited to a total of \$200 million. Furthermore, the program sets an annual limit of \$40 million on nonconstruction income and withholding captures across all approved projects.

How is a TBP approved?

To approve a TBP, the developer must first receive approval from both the Brownfield Redevelopment Authority and the local unit of government where the project will be located. Next, the developer must

⁹ See Michigan Public Act 46 of 2017, MCL 125.2652 (o) for a complete definition of eligible activities.

receive approval from the Michigan Strategic Fund (MSF), the agency responsible for overseeing the state's economic development strategies. There are two key thresholds that must be satisfied to obtain MSF approval:

1. The TBP must be expected to result in an overall positive fiscal impact to the state net of tax capture. In other words, total state revenue collected because of the TBP, not including local taxes or other fees, must be expected to exceed the amount of tax captured by the developer.¹⁰
2. There must be a demonstrated gap in financing; that is, the TBP would not be executed as planned without the tax capture by the developer.

An additional requirement regards third-party analysis. For TBPs that propose to use more than \$1.5 million in tax capture revenues, independent third-party analysis must be conducted on both key threshold questions above. In that case, the state treasurer must also agree with the conclusions of the third-party analysis before MSF can provide approval.

¹⁰ The legislation does not provide a specific definition of the overall fiscal impact to the state. For the purposes of this report, it is defined based on state net revenues and does not include local taxes and user fees. See the section "Definition of Net Fiscal Benefit" below for additional detail.

Methodology for Economic Impact Analysis

The Michigan Economic Development Corporation (MEDC) stipulated in its Request for Proposals to conduct the TBP Economic and Fiscal Impact analysis that the analysis must be conducted using the REMI PI+ model (REMI model) developed by Regional Economic Models, Inc., or REMI. A description of the model and associated documentation is available at: <http://www.remi.com/model/pi/>. The version of the model used for this analysis is the same version that the MEDC uses for its internal economic impact assessments; it contains 70 economic sectors and 83 geographical regions, one for each county in Michigan.

The economic impacts of a TBP will generally differ depending on its geographical location, reflecting different areas' industrial compositions and patterns of trade. To most accurately estimate those economic impacts, the model inputs are constructed and the model is run at the county level. The legislation establishing the TBP program, however, specifies that the relevant economic and fiscal impact for the evaluation of a TBP is at the state level. Therefore, the economic and fiscal impacts of the TBP have been aggregated to the state level for reporting purposes.

The economic impacts of a Transformational Brownfield Plan can typically be divided into several separate components. The analysis of this project is divided into four parts: (1) impacts from construction activity; (2) impacts from operations activity; (3) the amenity and migration impacts from the provision of new residential units; and (4) the economic effects of accounting for the cost of the tax incentives. Each is discussed below, after providing background related to the mechanics of the REMI model and the basis for the projections and assumptions underlying the impact assessment.

Background: Substitution, Multipliers, and Net New Economic Activity

Estimating a proposed TBP's net fiscal effect on the state of Michigan requires first estimating its impact on net new economic activity in Michigan. Net new economic activity is the increase in economic activity within the state of Michigan that would not have occurred without the development of the proposed TBP. It is conceptually distinct from the amount of economic activity that is projected to occur directly at the developed TBP sites, which is used for the calculation of the TBP developer's eligibility for tax incentives under the TBP legislation.

Quantifying the amount of net new economic activity in Michigan generated by a TBP requires accounting for two competing forces: substitution of economic activity and local economic multipliers. Economic substitution refers to the tendency of new economic development in an area to compete with and displace economic activity that already existed (or would have existed in the absence of the TBP) in the same geography. For instance, the opening of a retail store is likely to capture some sales that would otherwise have occurred at other stores nearby; it is therefore incorrect to treat all sales at the new store as net new economic activity in the area. Economic multipliers refer to the tendency of new economic activity to drive additional activity in the area. For instance, a new manufacturing plant will tend to purchase parts from the local area, creating jobs at local suppliers (jobs created at suppliers of a new project are often called indirect jobs). Additionally, the workers at the new plant will spend some of their new income on local goods and services, supporting additional employment in the area (jobs created by this increased spending in the broader economy are often called "induced jobs").

Economic substitution will tend to reduce the amount of net new economic activity within a geography generated by a TBP relative to the direct activity at the development site itself, but local economic

multipliers will generally increase the amount of net new activity. Therefore, the number of net new jobs in Michigan generated by a TBP can be either higher or lower than the number of direct jobs at the TBP sites. In contrast to the economic activity projected to occur at the proposed TBP sites, which the state can measure directly over time, the amount of net new economic activity generated by a TBP is not directly measurable and must be estimated using an economic model, even retrospectively. As noted, we have used the REMI PI+ model for the analysis, as stipulated in the MEDC's Request for Proposals.

Estimating Economic Substitution

The REMI model contains estimates of the share of new economic activity in an area that is expected to be exported or to reduce existing imports using data on gross trade flows between counties by industry. The gross trade flow estimates account for variance in trade between areas based upon the scale of supply and demand, distance, and industrial composition.¹¹ Only the share of new activity in an area that is expected to be exported or to reduce imports is counted as the net new portion of the direct economic activity generated by the TBP.

It is important to note that although REMI's trade flows are estimated at the county level, the trade equations account for economic substitution across counties as well (for instance, a new development in Wayne County, Michigan could displace some economic activity in Oakland County, Michigan or vice versa). For the purposes of this analysis, all results are aggregated to the state level, so that the focus is on net new activity to the state of Michigan as a whole, rather than for any single county or group of counties.

An example should help to clarify the trade flow estimation in the REMI model. In 2016, the REMI model estimates that Wayne County will *produce* \$1.15 billion (2009 dollars) in manufactured food products and will *consume* \$2.79 billion of food products. Because Wayne County has relatively little food manufacturing, the REMI model estimates that a relatively high share of local production will be consumed within the county (\$0.59 billion, or 50.9 percent) and only 49.1 percent (\$0.57 billion) of production will be exported. Ottawa County Michigan, on the other hand, is expected to produce more food than it consumes (\$1.90 billion vs. \$0.83 billion). Consequently, Ottawa County consumes \$0.39 billion of its local production (20.4 percent) and exports the balance of its production (\$1.52 billion, or 79.6 percent). Based on the trade flow equations, Ottawa County will send \$18.3 million (2009 dollars) of manufactured food products to Wayne County. In contrast, Wayne County will only send \$680,000 (2009 dollars) of manufactured food products to Ottawa. Wayne County ships much of its food product exports to Oakland County (\$110.7 million) because Oakland County is relatively large, is geographically nearby, and, like Wayne County, has a high propensity to import food products.

The REMI model estimates that if a generic new firm entered Ottawa County and started producing \$100 million in manufactured food products, 78.8 percent of the production would be exported. The share of new production used to reduce imports would be negligible; in fact, manufactured food imports overall would increase slightly because the increase in local income would outweigh the import

¹¹ Technically, the REMI model uses estimated "gravity equations." The REMI trade flow equations are shown on pages 53 and 54 of http://www.remi.com/wp-content/uploads/2017/10/Model-Equations-v2_1.pdf, and the estimation procedure is explained in http://www.remi.com/wp-content/uploads/2017/10/Technical_documentation_for_Estimating_Betas_and_Sigmas.pdf.

substitution effect. If that firm had instead located in Wayne County, only 48.4 percent of the production would be exported, and 24.4 percent of the production would reduce imports. In that case, Ottawa County's manufactured food exports to Wayne would decline by \$240,000.

The REMI model also incorporates the wide variation in the ease of exporting and importing different goods and services. Manufactured goods are relatively easy to trade between areas, whereas some services, such as retail trade, tend to be more difficult to trade. In the REMI model, the difficulty in trading retail trade services is reflected in a relatively high distance decay parameter governing trade between different areas, whereas food manufacturing has a relatively low distance decay parameter. Thus, retail trade activity in the REMI model primarily serves the local community.¹²

In some cases, it would be inappropriate to use the REMI model's default estimates of the share of economic activity that is net new. Those estimates are based on industry-wide averages and may not accurately reflect the specifics of the proposed TBP development. For instance, if a TBP developer proposes to add employees of a national firm that does the majority of its business outside of Michigan at the TBP sites, using the REMI average shares of activity that serve the local economy will be incorrect. In that case, it is possible to explicitly define the share of relevant direct employment at the project sites that is net new to Michigan.¹³

Estimating Local Economic Multipliers

The use of local economic multipliers, also known as input-output (I-O) multipliers, is well established in the regional economics literature. For instance, the Bureau of Economic Analysis (BEA) produces a set of regional I-O multipliers, known as the Regional Input-Output Modeling System or RIMS II, which are described as follows (Bureau of Economic Analysis, 2013, p. 1–2):

Regional I-O multipliers are based on a detailed set of industry accounts that measure the goods and services produced by each industry and the use of these goods and services by industries and final users. This detail allows for estimates of the impact of an initial change in economic activity on industries in a region. I-O models do not account for price changes that may result from increased competition for scarce resources.

The fact that the I-O multipliers in RIMS II do not account for price changes that may result from increased competition for scarce resources is equivalent to the assumption that factor supply is perfectly elastic across areas. In particular, this assumption implies that the supply of labor is unlimited at current market wages. Such assumptions are much more likely to be accurate in the long run than in the short run. Therefore, these multipliers are most appropriate for studying the long-run impact of an economic change, omitting an explicit time dimension.¹⁴

Local economic multipliers in the REMI model are based on a similar set of industry I-O tables, but the REMI model relaxes many of the assumptions imposed in the RIMS-II model. The REMI model also does not assume that factor supply, particularly labor supply, is perfectly elastic in the short run. Instead, in the REMI model, an increase in demand for labor generates an equilibrating response in local wages,

¹² The expansion of e-commerce has facilitated trade between different geographic areas. Tourism and cross-county shopping also generate retail trade "export" sales.

¹³ Using the REMI model's standard assumptions about the share of activity that is net new is done with the model's "firm policy variables." Treating activity as net new is called entering the activity "exogenously."

¹⁴ Another widely used economic impact model, the IMPLAN model, also does not include a time dimension.

prices, and population migration to ensure “closure” of the local labor market. The REMI model’s inclusion of an explicit time dimension makes it well suited to studying projects for which the timing of benefits and costs is potentially important.

To illustrate the concept of economic multipliers, we continue with the example from the section on economic substitution: a new generic food manufacturing firm begins operations in Wayne County in 2016, employing one hundred workers. The REMI model estimates that nine of those jobs would simply replace activity at other food manufacturers in Wayne County, so that this activity would generate ninety-one net new jobs in the food manufacturing industry in Wayne County. Total employment in Wayne County is estimated to increase by 169 jobs, however, including four jobs in state and local government and seventy-four jobs in the private sector outside of food manufacturing.¹⁵ These seventy-four jobs include both intermediate goods and services activity (suppliers, or indirect jobs), and activity generated by the spending out of the incomes arising from the new direct and indirect economic activity (induced jobs). For instance, they include six jobs in wholesale trade and four jobs in trucking (mostly intermediate supplier activity), and seven jobs in retail trade and four jobs in restaurants and bars (income-induced activity). They also include nine jobs in construction, due partly to the increased need for facilities to house the new economic activity. Therefore, a generic food manufacturing company in Wayne County would have a county-wide jobs multiplier of 1.69, or 169 total new jobs divided by 100 direct jobs.

Statewide, total employment in the food manufacturing industry would increase by eighty-four jobs, fewer than would be gained in Wayne County alone. This is because of the greater scope for economic displacement at the state level versus the county level: Some food manufacturers elsewhere in Michigan would lose sales to the new food manufacturing firm in Wayne County.

Nonetheless, the new food manufacturing activity would generate a total of 226 jobs statewide. The overall impact on net new activity is larger statewide than at the county level, despite the smaller direct impact, because the increased economic activity in Wayne County stimulates job creation elsewhere in the state. For example, statewide the number of jobs in wholesale trade increases by nine, in trucking by five, in retail trade by sixteen, and in restaurants and bars by seven, all significantly higher than the number of jobs created in Wayne County alone. Thus, on a statewide basis, a generic food manufacturing company in Wayne County would have a jobs multiplier of 2.26, or 226 total new jobs statewide divided by 100 direct jobs.

If the new firm in the example had definite plans to export all or nearly all its product outside of the state of Michigan, then the new firm would create 100 net new food manufacturing export jobs in Wayne County (and in the state overall) in 2016. The key characteristic of such an export firm is that it does not significantly displace any current or future sales of existing local firms. In Wayne County, such a new food manufacturing export firm would generate a total of 194 jobs, for a local employment multiplier of 1.94 (194 divided by 100). Statewide, this new firm would create 283 jobs for a state-to-county jobs multiplier of 2.83 (283 divided by 100).

¹⁵ These job estimates apply only to 2016. The number of net new job additions will change over time as the model’s equilibrating properties come to bear. Also note that the REMI model’s input-output matrix, as is standard in the field, does not include the farm sector. Thus, these estimates do not include any count of net new jobs created in farming due to an expansion of food manufacturing.

Although the local multipliers for food manufacturing are well above one, for some industries the local multiplier will be below one. For instance, if a new generic local restaurant were to open with 100 employees in Wayne County, then the REMI model estimates that this restaurant would create only thirty-five net new jobs in the county, including twenty-nine net new jobs in the restaurant industry. Most of the activity (71 percent) at this restaurant would simply displace sales at other restaurants in Wayne County. Consequently, the county jobs multiplier at this generic restaurant is only 0.35 (35 divided by 100). The number of net new jobs created statewide is even lower because the new restaurant displaces jobs in restaurants in other counties in the state as well as in Wayne County. The REMI model estimates that the one hundred direct employees at the new restaurant will produce only nine net new restaurant jobs in the state of Michigan. That net new restaurant activity will support a total of six additional indirect and induced jobs in Michigan, so that the total net increase in employment in the state is fifteen, for an employment multiplier of 0.15 (15 divided by 100).

Basis for Assumptions and Projections

Modelling the TBP economic impacts entails making several decisions regarding the modelling approach and assumptions regarding relevant quantities. Our general approach to forming these projections was to attempt to validate the projections provided by the developer independently or with the assistance of SB Friedman, if practical.¹⁶ Because the developer has the most detailed knowledge regarding its plans for the proposed TBP, the developer's projections were used if we determined them to be reasonable or conservative. If the developer did not provide a projection for a particular input, or if we determined the developer's projection to be aggressive, we used our own best projection of the input values.

One exception concerns the distribution of total project costs between hard costs, soft costs, and developer fees, as well as the breakdown of hard costs to the different end uses (residential, office, retail, events, exhibition, hotel, and parking). SB Friedman made small changes to the cost breakdowns based on additional information received from the developer. The total development cost did not change for any of the sites, only the distribution to the different cost categories. We used SB Friedman's revised cost estimates in our analysis.

SB Friedman also analyzed a scenario using alternative assumptions with lower total development costs and incentives. We have analyzed that scenario and found that the project would also provide a net fiscal benefit to the state using those assumptions. Additional information regarding that analysis is available at the request of the MEDC.

Our assumptions are described in more detail in the following sections.

Construction Impacts

The construction of a new brownfield redevelopment property inevitably has a substantial construction component. This activity will usually involve five sets of inputs into the REMI model: a) soft construction costs, b) hard construction costs, c) tenant improvements, d) producer durables purchases by tenants, and e) increases in the value of the capital stock. The soft and hard construction activity occurs during the initial phase of the project, while tenant improvements and producer durables purchases occur both

¹⁶ There were some input projections that did not have a substantial impact on the analysis and were difficult to validate independently. In those cases, we accepted the developer's projections.

at the end of the construction phase and in subsequent years due to the need to “refresh” those goods and services.

Soft Construction Costs

The Bedrock TBP application provides data on total expected soft and hard construction costs for each site over time, and then breaks out the total costs, across all construction years, into subcomponents such as “Architecture & Design” in soft costs or “Hotel FF&E” in hard costs. These data allow soft and hard costs to be divided into different industries and entered into the REMI model separately.

One difficulty is that the input-output portion of the REMI model allocates a portion of hard cost construction inputs to soft costs. We have separate data on the expected soft costs, which we enter in addition to the expected hard costs. Therefore, to ensure that the full amount of hard and soft cost spending is accurately allocated in the model, we allocate part of the soft cost expenditure to the hard cost policy variables in REMI. An additional complexity involves the timing of this expenditure. Much soft cost expenditure occurs prior to the physical construction of the buildings. With agreement from the Expert Panel, we directly entered one-half of the soft costs in the first year of construction activity at each site into the REMI model. The soft costs were divided between professional and technical services, insurance, and real estate services using the REMI model’s “demand” variables to allow for the possibility that some of the soft costs services would be provided by firms located outside of Wayne County. The other half of the soft costs were added to the hard cost construction variables in proportion to hard cost spending by industry beginning in the second year of construction.

We harmonized our assumptions regarding soft cost construction spending with the revised estimates produced by SB Friedman described above. Those assumptions are reported in the financial underwriting report on the proposed TBP.

Hard Construction Costs

Given the structure of hard and soft cost data described above, we allocate hard construction spending by industry to specific years in proportion to total expected hard cost expenditures over time. This spending is entered in the REMI model using the detailed industry sales variables for multifamily residential construction, highways and streets construction (for parking garages), commercial structure construction, and other nonresidential structure construction.

As we did with the soft cost construction spending, we harmonized our hard cost construction spending projections with SB Friedman’s revised estimates.

Tenant Improvements

Nonresidential

Following the initial construction period, tenant improvements are introduced into the REMI model using the nonresidential maintenance and repair detailed construction variable. The initial tenant improvements are included as hard costs in the data provided by the developer and are therefore entered with the hard cost construction activity above. Based upon consultations with private sector property developers with no involvement in the proposed TBP, the refresh rates for tenant improvements are introduced starting in the sixth year of operations activity, at a rate equal to 20 percent per year of the initial real dollar value of tenant improvements provided by the developer.

Residential

Based upon our consultations with private sector property developers, we determined that the refresh rate for the residential property development should be 5 percent of the residential rent payments annually. We introduced this value into the REMI model using the residential maintenance and repair detailed construction variable. Residential refresh spending was assumed to start in the first year of occupancy and continue every year. Annual rent projections were provided by Bedrock for each of the sites and assume an annual increase of 3 percent.

Producer Durables

Producer durable purchases are introduced into the REMI model using the computer, communications, and furniture detailed equipment investment variables. The developer provided information on the expected personal property expenditures over time in relation to its estimates of the personal property tax capture. That information mapped directly into the producer durables categories in the REMI model. The developer also provided estimates of the timing of the refresh expenditures.

Based on our consultations with private property developers, we judged the timing and magnitude of the refresh expenditures to be reasonable or slightly conservative. Therefore, we used Bedrock's estimates in our baseline projections. The dollar value of producer durable spending was introduced into the model using 2016 real dollar values.

Capital Stock

The total value of nonresidential and residential construction activity was added to the actual nonresidential and residential capital stocks in the project county in the final year of the construction component of the project. The REMI model endogenously reduces construction activity in future years to account for the projects' fulfillment of capital demand in the area. In practice, therefore, not all the new construction will be treated as net new in the analysis.

Operations Impacts

The operations phase of the analysis incorporates the benefits from the commercial activity at the site after construction is complete.¹⁷ A portion of the commercial activity at the new brownfield project will substitute for activity already performed elsewhere in the county or state. The portion of economic activity associated with the brownfield project that is net new to Michigan is the share that will either be exported or that will replace existing imports. This portion is determined endogenously within the REMI model, except where noted explicitly below.

Employment Impacts

The first task in estimating the operational benefits of a brownfield redevelopment project is to estimate total employment at the site by industry. The operational activities of brownfield projects tend to involve five major industries: 1) retail trade; 2) hotels; 3) restaurants; 4) events and conferences; and 5) office sector or "white collar" employment. The developer provided us with estimates of employment in each of these five categories for all four sites, based on the planned rentable square footage at each site and assumptions about the square footage per employee by industry. These estimates, along with the developer's expectations for average wages, are shown in Table 2.

¹⁷ The benefits from the residential activity will be captured in the amenity effects portion of the economic impact analysis, described in the following section.

Bedrock also provided us with data on estimated occupancy rates for each industry and site over time. For example, the office space is expected to have a long-run occupancy rate of 90 percent at all sites. We applied these occupancy rates to the full-occupancy employment estimates to generate annual expected employment at each site as shown in the third row of Table 2.

Table 2: Employment Assumptions Provided by Bedrock

	Soft Retail	Hotel	Food & Beverage	Events & Exhibitions	Office
Square Footage per Employee	164	350	157–158	500–4,199	175–200
Total Employees at Full Occupancy	807	204	816	198	6,396
Total Employees with Long-Run Occupancy Assumptions	790	204	789	198	5,757
Average Salary (2018\$)	\$25,522	\$23,733	\$23,733– \$24,523	\$40,000– \$68,393	\$85,000

The developer’s projections for employment levels in the retail trade and restaurant industries were benchmarked using data from Avention, a provider of commercial property data and analytics that is now owned by Dun and Bradstreet. The average number of rentable square feet per employee in the retail and food and beverage industries was calculated for all tenants in the data set in the downtown Detroit market.¹⁸ We calculated averages of 221 square feet of rentable space per employee in the Soft Retail sector and 243 square feet per employee in the Food and Beverage sector, somewhat higher than in the developer’s projections. The sample sizes for the relevant markets are limited, however, and the spaces in the sample will be in older buildings that may differ substantially in functionality and layout from the proposed developments.

To address this difference, we performed a sensitivity analysis comparing the results of the fiscal impact analysis using the average employees per square foot of rentable space in the Soft Retail and Food and Beverage sectors from the Avention data with the averages in the developer’s projections. The results were within 0.1 percent of the baseline estimates on a net present value basis, reflecting the high degree of within-state substitution and relatively low multipliers in these sectors. Because these assumptions did not materially affect the results of the analysis, we used the developer’s projections in our baseline analysis.

Because of the unusual nature of the Events and Exhibitions and Hotel portions of the proposed developments, we were unable to validate the employment assumptions in those sectors independently. To assess the sensitivity of our results to the projected employment levels in those

¹⁸ We classified beauty shops, family clothing stores, florists, greeting cards, men and boys’ clothing stores, miscellaneous home furnishings stores, miscellaneous retail stores, miscellaneous food stores, ophthalmic goods, paint, glass, and wallpaper stores, photocopying services, and sporting goods and bicycle shops in the Soft Retail sector for these calculations. We classified drinking places and eating places in the Food and Beverage sector.

sectors, we performed a sensitivity analysis in which we set employment in both industries to zero. As in the sensitivity analysis for the Soft Retail and Food and Beverage sectors, the overall results of the fiscal impact assessment changed by a negligible amount relative to the baseline. Therefore, we accepted the developer’s projections of employment in these two sectors.

The first four industry categories in Table 2 line up well with the industries in the REMI model, allowing us to use the corresponding REMI “firm” employment variables.¹⁹ In contrast, the Office Industry sector encompasses six major NAICS industries: Information (two-digit NAICS code 51); Finance and Insurance (52); Real Estate and Related (53); Professional and Technical Services (54); Management of Companies (55); and Business Support Services (three-digit NAICS code 561). In our version of the REMI model, these six industries are disaggregated into thirteen industries that include the “firm” variable option.

Because the exact distribution of office activity will not be known until the developments are complete and tenants have moved in, we had to make additional assumptions about how to allocate the office employment to the thirteen REMI industries. To do so, we used Dun and Bradstreet employment data by business establishment to estimate the preexisting distribution of office employment for the local market. For the proposed TBP, we used the Detroit Central Business District as our definition of the local market. The estimated shares of employment in the thirteen “Office” sectors are presented in Table 3.

Table 3: Distribution of Office Activity by Sector in the Detroit Central Business District

Sector	Share of Employment
Publishing industries, except Internet	14.1%
Motion picture and sound recording industries	1.0%
Internet publishing, broadcasting; ISPs, search portals; data processing; Other information	0.5%
Broadcasting, except Internet	0.9%
Telecommunications	9.6%
Monetary authorities; Credit intermediation and related activities; Funds, trusts	9.1%
Securities, commodity contracts, investments	1.4%
Insurance carriers and related activities	10.5%
Professional, scientific, and technical services	38.2%
Management of companies and enterprises	0.2%
Administrative and support services	10.4%
Real estate and related	4.1%
Rental and leasing services; Lessors of nonfinancial intangible assets	0.0%

We modified this distribution slightly based on specific information provided by the developer related to the expansion plans of the Quicken Loans Family of Companies (Family of Companies) at the proposed TBP sites.²⁰ Overall, the companies require 400,000 square feet of new office space by 2023.²¹ In

¹⁹ We assign event and exhibition operations to the real estate industry in the REMI model.

²⁰ The Quicken Loans Family of Companies comprises several entities including Quicken Loans, the nation’s largest mortgage lender, and Bedrock Detroit, a real-estate firm focusing on Detroit. See <https://www.quickenloans.com/about/partner-company> for more detail.

²¹ Bedrock expects this expansion to increase to a total of 600,000 square feet of new office space by 2026. We did not incorporate the need for this additional 200,000 square feet in our analysis for two primary reasons. First, Bedrock may develop additional space in the area by that time, including as part of the River East project. Second,

addition, Bedrock provided us with a distribution of office space by the NAICS codes referenced above. We modified the Dun and Bradstreet employment distribution to reflect the Family of Companies distribution for the appropriate proportion of the rentable office space.

Bedrock projects 13 percent of the jobs in the space that it occupies in the proposed TBP sites to fall under NAICS code 55, Management of Companies. Given the nature of the Family of Companies business, we expect these jobs to generate economic activity that is almost entirely exported to other states. Therefore, the REMI model's default assumptions regarding the displacement of other activity in this sector in the state of Michigan are likely to be incorrect. To account for this difference, we enter the projected employment in this sector at the Family of Companies as exogenous in the REMI model.²²

In principle, a similar argument may apply to the developer's projections of employment at the proposed TBP sites for NAICS codes 522292, 522390, and 522291, Mortgage Companies, Mortgage Servicing, and Consumer Lending, respectively. The REMI model's default estimates for the share of within-state displacement in these industries is based on industry averages that include many small companies with a primarily local footprint. In contrast, the Family of Companies, in particular Quicken Loans, has a national footprint and might reasonably be expected to have a stronger export orientation outside of the state of Michigan than is standard in these industries. Ultimately, we chose not to enter the projected employment at the Family of Companies in these industries as exogenous due to a desire to produce a conservative analysis. Some concerns we had about treating those direct jobs as exogenous included the treatment of indirect jobs that support these industries, whether some of those jobs would be located in the city of Detroit even in the absence of the proposed TBP, and whether some of those jobs may ultimately be located at sites outside of the proposed TBP.

We discussed the treatment of the projected employment growth at the Family of Companies in the REMI model at length with the Expert Panel, which supported our judgment to enter the majority of that employment using the firm policy variables. We consider this treatment to be conservative, and note that treating a higher proportion of that employment as exogenous would lead to larger estimates of the proposed TBP's economic and fiscal impacts on the state of Michigan.

To validate the developer's projected employment levels of 175 to 200 square feet of office space per employee in the Office industries, we relied primarily on industry sources that report estimated typical square footage of space per employee. For example, CBRE (2016) estimates an average of 171 square feet of office space per employee in North America. For Detroit, that estimate is 117 square feet per employee, which would imply substantially denser employment than the developer projects. We also compared the developer's projected employment density to the average density currently in the downtown Detroit market using the Avention data.²³ The average employment density in the Avention

based on the occupancy assumptions we received from Bedrock, mechanically increasing the Family of Companies share of total square footage from 400,000 to 600,000 between 2023 and 2026 would require evicting non-Bedrock tenants, which we judged Bedrock to be unlikely to do.

²² Because the REMI model's default assumptions involve a relatively low level of within-state substitution in this industry, relaxing this assumption to enter all jobs as "firm-level" jobs does not have a large effect on our main results.

²³ We classified accounting and bookkeeping, advertising agencies, advertising N.E.C. (not elsewhere classified), architectural services, attorneys, commercial banks N.E.C., federal savings banks, national commercial banks, state commercial banks, business associations, business services N.E.C., construction management, state credit unions,

data was 239 square feet per employee, which would imply less dense employment than the developer projects. It is unclear, however, how comparable the current stock of Detroit office space is to the proposed developments given the scarcity of development in the downtown market recently. Finally, the developer provided documentation indicating that the Family of Companies currently has approximately 136 square feet of office space per employee in Detroit, denser than the projections for the proposed TBP sites. Based on our review of the available evidence, we concluded that the developer's projections for employment levels in the office space at the proposed TBP sites were reasonable or slightly conservative, and accepted them in our baseline estimates.

Wage Levels

The next task in estimating the operational benefits from a brownfield redevelopment is to adjust the default wage rates in the REMI model to be consistent with the total wage bill generated by the jobs located directly at the TBP site. The wage data built into the REMI model are based on employment data from the Bureau of Economic Analysis, which includes the self-employed. The inclusion of the self-employed tends to lower the wage bill relative to the total compensation that we would expect to be earned by establishment workers at the brownfield redevelopment sites.

The developer provided estimates of average wages for each of the five industry groups based on the Bureau of Labor Statistics' Quarterly Census of Employment and Wages (QCEW). As expected, these estimates generally exceed the REMI model's default wage rates. We performed our own calculations of average wage rates using the QCEW data and the employment distributions described above. We concluded that the developer's projections were reasonable and accepted them in our baseline analysis.

The developer also provided projections of 2 percent annual nominal wage increases throughout the analysis period. Those increases are substantially lower than is assumed in the REMI baseline forecast, and allow for zero real wage growth, assuming an average inflation rate of 2 percent per year. To be conservative in our analysis, we used the lower rate of wage growth projected by the developer in our baseline analysis. Projecting faster wage growth would tend to increase the project's economic impact on the state, although faster wage growth could also accelerate some portions of the developer's tax capture.

Avoiding Double Counting of Investment

The REMI model endogenously incorporates investment in construction and producer durables when direct employment changes are introduced into the model. In our analysis of the proposed TBP, however, we directly introduce construction activity into the simulation. Consequently, to avoid double counting the construction effects, we must neutralize the REMI-estimated construction and producer-durables spending generated by the employment inputs.

For the "firm" versions of the REMI policy variables, only a portion of the introduced employment changes are new exogenous employment resulting from increased exports or import substitution. Therefore, we only neutralize the portion of the "firm" employment changes that is exported or substitutes for existing imports. In contrast, 100 percent of the exogenous business management

commercial graphic design, bank holding companies, insurance agents, medical services plans insurance, surety insurance, investment advice, investment offices N.E.C., real estate investment trusts, investors N.E.C., management consulting services, mortgage bankers, professional organizations, public relations services, security brokers, and title companies in the Office sector for these calculations.

employment associated with the Family of Companies is assumed to be exported. Therefore, 100 percent of the construction and producer durables activity associated with the additional employment in that sector must also be neutralized.

Tourism Impacts

The developer envisions the proposed TBP sites, particularly the Hudson's site, generating substantial tourist activity. To be net new activity in the state of Michigan, tourist activity must come from out-of-state visitors or in-state residents who replace out-of-state trips with visits to the proposed TBP sites. We estimate tourist activity from overnight visitors and from day-trip visitors to the site separately: the number of overnight visitors were estimated as part of the Book Hotel development analysis, while the number of day trip visitors was estimated as part of the Hudson site analysis. We took information on average spending by the two types of visitors from Longwoods International (2016).²⁴ Our estimate of the number of new overnight trips is based upon the REMI model's estimate that one-third of new activity in the hotel industry will be net new to the state. The developer estimates that when the hotel reaches stabilized occupancy in 2023, it will generate 51,100 room nights per year, which we estimate will include approximately 17,000 net new room nights statewide. We estimate that each of these net new room nights will generate \$107.30 (in 2016 dollars) of spending on restaurants, retail, recreation, and transportation in Detroit.²⁵

We estimate the number of day-trip visitors by building on information provided by the developer. Although the developer projects that the proposed Hudson's site will draw 3 million annual visitors, we judge an estimate of 1.7 million annual visitors to be more realistic.²⁶ Of these visitors, we use the developer's estimate that 10 percent will be from out of state, and of those, 35 percent will be drawn by the Hudson's site itself.²⁷ These calculations give an estimate of 59,500 day-trip visitors per year from outside of Michigan who travel primarily to visit the Hudson's site. Each of these net new day-trip visitors is estimated to spend \$64 on restaurants, retail, recreation and transportation in Detroit. These impacts are entered into the REMI model using the exogenous production policy variables for retail trade, transit and ground passenger transportation, performing arts and spectator sports, and food services and drinking places.

We consider our estimates of the net new tourism activity in the state of Michigan generated by the proposed TBP to be conservative, particularly the projected number of out-of-state visitors to the

²⁴ We consider these spending estimates to be conservative, because they come from a statewide estimate for all travelers. Out-of-state visitors to these developments, especially overnight visitors, are likely to spend more than those average amounts.

²⁵ We account for the economic benefits from the spending on hotel accommodations in the direct operations estimates.

²⁶ This matches the annual number of visitors to Skydeck Chicago (<http://theskydeck.com/the-tower/facts-about-the-ledge/>). In contrast, the CN Tower in Toronto receives 2 million annual visitors (https://en.wikipedia.org/wiki/Tourism_in_Toronto), the Empire State Building receives 3.5 million visitors annually (<http://www.nyctrip.com/pages/Index.aspx?PageID=1176>), and the Eiffel Tower gets approximately 7 million annual visitors (<http://www.chicagobusiness.com/article/20131207/ISSUE01/312079986/hancock-center-considers-new-way-to-look-down>). Because a relatively small fraction of the total visitors to the Hudson's site are projected to be net new to the state of Michigan, this projection does not have a significant impact on the overall results.

²⁷ We do not treat tourists in Michigan who visit the Hudson's site, but whose trip to the state was not prompted by their visit to the Hudson's site, as net new for this analysis.

Hudson's Block site and the projected spending per day trip and overnight visit to the proposed sites. It is worth noting, however, that excluding these impacts from the analysis entirely has only a small effect on the overall results. The projected tourism impacts do not affect the conclusions of our analysis.

Amenity and Migration Impacts from Residential Construction

One of the key benefits of a brownfield redevelopment project is that it should remove a negative externality from the local community and replace it with a positive externality. The REMI model itself provides no guidance or structure regarding the magnitude of such effects, which will depend on the characteristics of each specific project. To quantify the relevant amenity effects, we conducted a thorough literature search of studies that have examined brownfield redevelopment projects. Appendix II presents a table listing the studies that we reviewed and that also reported enough detail for us to quantify the magnitude of the externality appropriately.

The economic literature has tended to estimate the value of the change in the externality effect from brownfield redevelopment using hedonic property value analysis. The studies we reviewed found a wide range in the estimated change in property values resulting from brownfield redevelopments. The aggregate effects on local property values ranged from 0.1 times the investment in the brownfield redevelopment project itself to over five times the value of the development. In our judgment, the most comparable study to the current project was Simons, Quercia, and Maric (1998), which considered new residential development in Cleveland, Ohio. We calculated, based on the results reported in the study, that the new development generated an aggregate increase in local property values of 0.9 times the value of the initial investment.

We did not assume any externality benefits from office, retail, hotel, parking, or restaurant activity associated with these development projects. There is limited evidence regarding the externalities these activities will have on the local community. Some evidence suggests that retail activity can have negative impacts on surrounding communities (Colwell, Gujral, & Coley, 1985) or has a negative initial effect but a positive longer-term effect (Wiley, 2015). This evidence does not necessarily apply to the types of retail in the proposed TBP, however. The development of office space appears to have no effect on surrounding residential property values (Wiley, 2015). One would expect that restaurants, especially upscale restaurants, would have a positive effect on neighborhood property values (Brooker, 2015), but the academic research on this topic was too thin to support such a conclusion with confidence.

Our assessment is that the literature cannot currently support the assumption of either positive or negative externalities from these activities in a reliably quantifiable manner. At our request, the Expert Panel considered this issue carefully in its review of our proposed analytical methodology. The Expert Panel supported our assessment.

We did not enter the residents living in the newly constructed residential units directly through a policy variable in the REMI model. Rather, the increase in population comes about endogenously in the model as a response to the increase in employment and amenity levels associated with the redevelopment process. We did, however, adjust the default assumptions in the REMI model to reflect the expected higher-than-average incomes of the net new residents at the proposed sites. We describe this adjustment in the following section.

Accounting for the High Expected Incomes of Net New Residents at the Proposed Sites

The REMI model assumes that new residents to Michigan, including those attracted by the new housing amenity benefit described above, will have incomes equal to the state average. The new residential housing units that are part of this development, however, are much more expensive than the average residential property in Michigan. Therefore, it is reasonable to expect that the residents of these properties will have higher-than-average incomes.

To quantify this impact, we first calculate the share of residents in the proposed developments who are net new to the state of Michigan. We use data from the Internal Revenue Service (IRS) Statistics of Income Migration data (Internal Revenue Service, 2017) to estimate that 1.46 percent of the Wayne County population in 2016 had moved from out of state in 2015, and that 1.67 percent of the Wayne County population in 2015 moved out of state in 2016. We divide the total of these gross migration flows, 3.1 percent, by the Census Bureau's estimate that 11.1 percent of the U.S. population moved residence in 2016 (Ihrke, 2017) to estimate that 28.2 percent of the residents of proposed developments will either come from out of state, or people who would have relocated outside of the state in the absence of the developments.

The dollar value of the projected income adjustments for the net new residents varies by proposed site along with the anticipated income of the residents and the number of new housing units in each project. For each residential development, the value of the adjustment equals the number of new units, times the estimated share of residents who are net new to the state, times the difference between the average projected income of the residents and the average household income in the state.²⁸

We believe this adjustment is reasonable given the details of the proposed developments. As with some other assumptions that are difficult to project with confidence, however, we have performed the analysis without this adjustment as a sensitivity analysis. Removing this adjustment does not materially change our baseline estimates and does not affect our overall conclusion.

Accounting for Economic Impacts of Tax Incentives

The REMI model endogenously generates an increase in state and local government activity when private sector economic activity expands. If that expansion of private sector activity is encouraged by tax incentives, as in the brownfield redevelopment projects we are analyzing, then the REMI model's baseline estimates will tend to overstate the increase in government activity associated with the increase in private activity. In other words, because the REMI model does not endogenously enforce budget closure, analysts must manually account for the effects of any tax incentives in the model. Therefore, we reduced the REMI model's estimated increase in government spending resulting from the increase in economic activity by the cost of the incentive package.

We introduced this adjustment into the REMI model at the state government level using the estimated \$618 million in tax capture.²⁹ The incentive cost borne by state government must be distributed across

²⁸ The average household income statewide was \$72,581 in 2016 and grows over time in our projections. We use the vacancy assumptions provided by the developer to determine the number of occupied units in a given year for each site.

²⁹ Although the proposed TBP plans to capture a portion of local property tax payments, these losses to the local units of government are expected to be reimbursed by the state. Thus, the state government bears the full burden of the incentives in our analysis.

all counties in the state. We distributed the cost to state government based on the distribution of state government employment by county. The reduction in state government spending is relatively small in most counties, and is largest in counties with a major state government presence, including public universities.

Adverse Scenario

We believe our baseline analysis, described above, represents a conservative analysis of the proposed TBP's economic impacts on the state of Michigan. To assess the robustness of our conclusions to a wide range of assumptions and future economic conditions, however, we have also performed the analysis using a more adverse set of assumptions, which we call the adverse scenario. This scenario allows for the possibility that demand for office space or workers in white collar occupations in the southeast Michigan region will be weaker than we project, or that some of the impacts we project from the proposed TBP might not materialize.

The adverse scenario assumes that the construction phase will proceed as expected under the baseline analysis, but we adjust the assumptions regarding the operational phase of the project in the following ways:

- Office vacancy rates increase by 10 percentage points across all sites in all operational years.
- All employment is entered using the "firm" policy variables (i.e., none of the projected employment growth at the Family of Companies is considered exogenous).
- We exclude the amenity effect associated with the residential development of the brownfield (i.e., the brownfield externality).
- We do not make any adjustment for the higher-than-average expected income levels of the net new residents at the development sites.

Our adjustment of the office vacancy rates is based on previous analysis by Grimes and Fulton (2017) for the Southeast Michigan Council of Governments (SEMCOG). That analysis considers a scenario in which the share of employment in the finance and insurance industry for the SEMCOG region increases from 4.5 percent in 2015 to 5.8 percent in 2025, matching the industry's share for the Pittsburgh Metropolitan Area in 2015. If occupied office space increases at the same rate as employment in office-related industries under this scenario, then we would expect total occupied office space to increase by roughly 500,000 square feet by 2025.³⁰ That total is approximately 10 percent of the planned Class A office space expansion between 2018 and 2025 in the southeast Michigan regional market according to supply projections from CoStar, a commercial real estate data and analytics provider.

For our adverse scenario, we consider a shock to the demand for office space in the SEMCOG region that is opposite the shock implied by our optimistic scenario. Therefore, we increase the projected office vacancy rate by 10 percentage points relative to our baseline scenario.

³⁰ This calculation is relative to a baseline that we adjusted to reflect the current forecast for statewide employment growth for the years 2018 to 2020 in the Information, Financial Activities, and Professional and Business Services sectors, as represented in the RSQE forecast prepared for the State of Michigan's Consensus Revenue Estimating Conference held in Lansing, MI on January 11, 2018. Handout available at: http://www.house.mi.gov/hfa/PDF/Revenue_Forecast/CREC_RSQE_Presentation_Slides_Jan18.pdf

Methodology for Fiscal Impact Analysis

Definition of Net Fiscal Benefit

The TBP program guidelines specify that the Michigan Strategic Fund may not approve any TBP plan unless it determines that the plan will result in an overall positive fiscal impact to the state. Approval of TBPs that propose to use above a certain threshold of tax capture revenues require that the state treasurer concurs with the third party fiscal and economic analysis determination, which we provide in this report, of an overall positive fiscal impact. In consideration of the potential ambiguity associated with the definition of the overall fiscal impact to the state, we have consulted with the Michigan Economic Development Corporation and Michigan Department of Treasury to develop a definition.

We concluded that the most appropriate definition of the overall fiscal impact to the state is the net present value of the projected gross increase in state tax revenues generated by the proposed TBP, minus the present value of the expected cost of state tax incentives associated with the proposed TBP, as revised by SB Friedman.

Costs and Benefits Considered

Our definition of the overall fiscal impact to the state excludes potential fiscal impacts on local governments. In principle, fiscal impacts on local governments could have a direct fiscal impact on the state government. Most prominently, revenues from school operating taxes levied on nonhomestead property may increase as a result of a TBP. Those tax revenues in turn may impact the state's payments to local areas through the School Aid Fund. However, this possibility is less important to the state of Michigan for TBPs in the city of Detroit because of the prominence of the city's Renaissance Zones, which exempt property from many taxes. It is possible that the analysis of future TBPs, located in other parts of the state, will consider the impact on local tax revenues if those impacts are expected to affect the state's fiscal position directly.

Our definition of the overall fiscal impact to the state focuses on the proposed TBP's net impact on state tax revenues. Therefore, it excludes nontax revenue impacts that may be associated with federal funds connected to new residents, as well as potential costs of providing public services to new residents of the state.

Measurement Period

The legislation establishing the TBP program allows capture of property tax revenue for up to thirty years after the completion of the projects, while the construction phase may take up to five years. Therefore, we consider costs and benefits within thirty-five calendar years from the original approval of the TBP plan by the local Brownfield Authority. For this TBP, that approval came in 2017, which was also the year that construction on the project began. Therefore, we consider costs and benefits through the year 2052. We apply the same time horizon to all sites in the proposed TBP.

Discounting Cash Flows

We used standard discounted cash flow analysis to calculate a net present value, as of 2017, of the fiscal benefits and costs to the state projected to be generated by the TBP in each year. In principle, it could be appropriate to discount the increased tax revenues associated with the TBP at a different rate than the tax incentives captured by the developer. Because the tax captures are tied directly to the amount of economic activity at the TBP sites, however, we judge that the fiscal benefits to the state are likely to

be generally correlated with the costs to the state in most scenarios. Therefore, we apply a single discount rate to the net cash flows to the state in each year in our net present value analysis.

We examined tax increment financing bond issuances from September 2017 through January 2018 in collaboration with SB Friedman to identify an appropriate discount rate for the analysis. We considered new money issuances by municipal special improvement districts or community improvement districts that did not fund public facilities and did not carry any general obligation protection or other backstop. The yields on the taxable bonds we reviewed ranged from 4.2 percent to 6.4 percent, and the yields on the tax-exempt issuances ranged from 3.7 percent to 5.2 percent, or a taxable equivalent yield of 5.1 percent to 7.3 percent at a 28 percent tax rate.

Based on these comparable rates, we chose a rate of 6.0 percent per year as our preferred discount rate. The use of a market-based reference rate should approximate the social cost of funds associated with a project with the average risk characteristics of projects that are financed with tax increment financing. To the extent that the risk characteristics of the proposed TBP vary substantially from those average characteristics, this approach may understate or overstate the social costs of those funds. In our assessment, however, the chosen discount rate is appropriate given current market interest rates and the risk characteristics of the proposed TBP.

[Estimating the Increase in Tax Revenues Generated by the Proposed TBP](#)

The MEDC has conducted impact studies to estimate the economic effects and state revenue generated by various projects and programs it has considered in the recent past. The methodology for those studies includes a process to estimate state government tax revenue generated by the economic activity predicted for a particular project or program. In turn, the revenue calculator allows development of return-on-investment measures for various incentive programs. Project staff at RSQE played a role in developing the revenue calculator in conjunction with the MEDC, and we have adapted the methodology for the fiscal impact analysis of TBPs.

More specifically, the economic effects of a proposed project over time were estimated by entering relevant project inputs into the REMI PI+ model and having the model process the results. Because the REMI PI+ model does not provide estimates of the state government tax revenue associated with the resulting economic activity, a post-processing approach is required to translate the economic results into revenue impacts. As part of the Transformational Brownfield Redevelopment project, we have updated and revised the process used to estimate state government revenue resulting from any proposed project.

The previous revenue calculator generates only an aggregate measure of state government revenue. One of the major revisions to the approach for this project was to generate estimates for six categories of state government revenue: 1) business taxes; 2) personal income taxes; 3) sales and use taxes; 4) gambling taxes; 5) state property taxes; and 6) all other state tax revenues.

The fundamental approach to estimating these component revenue sources was the same as the methodology for the aggregate measure. First, we identified the historical dollar value of tax revenue

using information from the Michigan Department of Treasury.³¹ Second, we divided this value by the relevant taxable income (derived from components of BEA-published personal income series and generated by the REMI model) to determine the historical effective tax rate. The taxable income used varied by tax category. Third, we multiplied this rate by the estimated change in taxable income generated by the project under consideration to generate estimates of the tax revenue expected to be generated by the project.

Each of the six tax revenue calculations is described below. The effective tax rates calculated for each category appear to be fairly stable over time. They should provide reasonable estimates of the tax revenues generated by future brownfield redevelopment projects, provided state government tax policy does not change substantially over the course of the analysis period.

The data we used to calculate the taxable income for each tax category came from the Bureau of Economic Analysis November 2017 data file. The annual BEA data were converted to Michigan fiscal years by summing 25 percent of the annual value in the preceding year and 75 percent of the annual value in the calendar year that corresponds to the fiscal year. For example, in calculating the taxable income base for fiscal year 2013, we summed one-fourth the annual value in calendar year 2012 and three-fourths the annual value for 2013.

Business Taxes

The Michigan Department of Treasury reports that business taxes, net of the cost of previous tax incentives, generated between \$1.29 billion and \$1.43 billion in revenue annually between fiscal years 2013 and 2016. The taxable income base that we used to determine the tax rate for this source of state government revenue was private sector earnings. Dividing business tax revenue by the corresponding fiscal year private sector earnings generates estimates of the effective business tax rate of between 0.501 percent and 0.577 percent for fiscal years 2013 through 2016. In our calculation of business tax revenue, we used the average effective tax rate over this period of 0.557 percent of private sector earnings.

Personal Income Taxes

The Michigan Department of Treasury reports that personal income taxes generated between \$8.01 billion and \$9.37 billion in revenue annually between fiscal years 2013 and 2016. The taxable income base that we used to determine the tax rate for this source of state government revenue was the sum of wage and salary income, total proprietor's income, and our estimate of capital income that is subject to Michigan's personal income tax.

Estimating the capital income of Michigan residents that is subject to the state income tax is complicated. Some components of capital income that are subject to Michigan's personal income tax, such as capital gains, are not reported in the BEA personal income data. Other components of personal income include both taxable and nontaxable income, such as dividend and interest income earned by retirement funds. Thus, our challenge was to estimate capital income in Michigan that is subject to the Michigan personal income tax and to link it to dividend and interest income reported by the BEA.

³¹ RSQE maintains a database of state revenue collections from various sources that is compiled from several decades of monthly and annual revenue reports provided by the Michigan Department of Treasury. That database is the source of the historical tax revenue data in the calculations that follow.

To do this we used tax return data from the Internal Revenue Service. These data show dividend, interest, and capital gains income that is subject to the federal personal income tax. For example, according to the IRS tax return data for 2015, capital gains income in Michigan was \$11.12 billion, taxable interest income was \$2.11 billion, and dividend income was \$6.03 billion. The IRS reports that taxable capital income in Michigan was equal to between 84.2 percent and 88.6 percent of BEA-reported dividend and interest income between 2013 and 2015. In our estimation of future taxable capital income in Michigan, we used the average over this period of 86.5 percent of dividend and interest income.

Dividing personal income tax revenue by the corresponding fiscal year taxable income base (the sum of wages and salaries, proprietors' income, and taxable capital income) generates estimates of the effective personal income tax rate of between 2.87 percent and 3.12 percent for fiscal years 2013 through 2016. In our calculation of personal income tax revenue, we used the average effective tax rate over this period of 3.04 percent.

Sales and Use Taxes

The Michigan Department of Treasury reports that sales and use taxes generated between \$8.42 billion and \$8.81 billion in revenue annually between fiscal years 2013 and 2016. The taxable income base that we used to determine the tax rate for this source of state government revenue was the sum of wages and salaries, proprietors' income, taxable capital income, and the cash income portion of personal transfer payment income, minus employee contributions for social insurance and personal tax payments. The cash income portion of transfer payments includes the following categories of personal income: retirement and disability benefits; Supplemental Security Income (SSI); Earned Income Tax Credit (EITC); other income maintenance payments; unemployment insurance compensation; veterans' benefits; other transfer receipts of individuals from government; and transfer receipts of individuals from businesses. Dividing sales and use tax revenue by the estimates of the tax base generates effective tax rates of between 3.17 percent and 3.34 percent between 2013 and 2016. In our calculations of sales and use tax revenue, we used the average effective tax rate over this period of 3.26 percent.

Gambling Taxes

The Michigan Department of Treasury reports that gambling taxes generated between \$0.84 billion and \$1.00 billion in revenue annually between fiscal years 2013 and 2016. The taxable income base that we used to determine the tax rate for this source of state government revenue was the same as for the sales and use tax.

Dividing gambling tax revenue by the estimates of the tax base generates effective tax rates of between 0.32 percent and 0.36 percent between 2013 and 2016. In our calculation of gambling tax revenue, we used the average effective tax rate over this period of 0.34 percent.

State Property Taxes

The Michigan Department of Treasury reports that the state property tax generated between \$1.77 billion and \$1.90 billion in revenue annually between fiscal years 2013 and 2016. The taxable income base that we used to determine the tax rate for this source of state government revenue was the sum of the taxable income base used in the sales and use tax calculation and rental income. Note that rental income is not used in any other taxable income base calculation, because it predominately reflects an imputed estimate of the rental income of owner-occupied property.

Dividing property tax revenue by the estimates of the tax base generates effective tax rates of between 0.65 percent and 0.67 percent between 2013 and 2016. In our calculation of state property tax revenue, we used the average effective tax rate over this period of 0.66 percent.

All Other State Taxes

The Michigan Department of Treasury reports that all other taxes generated between \$1.40 billion and \$1.54 billion in revenue annually between fiscal years 2013 and 2016. The taxable income base that we used to determine the tax rate for this source of state government revenue was the same as for the sales and use tax.

Dividing all other tax revenue by the estimates of the tax base generates effective tax rates of between 0.53 percent and 0.56 percent between 2013 and 2016. In our calculation of all other tax revenue, we used the average effective tax rate over this period of 0.55 percent.

Computational Details

The REMI model generates all the personal income components necessary to calculate the taxable income tax base for each tax revenue category. However, to avoid any change in the personal income categories caused by changes in the local price level, we converted the simulation estimates of the nominal personal income values into inflation-adjusted 2009 dollars. We then compared these values to the control simulation personal income values, also expressed in 2009 dollars. We next converted the differences in personal income in real terms into a difference in personal income in nominal terms using the price deflator from the control forecast. Finally, we applied the appropriate effective tax rates to the appropriate income tax bases to produce estimates of the nominal state government tax revenue generated by the project.

Results of Economic Impact Analysis

Figure 1 displays projected employment at the proposed TBP grouped into the Office, Retail Trade, Accommodation and Food Services, and Construction sectors. The Office sector includes several sectors in the REMI model: Information; Finance and Insurance; Real Estate and Rental and Leasing; Professional, Scientific, and Technical Services; Management of Companies and Enterprises; and Administrative and Waste Management Services. The projected job counts for the categories other than Construction are entered directly into the REMI model as inputs. The job additions in the Construction sector are estimated by the REMI model primarily as a function of the construction spending associated with the project.³²

The estimated employment impact ramps up through 2023, as the four sites are completed and come into operation. The increase in Construction sector employment peaks at 6,357 jobs in 2020, before falling to approximately zero by 2023 (the employment totals for each category cannot be read directly from the figure because the categories are stacked). The job counts associated with the operations phase of the project stabilize by 2024, at 5,955 Office sector jobs (including jobs in Exhibition and Event spaces), 993 jobs in Accommodation and Food Services, and 790 jobs in Retail Trade. The total projected increase in direct employment at the TBP sites in 2024 is 7,738 jobs.³³

³² We report the Construction sector job counts as projected employment at the TBP sites through the end of the construction phase of the project in 2022. The construction jobs that result from the project in later years are primarily indirect jobs, so we do not report them in the direct job counts. This reporting convention does not affect the analysis or results.

³³ The reported direct job counts outside of the Construction sector come from our calculations based on data provided by the developer and are used as inputs into the REMI model. The direct jobs in the Construction sector are outputs of the REMI model, driven primarily by the hard and soft construction spending associated with the project.

Figure 1: Projected Employment at the TBP Sites

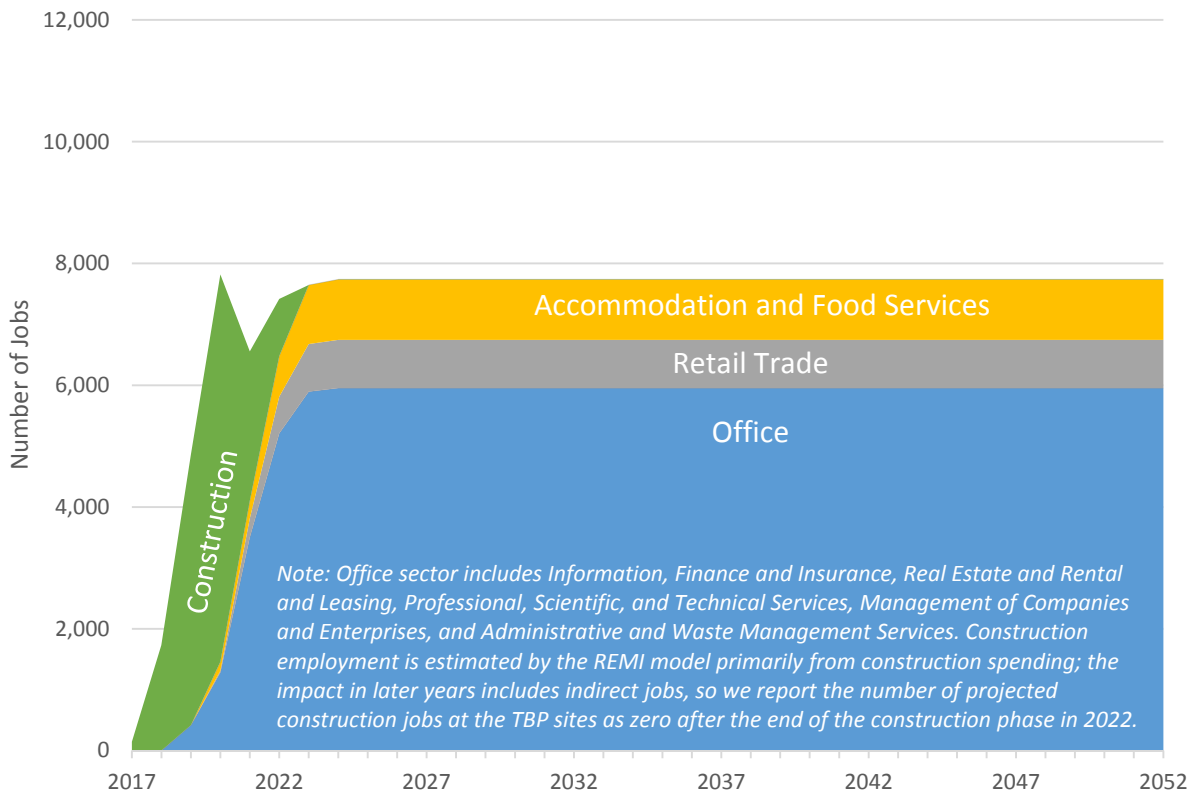
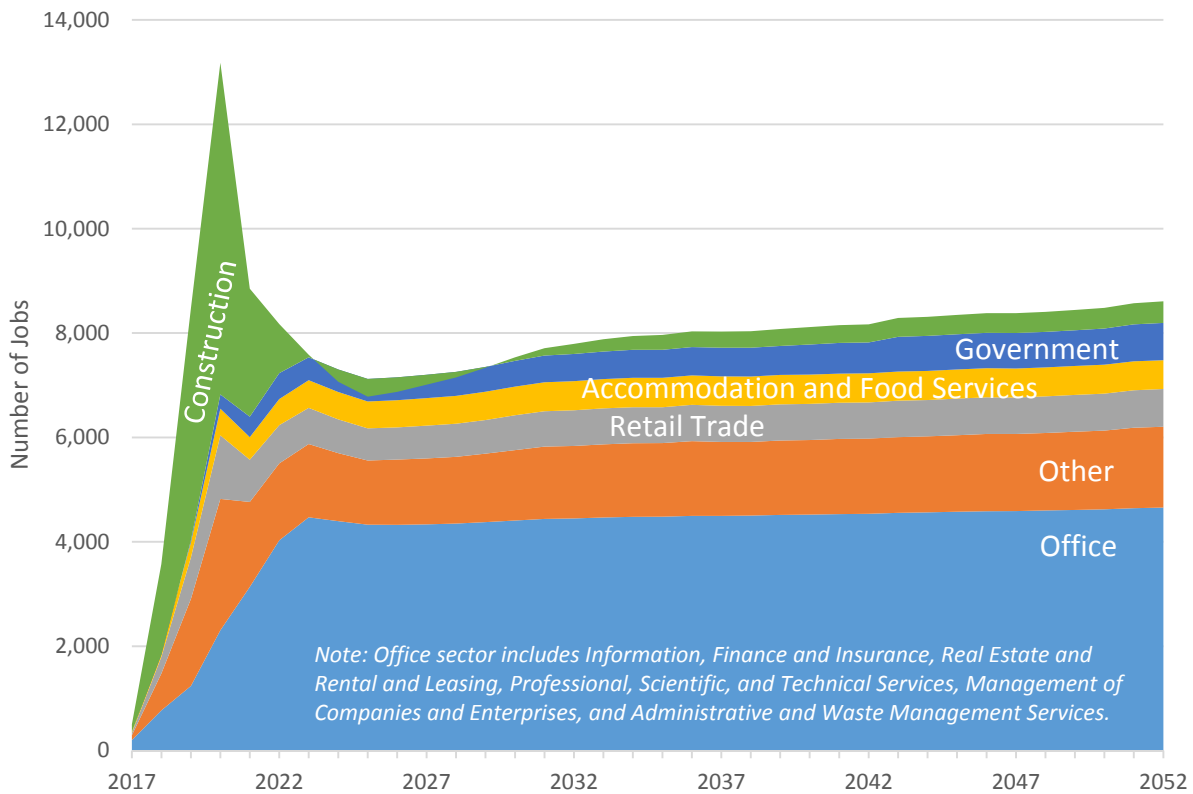


Figure 2 displays our estimates of the proposed TBP’s effect on net jobs in the state of Michigan. The projected job additions are again split out by sector, with additional breakouts for the Government and Other sectors.³⁴ The estimated job impact peaks at 13,180 net job additions in 2020, with the large number of added construction jobs. After the construction period finishes, the total job additions fall to 6,782 in 2025 and then grow slowly, reaching 8,608 by 2052.

³⁴ The Other sector comprises Forestry, Fishing, and Related Activities; Mining; Utilities; Manufacturing; Wholesale Trade; Transportation and Warehousing; Private Educational Services; Health Care and Social Assistance; Arts, Entertainment, and Recreation; and Other Services, except Public Administration.

Figure 2: Statewide Net Job Additions



Some of the direct jobs created at the TBP sites displace other jobs in the state and some of the direct jobs are net new. As discussed in the methodology section, the input-output estimates in the REMI model will treat a certain fraction of direct jobs in each sector as net new. Additionally, we treat a small fraction of the jobs planned to be added by the Family of Companies as exogenous to reflect that they have a much stronger export orientation than is typical in their industry. Treating a larger fraction of the employment additions at the Family of Companies as exogenous would have produced larger estimated net job additions. We believe that our baseline approach is likely to be conservative relative to the fraction of jobs at the Family of Companies that are likely to have a strong export orientation.

Table 4 shows that in 2035, roughly halfway through our analysis period, employment in the Office sector accounts for 4,483, or 56.3 percent, of the 7,963 total statewide net job additions. Retail Trade accounts for 689 statewide net job additions, or 8.7 percent of the total, while Accommodation and Food Services add 563 net jobs statewide, 7.1 percent of the total. In all three sectors, the statewide increase in employment is smaller than the number of projected direct jobs at the TBP sites, consistent with substantial displacement within the state in these industries.³⁵ The Construction sector adds 285 jobs statewide, Government adds 535 jobs, and all other industries add 1,407 jobs. The job additions in these sectors in 2035 are entirely multiplier jobs.

³⁵ The displacement effect in these industries is larger than the numbers in Table 4 indicate because some of the net increase in statewide employment comes from the demand induced by the direct job additions.

Overall, the statewide employment multiplier in 2035 is just over 1.0. The overall employment multiplier is 0.88 in 2025, shortly after the construction phase of the project concludes. It grows slowly over the analysis period, reaching 1.11 by the end of the analysis period in 2052. The overall employment multiplier reflects the relatively high economic displacement associated with the direct job additions in the Accommodation and Food Services and Retail Trade sectors in combination with the relatively lower displacement and higher induced jobs associated with the direct job additions in the Office sector.

Table 4: Direct Jobs vs Net Increase in Statewide Employment by Sector, 2035

	Direct Jobs	Net Increase in Employment
Office*	5,955	4,483
Accommodation and Food Services	993	563
Retail Trade	790	689
Construction	0	285
Government	0	535
Other	0	1,407
Total	7,738	7,963

*Jobs in Events & Exhibitions (shown in Table 2) from the TBP are included in the Office category.

Figure 3 displays our estimate of the increase in Michigan’s population as a result of the proposed Transformational Brownfield Plan. The state adds 8,922 residents by 2023, driven by the increase in statewide employment. The increase in the state’s population continues to rise over time, driven by the amenity benefits of the proposed development and natural population growth (e.g., births minus deaths) from new residents who initially move to the state as a result of the increase in employment. We estimate that the proposed TBP will increase the state’s population by 16,432 residents by the end of our analysis period in 2052.

Figure 3: Increase in State Population

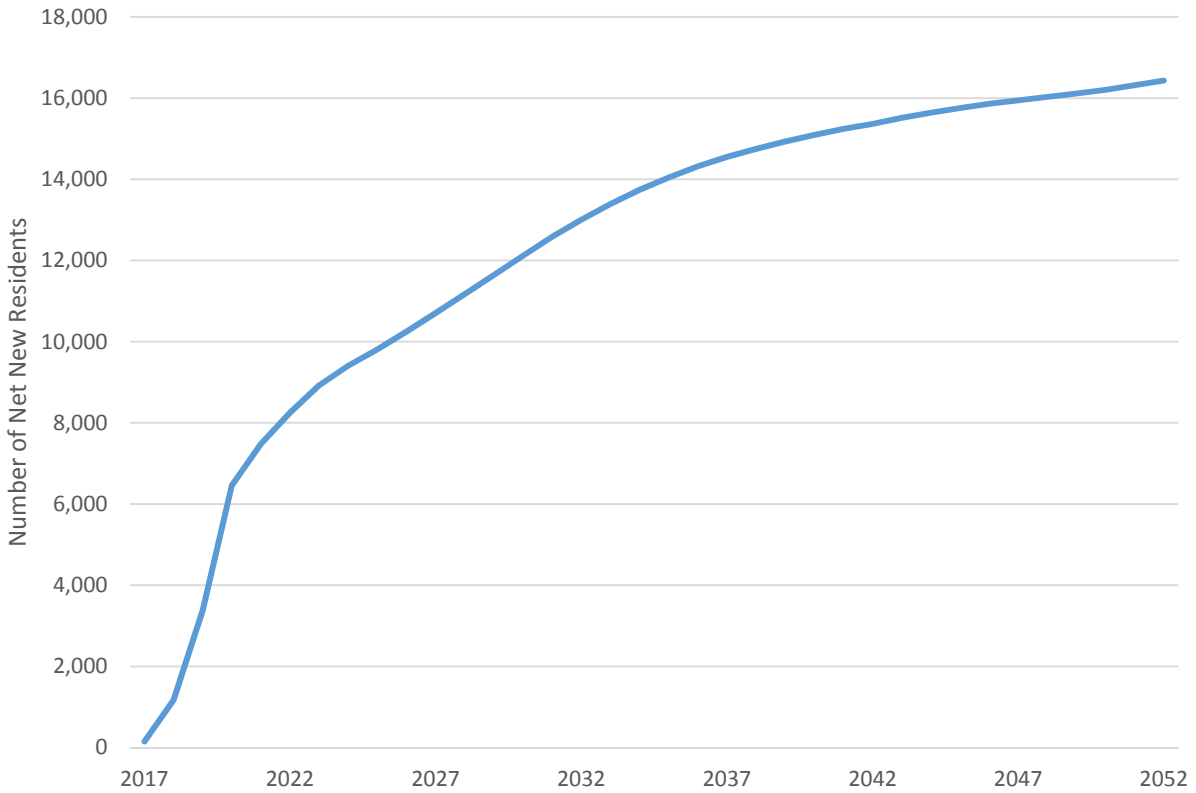
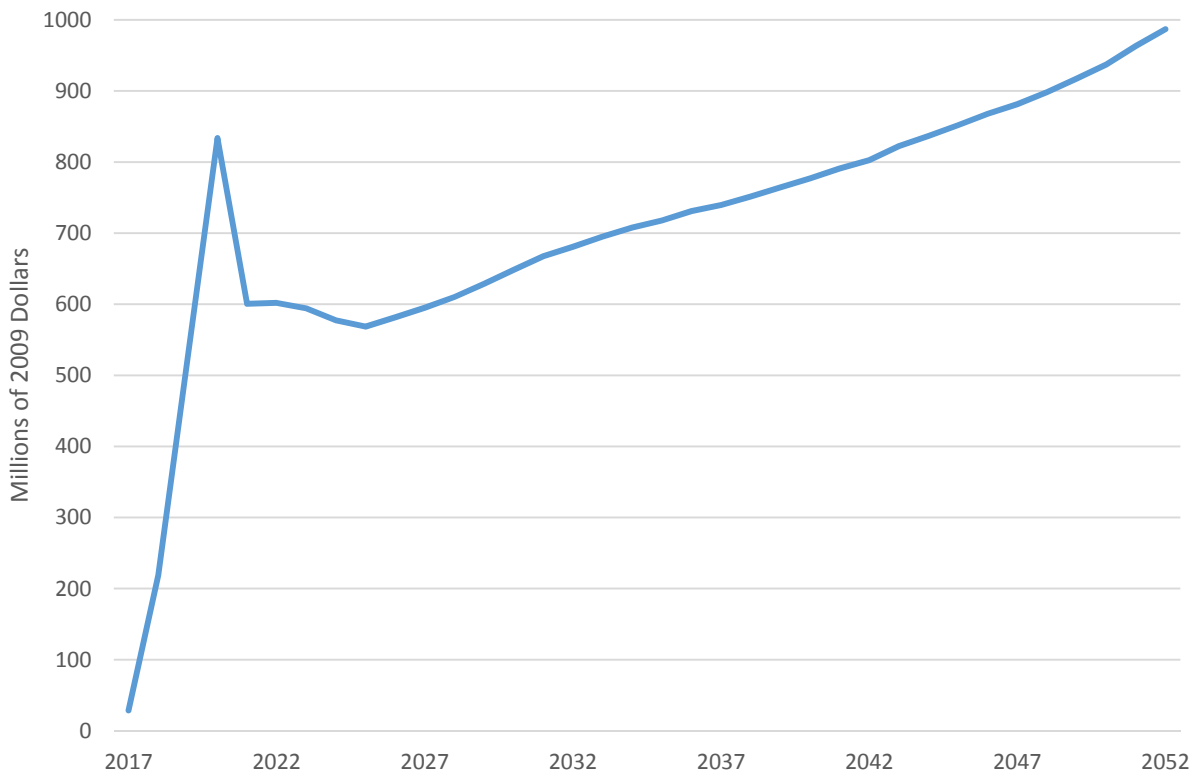


Figure 4 displays our estimate of the increase in Michigan real personal income generated by the proposed TBP, measured in inflation-adjusted 2009 dollars. The increase in personal income reaches \$834 million in 2020, during the construction period of the project, before settling to \$569 million in 2025. Approximately \$451 million of the increase in 2025 is wage and salary income. Given the total statewide increase in employment of 6,782 jobs in 2025, the average salary of the net new jobs generated by the proposed TBP is projected to be \$66,446 that year. That relatively high average salary reflects the large proportion of jobs generated in the Office sectors, including at the Family of Companies. The increase in real personal income generated by the proposed TBP then rises over the remainder of the analysis period, with the projected increase in real incomes reaching \$987 million in 2052.

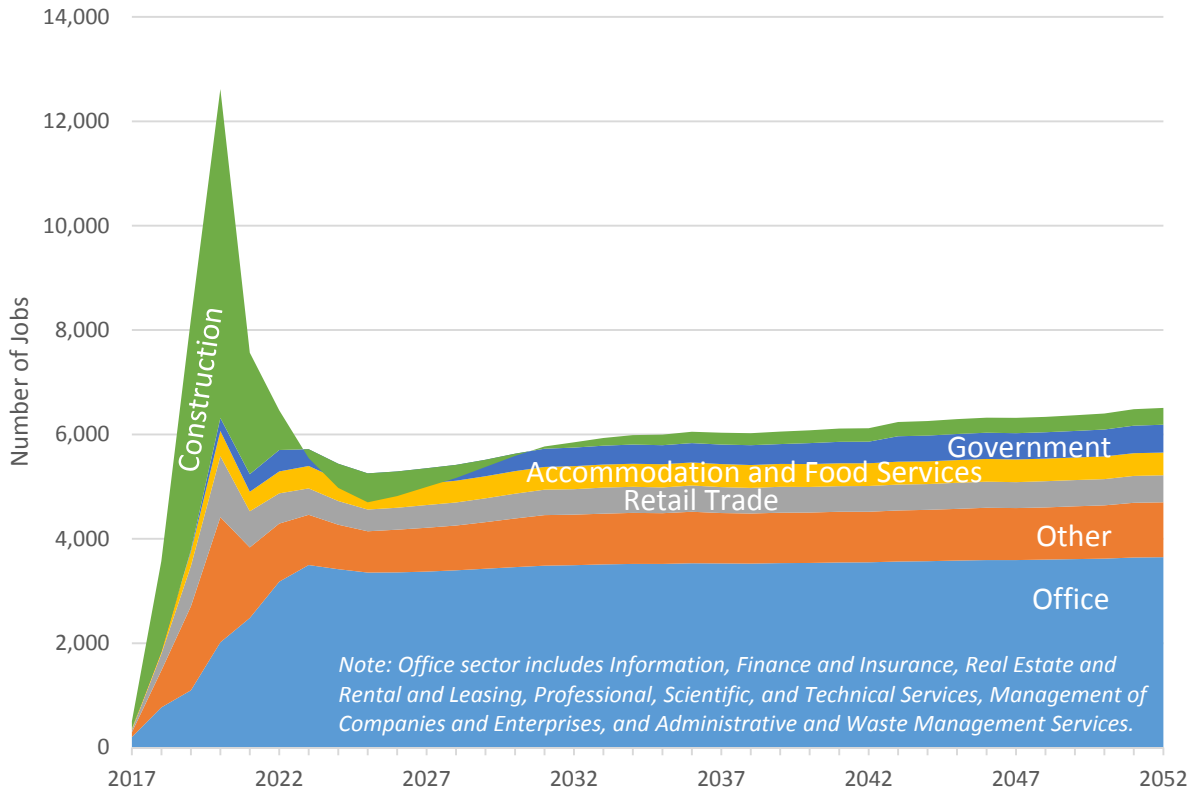
Figure 4: Increase in Michigan Real Personal Income



Adverse Scenario Impacts

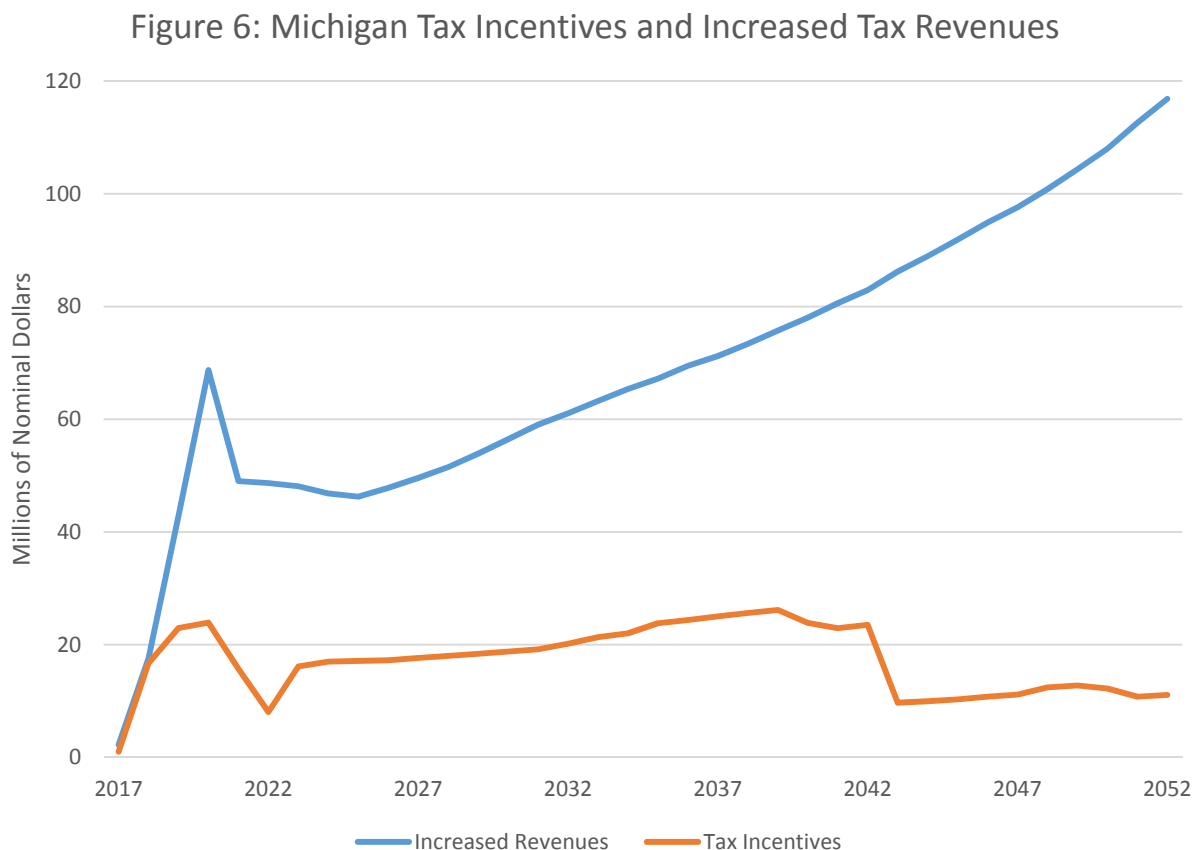
The proposed TBP has smaller economic impacts on the state under the assumptions in the adverse scenario. The number of direct jobs at the proposed TBP sites is 7,099 in the stabilized operations phase of the project, approximately 8 percent lower than in the baseline scenario. Figure 5 displays the projected statewide net job additions by sector in the adverse scenario. After the end of the construction phase of the project, the total statewide job additions range from a minimum of 4,699 in 2025 to a maximum of 6,508 in 2052. The net job additions in the adverse scenario range from 69 percent to 76 percent, as large as the additions in the baseline scenario from the end of the construction period to the end of the analysis period.

Figure 5: Statewide Net Job Additions - Adverse Scenario



Results of Fiscal Impact Analysis

Figure 6 displays our estimates of the total increase in state tax revenues generated by the proposed TBP alongside the cost of the estimated tax incentives. Both amounts are expressed in nominal dollars (unadjusted for inflation).³⁶ The value of the increased tax revenues is larger than the cost of the tax incentives in each year of the analysis period. The increase in state tax revenues is \$69 million in 2020, during the construction phase of the project, when the total tax incentives to the developer are projected to total \$24 million. The increase in revenues and the value of the tax incentives are projected to fall in 2021 as construction at some of the TBP sites concludes, to \$49 million and \$16 million, respectively. The projected cost of the tax incentives falls further in 2022, to \$8 million. After 2022, the projected cost of the tax incentive generally grows. The value of the increased tax revenues is approximately flat between 2021 and 2026, after which it also tends to grow. In 2042, the value of the increased tax revenues totals \$83 million and the cost of the tax incentives reaches \$24 million. The projected cost of the tax incentives falls sharply to \$10 million in 2043 with the expiration of several categories of tax capture. The projected cost of the tax incentives then stays in the \$10 to \$13 million per year range through the end of the analysis period in 2052, while the projected value of the increase in tax revenues continues to rise, reaching \$117 million in that year.

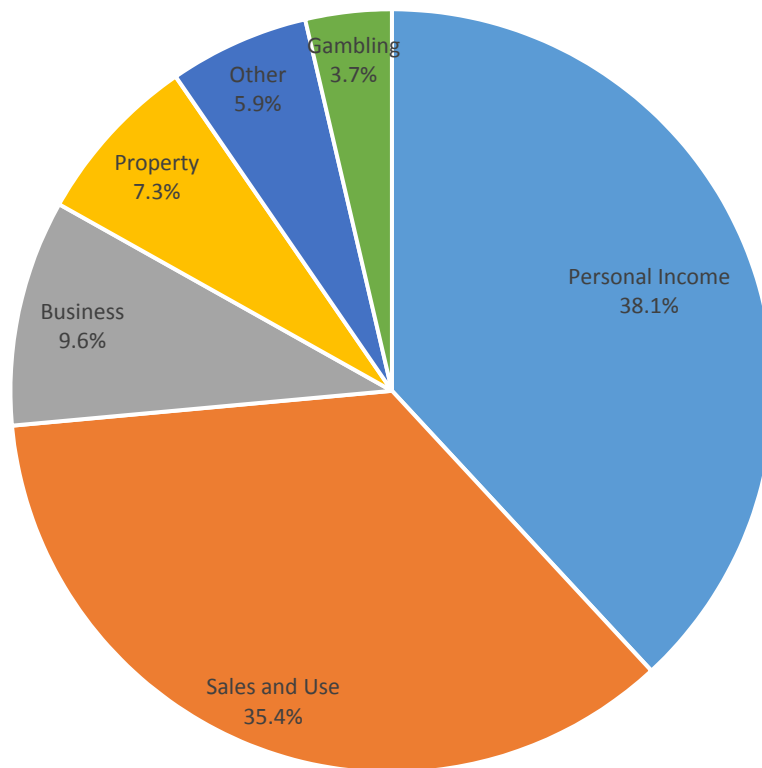


³⁶ Appendix III includes a table displaying the numerical values for each year.

Discounting both the value of the increased state tax revenues and the cost of the tax incentives at 6.0 percent per year, we project the present value as of 2017, expressed in 2017 dollars, of the increase in tax revenues to be \$861 million and the present value of the cost of the tax incentives to be \$265 million. Therefore, we project the net fiscal benefit to the state of the proposed TBP to be positive -- \$596 million. We estimate that the ratio of the increased tax revenues to the cost of the tax incentives generated by the proposed TBP to be 3.2 to 1.³⁷

Figure 7 displays the sources of the projected increase in state tax revenue generated by the proposed TBP, scaled by the proportion of the total increase in the present value of revenues from each source. The personal income tax accounts for the largest increase in state tax revenues, 38 percent. Sales and use taxes account for an additional 35 percent of the increase, followed by business taxes at 10 percent, state property taxes at 7 percent, and gambling taxes at 4 percent. All other taxes account for 6 percent of the increase in state tax revenues.

Figure 7: Increased Michigan Tax Revenue by Tax, Present Value

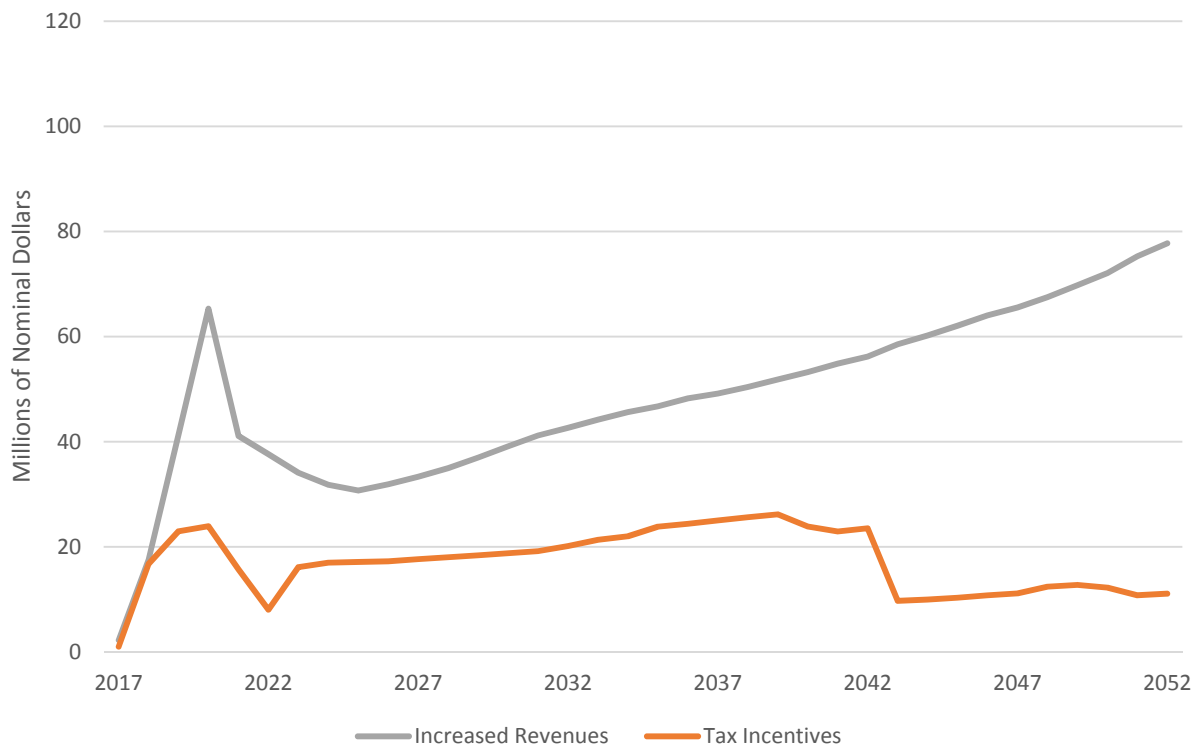


³⁷ Because the increase in tax revenues is projected to be greater than the cost of the tax incentives in every year, the projection that the proposed TBP will generate a positive fiscal benefit to the state does not depend on the discount rate.

Adverse Scenario Results

Figure 8 displays the results of the fiscal impact analysis under the assumptions in the adverse scenario.³⁸ Similarly to the baseline scenario, the projected increase in tax revenues is larger than the projected cost of the tax incentives in every year of the analysis period. After the end of the construction period, the increase in tax revenues under the adverse scenario ranges from 66 percent to 71 percent, as large as in the baseline scenario. On a present value basis, the increase in state tax revenues generated by the proposed TBP is \$630 million, implying a net fiscal benefit to the state of \$364 million. The ratio of the present value of increased tax revenues to the present value of the cost of the tax incentives is 2.4 in the adverse scenario. That ratio is lower than the 3.2 ratio in the baseline scenario, but still implies that the increase in revenues in the adverse scenario is substantially larger than the cost of the tax incentives. Therefore, we conclude that the proposed TBP is likely to produce a net fiscal benefit to the state even under a set of assumptions that we believe is substantially more conservative than our baseline expectations for the project.

Figure 8: Michigan Tax Incentives and Increased Tax Revenues - Adverse Scenario



³⁸ The projected cost of the tax incentives in the adverse scenario does not differ from those in the baseline scenario because we expect the developer to qualify for the maximum approved tax incentives under either scenario.

Limitations of the Analysis

The analysis in this report is subject to several potential limitations, some of which will lead the analysis to overstate the benefits of the proposed TBP to the state of Michigan, and others that will lead the analysis to understate those benefits. In the interest of transparency and to help readers to assess the likely effects of those limitations, we discuss them briefly in this section.

Some limitations that will lead the analysis to overstate the benefits to the state of Michigan are:

- The analysis does not consider the potential increase in the cost of providing government services to the additional residents and businesses who will live in the state as a result of the TBP. Those costs were excluded from the analysis under guidance from the MEDC and Michigan Department of Treasury due to the difficulty in reliably quantifying their magnitude. Several features of the proposed TBP suggest that the marginal costs of providing such government services are likely to be lower than Michigan’s average per capita cost of providing government services, however:
 - Some government costs do not scale directly with the population, so they may not increase with additional residents.
 - The city of Detroit has historically housed a substantially larger population than it does today, so some aspects of its infrastructure may not need to be expanded to accommodate new residents.
 - Federal transfers for certain programs will increase with the state’s population, defraying some costs associated with new residents.
 - The new residents of the TBP properties are likely to have substantially higher than average incomes. Likewise, new residents of the states drawn by new employment opportunities may be more likely than average to be employed. Both sets of potential new residents may therefore require less than average social and other programmatic assistance.
- Consistent with current Michigan law, the analysis does not consider the possibility that some companies that locate in the proposed TBP developments may receive tax incentives apart from the incentives given to the TBP developer. The provision of any additional tax incentives would reduce the incremental tax revenues the proposed TBP is projected to generate.
- Consistent with the spirit of legislation that established the Transformational Brownfield Plan program in Michigan, the analysis uses a “but for” approach that assumes the developer would not engage in any redevelopment of the TBP sites in the absence of tax incentives. Likewise, the analysis uses a “but for” approach for a portion of the employment additions planned by the Family of Companies. Realistically, the developer likely would engage in some redevelopment of the sites so that the “but for” assumption in this analysis overstates the TBP’s likely benefits to the state. The “but for” assumption is likely to be more realistic in this case than in many others given the paucity of transformational development projects of the proposed TBP’s scale in the city of Detroit recently. Although in very recent times the pace of development activity in the city, including proposed developments, has accelerated, some of this acceleration may be due to the catalytic effect of the proposed TBP.

Conversely, some limitations that will lead the analysis to understate the benefits to the state of Michigan are:

- Consistent with the spirit of the legislation that established the Transformational Brownfield Plan program in Michigan, the fiscal impact analysis does not consider any increase in local tax revenues that might result from the proposed TBP. The REMI model does endogenously increase local government employment in response to an increase in local population, which implicitly reflects the expectation of higher revenues. In our judgment, the REMI model's default response is likely to underestimate the true local revenue impacts of the proposed TBP.
- The period for the analysis encompasses thirty-five years from the approval of the TBP, at which time all tax incentives associated with the TBP will have ended. The economic and fiscal benefits to the state could continue beyond that period, however.
- We believe that the assumptions we have used in the analysis are generally conservative. Many assumptions were derived from industry averages or government data for the economy as a whole, although the unusual features of the proposed TBP developments may lead them to have larger economic impacts than implied by those averages. Workers in the Family of Companies are likely to engage in much more export-oriented work than typical workers in the mortgage industry, who are likely to serve a more local market.

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Appendices

- I. Biographical Sketches
 - a. Report Authors
 - b. Expert Panel Members
- II. Literature Review References
- III. Numerical Values of Annual Estimates of Increased Tax Revenues and Cost of Tax Incentives

Appendix I: Biographical Sketches

Report Authors

Dr. **Gabriel Ehrlich** received his Ph.D. in economics from the University of Michigan. He is the director of the University's Research Seminar in Quantitative Economics (RSQE), an economic forecasting and policy evaluation unit within the Economics Department. His research focuses on several areas of housing and land economics as well as the effects of wage rigidity on labor market outcomes. His work has been discussed in *The Economist*, *The Financial Times*, and *The Washington Post*, and his recent article, *Economic Effects of Medicaid Expansion in Michigan*, was published in the *New England Journal of Medicine*.

Prior to joining RSQE, Dr. Ehrlich worked in the Financial Analysis Division at the Congressional Budget Office (CBO), where he forecasted interest rates and conducted analysis on monetary policy and the mortgage finance system. He has also worked as a financial analyst in the mortgage banking industry. He earned his undergraduate degrees in finance and economics at the University of Maryland, where he was chosen by the faculty as the outstanding graduate in finance during his senior year.

Dr. Ehrlich testifies twice per year to the state legislature on Michigan's fiscal and economic prospects, which the state uses as a guide to determining expected future revenues. He is a coauthor recently of *The U.S. Economic Outlook for 2017–2019* and *The Michigan Economic Outlook for 2018–2019*.

Donald Grimes received his Master's Degree in economics from the University of Michigan. He is a senior research area specialist at RSQE. His primary research interests are in labor economics and economic forecasting. For more than 30 years, he has been engaged in economic forecasting for state and local governments and is frequently called upon for policy advice. He has worked for many years with the Michigan departments of Transportation and Treasury and the Michigan Economic Development Corporation on policy analysis and evaluating economic strategies. He is co-director of a project to generate long-term economic and demographic projections for all the counties of Michigan. His past research includes a study looking at Michigan's industrial structure with a view to identifying sectors that will promote economic growth in the future.

He has been involved in research projects sponsored by the U.S. Department of Commerce, the U.S. Department of Labor, the Federal Reserve Bank of Chicago, and the Robert Wood Johnson Foundation. His recent publications include *The Michigan Economic Outlook for 2018–2019; Stabilizing and Sustaining: The Economic and Demographic Outlook for Southeast Michigan through 2045; Exploring Wage Determination by Education Level: A U.S. Metropolitan Statistical Area Analysis from 2005 to 2012*, published in *Economic Development Quarterly*; and *Economic Effects of Medicaid Expansion in Michigan*, published in the *New England Journal of Medicine*.

Dr. **Michael McWilliams** received his Ph.D. in economics from the University of Michigan. He is a Michigan forecasting specialist at RSQE. His research focuses on a range of topics in environmental and natural resource economics, including land use change and its causes and environmental consequences, regulation of light-duty vehicles, and the impact of the ethanol mandates. His work has been published in the *Proceedings of the National Academy of Sciences* and *Energy Policy*.

Dr. McWilliams assists with RSQE's forecasts of the Michigan economy and tax revenues four times per year, and is a coauthor recently of *The Michigan Economic Outlook for 2018–2019*.

Dr. Jim Robey is the Director of Regional Economic Planning Services at the W.E. Upjohn Institute for Employment Research. Dr. Robey's research and technical assistance on economic issues and in economic and workforce development has assisted corporate, nonprofit, and economic and workforce development entities in problem resolution and strategic decision making, from the local to the national levels. Spanning more than three decades, his expertise includes industry studies, applied occupational analysis, economic impact modeling and analysis, economic and workforce development research and analysis, and site selection assistance. His research focuses on regional economic, education, economic development, and workforce development issues across Michigan and the nation. He prepares annual employment forecasts for southwest Michigan's metropolitan areas, directs the production of *Business Outlook for West Michigan*, and provides economic insights for regional economic development across northwest Ohio, and the states of Ohio, Pennsylvania, West Virginia, Maryland, New York, and New Jersey. He has additionally coauthored research on a variety of national and regional issues. He received his Ph.D. in Urban Studies (1997), with an emphasis on Economic Development, and his Master's degree in Public Administration (1993) from the Levin College of Urban Affairs, Cleveland State University. He earned his Bachelor's degree in Sociology (1979) from Edinboro State College.

Expert Panel Members

George A. Erickcek is co-editor of the *Economic Development Quarterly*, a national, peer-reviewed academic journal on economic and workforce development, and a regional consultant for the W.E. Upjohn Institute for Employment Research. Previously, he was the Senior Regional Analyst for W.E. Upjohn Institute, where he used the REMI model on a variety of applications for over 25 years. He received his Master's Degree in economics from the University of Pittsburgh.

Peter E. Gunther is Senior Research Fellow, Connecticut Center for Economic Analysis at the School of Business, University of Connecticut, and President, Smith Gunther Associates Ltd., Ottawa. He has served Canada as a member of the Canadian bench, Chief of Contentious Issues on the Canadian Constitution, prior to being appointed by Africa's International Government Authority on Development as its Resource Person for the Wealth Sharing Table for the Sudanese Peace Negotiations. His professional interests are in the evolution of novel medical treatments and the general expansion of wellbeing culminating in performance measurement of:

- Improvements to Canada's blood supply;
- Assessing benefits of expanding the School of Medicine and Dentistry at UConn with a large Biosciences Centre (50 Full Professors);
- Measuring achievements of the "Brain Repair Centre" at the Halifax Infirmary;
- Establishing the benefits of National Research Council's development of a Meningitis vaccine;
- Launch of an institute to reinvigorate limbs – a product of stem cell research;
- Building a trail down the Naugatuck River to increase participation in walking and bicycling; and,
- Accelerating the adoption of electric vehicles.

He has been responsible for CCEA's Economic Outlook for most of the last decade and is currently transitioning it to the New England Economic Partnership's (NEEP) framework deploying REMI.

Dr. Cynthia Kroll is Chief Economist and Assistant Director of Integrated Planning and Research for the Association of Bay Area Governments (ABAG) and the Metropolitan Transportation Commission (MTC). She oversees the Economic Development and Forecasting Group within Planning and Research, and is responsible for the regional forecast and agency research related to economics and demographics and supervises regional economic development efforts for the two organizations. Dr. Kroll oversees a team of professionals, and is a frequent speaker on economic topics. She has published widely specializing in topic areas that tie economic, social and scientific knowledge to public policy concerns at the state, regional, local, and industry levels. Her current work at ABAG/MTC involves methods and topics in forecasting economic and demographic growth in the region, an initiative to establish a regional economic development district in the San Francisco Bay Area, and an evaluation of the impacts of a 7.0 earthquake along the Hayward fault—the most urbanized fault in the country.

Prior to joining the regional agencies, Dr. Kroll served as Executive Director for Staff Research, and as a Senior Regional Economist for the Fisher Center for Real Estate and Urban Economics at the University of California Berkeley. She led major research projects on the California economy, the real estate industry, housing and land use policy, housing affordability, economic development, the globalization of labor markets, and the structure of the high-tech industry. She also researched green technologies in the economy and in building design, economic crises, and social, economic, land use and real estate considerations in natural disasters. She previously worked for the California Office of Economic Policy Planning and Research, SRI International, and as a consultant, primarily on the social and economic impacts of energy facilities.

Dr. Kroll is a member of Lambda Alpha (Land Economics honors society), the Urban Land Institute, the American Planning Association, the American Real Estate and Urban Economics Association, and the Industry Studies Association. She has served on the Research Council of the Bay Area Council Economic Institute and the California Controller's Office Council of Economic Advisors.

Dr. Kroll earned her Masters and PhD degrees in City and Regional Planning and a Bachelor's degree in Social Science and Art from the University of California Berkeley. She has published articles, books and reports on a wide range of topics. Recent research from ABAG includes the *Regional Forecast for Plan Bay Area 2040* (2016), *State of the Region* report (March 2015) and a working paper on "Effects of TOD Location on Affordable Housing Tenants" (September 2015). She is coeditor of *The Oxford Handbook of Offshoring and Global Employment* (Oxford University Press, 2013) and *Global Housing Markets* (John Wiley & Sons, 2012), and coauthor of *Globalization and a High Tech Economy* (Kluwer Academic Publishers, 2004) and *New Jobs for the Timber Region* (1984).

Colby Lancelin joined the Atlanta Regional Commission in March 2001. He is a Principal Planner, long-range planning forecaster, and econometric modeler in the Research and Analytics Division with the Atlanta Regional Commission (ARC). Mr. Lancelin is the program manager of the agency's Economic Analysis Program providing custom impact studies and economic assessments on developments of regional impact within the Atlanta Region. His work focuses planning resources around key regional issues assisting communities and civic leaders with measuring socioeconomic impact and assessing the cumulative effect of implementing various policies, development spending, and alternative

transportation investments and revenue-generating resources in the region. Mr. Lancelin received a Bachelor's degree in Geography from the University of South Alabama specializing in research methods in urban and economic geography and is a member and past president of the Atlanta Economic Club. In addition, he is a member of the Council for Community and Economic Research and holds the Certified Community Researcher (CCR) designation.

Rod Motamedi is a Research Manager at the University of Massachusetts Donahue Institute with over nine years of experience conducting economic and policy impact analyses, economic development and regional competitiveness assessments, and industry footprint studies. Prior to joining the Donahue Institute, Mr. Motamedi was a senior economic associate at Regional Economic Models, Inc. where he led client training and support, business development, and consulting projects. He is an expert in the application of economic models to high-visibility issues around the U.S. and internationally. Examples of his previous work include the economic impact of casinos, national immigration reform, film tax incentives, and higher education. His recent projects include an assessment of the creative economy of New England, the economic and social impacts of the introduction of casinos in Massachusetts, and contributions to the City of Cambridge Citywide Master Plan. Mr. Motamedi received his bachelors of arts in economics from the University of Massachusetts Amherst.

Appendix II: Literature Review References

Table A.1: Literature Review of Hedonic Estimates of Effects of Brownfield Restorations and Related Projects on Nearby Property Values ¹

Author	Location	Project Type	Estimated Project Cost	Reported Impact	Estimated Aggregate Increase in Residential Property Values ²	Benefit-Cost Ratio
Kim (2009)	Lansing, MI	Housing Redevelopment	\$6.5 million	\$33.26 million	\$33.26 million	5.1
Simons, Quercia, and Maric (1998)	Cleveland, OH	New Housing	\$130,000 per unit	\$670/unit of new construction in all housing within 2 blocks	\$121,270 per \$130,000 unit constructed	0.9
Kaufman & Cloutier (2006)	Kenosha, WI	Brownfield to Greenspace (park)	\$2.5 million	\$2.4 million to \$7.0 million	\$2.4 million to \$7.0 million	1.0 to 2.8
Mihaescu (2010)	Cincinnati, OH	Cleanup Brownfield	\$0.9 million per cleanup	\$6,022 on each property within 1,000 feet of site	\$111,407 per cleanup	0.1
Tuminario & Solis (1997) as summarized in Simons, Magner, & Baku (2003)	Savannah, GA	Housing Rehabilitation	\$128,110	\$96,960	\$96,960	0.8
Ding, Simons, and Baku (2000) as summarized in Simons, Magner, and Baku (2003)	Multiple Locations	Housing Rehabilitation	N/A	\$0.13 of increase per \$1 spent	N/A	0.1
Simons, Magner, and Baku (2003)	Multiple Locations	Housing Rehabilitation	\$2.97 million	10 projects with 334 rehabilitated units	\$13.8 million	4.6

Notes:

1. We reviewed several additional studies, but many did not report results in a format that allowed for the calculation of an aggregate benefit-cost ratio.
2. For several studies, we calculated this ratio based on information reported in the original study.

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Appendix III: Numerical Values of Annual Estimates of Increased Tax Revenues and Cost of Tax Incentives

Table A.2: Annual Estimates of Increased Tax Revenues and Cost of Tax Incentives
Generated by Proposed TBP (Millions of Nominal Dollars)

	Increased Tax Revenues - Baseline Scenario	Increased Tax Revenues - Adverse Scenario	Tax Incentives
2017	2.2	2.2	1.0
2018	17.6	17.6	16.7
2019	42.8	41.3	23.0
2020	68.7	65.3	23.9
2021	49.0	41.1	15.7
2022	48.7	37.6	8.0
2023	48.1	34.1	16.1
2024	46.8	31.8	17.0
2025	46.3	30.7	17.1
2026	47.8	31.9	17.2
2027	49.6	33.3	17.6
2028	51.5	35.0	18.0
2029	53.9	37.0	18.4
2030	56.5	39.1	18.8
2031	59.0	41.2	19.2
2032	61.1	42.6	20.2
2033	63.2	44.2	21.4
2034	65.4	45.6	22.0
2035	67.2	46.7	23.8
2036	69.5	48.3	24.4
2037	71.2	49.2	25.0
2038	73.4	50.4	25.6
2039	75.7	51.9	26.2
2040	78.0	53.2	23.9
2041	80.6	54.8	22.9
2042	82.9	56.2	23.5
2043	86.2	58.5	9.7
2044	88.9	60.2	10.0
2045	91.8	62.1	10.3
2046	94.9	64.0	10.8
2047	97.6	65.5	11.1
2048	100.8	67.5	12.4
2049	104.3	69.8	12.8
2050	108.0	72.1	12.2
2051	112.6	75.3	10.8
2052	116.8	77.7	11.1



MEMO

To: Michigan Economic Development Corporation; Michigan Strategic Fund
From: SB Friedman Development Advisors
Date: May 17, 2018

RE: **Bedrock Transformational Sites – Underwriting Analysis**

Executive Summary

Bedrock Management Services LLC (the "Developer" or "Bedrock") has requested approximately \$618 million in public assistance to be reimbursed over 30 years for a proposed mixed-use, multi-site development in downtown Detroit (the "Project"). The Developer has requested assistance under the Transformational Brownfield Plan (TBP) amendment to the Michigan Brownfield Redevelopment Financing Act. SB Friedman Development Advisors (SB Friedman) has been engaged by the Michigan Economic Development Corporation (MEDC) on behalf of the Michigan Strategic Fund (MSF) to conduct an independent third-party financial and underwriting review of the Developer's proposed project, as required under state statute. The goal of SB Friedman's engagement is to conduct a sufficient review, underwriting and financial analysis to evaluate the reasonableness of the Project's key assumptions, the financial feasibility of the Project with and without TBP assistance, and the financing gap/level and structure of TBP assistance required to make the Project financially feasible.

The Developer has estimated total Project costs of \$2.15 billion, for the following four components:

- **One Campus Martius (OCM) Addition.** A \$94.8 million expansion of the 14-story OCM office building at the corner of Gratiot Avenue and Farmer Street, consisting of approximately 270,000 square feet of office space and 39,000 square feet of event and auditorium space.
- **Book Tower.** A \$311.4 million historic rehabilitation of the 13-story Book Building and 38-story Book Tower into a mixed-use development consisting of a 200-key hotel with approximately 40,000 square feet of event space, 95 residential units, 106,000 square feet of office, 29,000 square feet of ground-floor retail, and a 400-space above-ground parking structure at the southwest corner of Grand River Avenue and Washington Boulevard.
- **Monroe Blocks.** An \$830.1 million new construction development consisting of several low- and mid-rise buildings and two high-rise towers organized around public space. Monroe Blocks will include approximately 814,000 square feet of office, 482 residential units, 169,000 square feet of retail, and 1,261 underground parking spaces. The Monroe Blocks site is currently predominantly vacant and bounded by Monroe Street, Randolph Street, Bates Street, Cadillac Square and Woodward Avenue.
- **Hudson's Site.** A \$909.0 million new construction, mixed-use high-rise 52-story tower with 330 residential units, 93,000 square feet of exhibition space, and a SkyDeck, as well as a mid-rise podium that contains 360,000 square feet of office space and 168,000 square feet of event space. Approximately 103,000 square feet of retail

space will be included on the Hudson's Site, along with 711 underground parking spaces. The currently vacant Hudson's Site is located on the southeast corner of Woodward Avenue and Grand River Avenue.

This *Executive Summary* is intended to provide a high-level overview of SB Friedman's analysis and results. Additional detail and supporting documentation is provided in the full memorandum and associated Appendices.

APPROACH

SB Friedman evaluated the reasonableness of key pro forma assumptions by benchmarking the Developer's assumed costs, revenues, expenses and financing assumptions against industry standards and similar first-class downtown projects in Detroit and other Midwestern cities. SB Friedman used a variety of sources to conduct this evaluation, including data from the Developer, SB Friedman's in-house database with detailed underwriting metrics for similar projects we have reviewed in the downtowns of other major Midwestern cities, information from MEDC regarding recent and proposed downtown Detroit developments, publicly available data on additional projects, industry sources (e.g., RS Means, Institute for Real Estate Management (IREM), PricewaterhouseCoopers), and subscriptions to data sources (e.g., CoStar, Real Capital Analytics, Esri Business Analyst). Additional clarifying information was provided by the Developer and its consultants through correspondence, conversations and written materials.

In addition, SB Friedman evaluated the Developer's TBP tax revenue projection assumptions using data from a Plante Moran analysis prepared for the Developer as well as data obtained from CoStar, U.S. Census, U.S. Bureau of Labor Statistics, Building Owners and Managers Association, STR, and data and interviews with the Detroit Assessor's Office.

Additional detail is provided in the Methodology section.

UNDERWRITING FINDINGS

Operating Assumptions

Overall, the Developer's assumptions regarding operating income and expenses of various components of the Project appear to be reasonable. As would be expected for a transformative project, the assumed office, retail and residential rents include premiums over existing product in downtown Detroit. The Project's average residential rents on a per-square-foot basis are anticipated to exceed the current top of the market average rents by 25-35%. Office and retail premiums are expected to range from 0-30%+, depending on the Project component. The assumed average daily rate for hotel rooms in the Project is equivalent to current new boutique hotel room rates downtown. The Developer's assumption that the Project's hotel rooms will not command a premium over the newest property appears to be reasonable, given that a large number of hotel rooms are proposed in downtown Detroit. This additional supply in coming years may depress growth in room rates.

Operating expense assumptions for a majority of the components and land uses appear to be reasonable, falling within typical ranges based on industry standards, SB Friedman's review of similar projects, and Developer operating data for certain existing projects in downtown Detroit. However, the expense load for the office component of Hudson's Site was substantially higher than other office space in the Project and exceeded the typical range of expenses. No additional documentation or explanation for the additional expenses was provided, thus SB Friedman adjusted the Hudson's Site office expenses per square foot to match those of the Monroe Blocks for the purposes of evaluating the Project's need for assistance.

No third-party feasibility study indicating potential revenue and expenses of the event and exhibition space was provided by the Developer. Event and exhibition space operating data is not available through subscription databases that provide data on other land uses. Furthermore, because the operations of such space are highly dependent upon build out, anticipated users, and local competitive supply and demand factors, SB Friedman was not able to evaluate the Developer's revenue and expense assumptions using comparable space in other markets. The net operating revenue (NOI) related to event and exhibition space totals approximately 10% of the overall Project NOI. While these revenues and expenses therefore influence Project revenues and returns, the impact of variation in event/exhibition NOI would be less substantial than changes to assumptions for the office and residential components, which are the predominant land uses.

The Developer's assumptions regarding the pace of absorption and stabilized vacancy for each use appear to be reasonable, based on the absorption and vacancy of similar projects in downtown and the Detroit region, and SB Friedman's experience with projects elsewhere. The Developer has assumed 3% annual growth in revenues and expenses over the period of analysis; both of these escalation factors are within escalation ranges consistent with recent and anticipated inflation rates.

Overall, the Developer has assumed the Project will achieve a substantial premium on current downtown Detroit rents, which presents risk that the Project may not achieve pro forma rents and therefore depress equity returns. In the case of the office program, this risk is mitigated somewhat in that the Quicken Loans family of companies is expected to be available to lease 45-50% of the office square footage associated with the Project. However, the materials provided to SB Friedman do not appear to indicate as clear of a risk mitigation strategy for residential rental rates. As discussed below, SB Friedman has therefore included a rent sensitivity scenario in which the residential rents achieve only a 10% premium above the top of the Detroit downtown market.

Construction Costs

To assess the reasonableness of the Project development costs, SB Friedman evaluated 1) whether there was sufficient documentation from the Developer regarding the basis for the cost estimates, and 2) whether the costs, when analyzed overall and by typical cost categories (e.g., acquisition, hard costs for core and shell, hard costs for fit-out, soft costs), appear to be reasonable based on industry benchmarks and projects of a similar type.

The proposed Project is in preliminary stages of pre-development, with the Hudson's Site, Book Tower, Monroe Blocks Phase II and OCM Addition components in the conceptual or master plan design phase. The Monroe Blocks Phase I component has progressed further than other components, with 100% schematic design completed. Preliminary cost estimates for the Project are therefore based on the anticipated massing, mix of uses, and fit-out standards for the buildings, rather than being based on more detailed design and specifications. The Developer provided contractor estimates and supporting documentation for the Hudson's Site, Monroe Blocks and Book Tower. No contractor estimates or backup documentation was provided for the OCM Addition.

SB Friedman compiled cost information for comparable first-class downtown mid- and high-rise projects in major Midwestern cities (Chicago, Milwaukee, Kansas City, Minneapolis, Cincinnati), each of which represent significant new construction or historic rehabilitation projects in those markets. To ensure an "apples to apples" comparison with the proposed Project, SB Friedman adjusted all costs to the midpoint of Project construction (2019 for the OCM Addition and Book Tower; 2020 for Monroe Blocks and the Hudson's Site) and to Detroit using industry indices. All costs were allocated by land use. Following adjustments and allocation of costs by land use, a range of costs was identified by land use. SB Friedman then calculated a weighted average of costs for the most comparable projects. Two luxury skyscraper mixed-use condominium and luxury hotel buildings in Chicago were excluded from the analysis: the 98-

story Trump Tower Chicago, and the 94-story Vista Tower, which is currently under construction. Certain structural design elements and costs are intrinsic to such “supertall” buildings, and both buildings provide a level of finish appropriate for luxury condominiums but atypical of even high-end rental residential buildings.

The early stage of design requires that a certain level of cost contingency be built into the budget to account for design changes and construction cost inflation prior to construction start. The Developer’s and contractors’ stated contingency methodology and overall contingencies appear to be reasonable for the current level of design on a percentage basis. The contractor estimates also include an allowance to meet or make payments associated with Detroit local worker requirements.

SB Friedman’s review indicates that the estimated costs for parking within the Project (\$33,600/space for above-ground and \$48,200-57,700/space for below-ground parking spaces) and the OCM Addition office space are at the high end of typical cost ranges, but do not substantially exceed costs for peer Midwestern projects. The Developer’s hard cost estimates for event and exhibition are \$587/sf for Book Tower and \$815/sf for Hudson’s Site. Such costs are difficult to benchmark and evaluate because they vary widely based on anticipated uses and buildout. SB Friedman has reviewed costs for smaller hotel-related event spaces in other projects that are similar to the Developer’s range of costs, though the event spaces are not directly comparable to what is proposed for the Project.

The Developer’s cost estimates for the remaining residential, office, retail and hotel components of the Project substantially exceed the top of the range of development costs for comparable mid- and high-rise buildings throughout the Midwest:

- The Developer’s total development costs (TDC) for the office components of the Project in the Hudson’s Site, Monroe Blocks and Book Tower range from \$516-705/sf, and retail costs range from \$500-705/sf. Office and retail TDC for comparable Midwest projects ranges from \$220-460/sf.
- For the residential components, the Developer’s TDC of \$572-768/sf exceed the range of \$240-390/sf across comparable projects in Midwestern cities.
- For the hotel component, the Developer’s TDC of \$770/sf exceed the Midwest comparable project range of \$370-695/sf.

The Developer has provided additional documentation from contractors identifying Project-specific costs that would result in residential, office and hotel costs in the Project exceeding first-class Midwest comparables. Such costs include extraordinary costs related to site-specific conditions that impact foundations and the structure of the Hudson’s Site tower; structural features related to the mix of uses, including transfer load grids above event/exhibition space; design features integral to the Project intent, such as multiple building elements with differing setbacks on the Monroe Blocks; and labor shortage, labor efficiency and Detroit Executive Order penalties related to the availability of skilled construction labor in Detroit. The additional costs also include premium features, including an infinite floorplate in the office space on the Hudson’s Site, premium exterior surfaces, including terra cotta cladding on Hudson’s Site and Monroe Blocks, and luxury residential fit-out.

Certain of these costs had already been allocated to other land uses (e.g., SkyDeck and exhibition space) or already appear to be included in the Midwest comparables figure (e.g., upgraded HVAC to meet LEED/Well standards). SB Friedman therefore identified a subset of the extraordinary and premium features that were not accounted for elsewhere. These costs total approximately \$296.1 million, as shown in more detail in **Figure 13** on page 23, and include:

- \$76.4 million in structural features related to the site, mix of uses, and design of the Project;
- \$48.1 million in labor market premiums;
- \$30.3 million in costs related to the Book Tower historic rehabilitation above recent historic rehabilitation costs in Detroit; and
- \$141.3 million related to premium features, materials and fit-out planned by the Developer.

SB Friedman has concluded that extraordinary costs totaling \$154.8 million, associated with structural requirements and labor, are reasonable based on site conditions and overall design requirements to meet the broad intent of the Project in a manner consistent with the quality and character of the peer first-class projects in other downtowns. Approximately \$141.3 million in premium feature costs are related to design choices made by the Developer and fall outside the range and character of peer projects. The Developer has indicated the improvements are necessary for the success of the Project. Furthermore, the MEDC staff and City of Detroit Planning and Development Department have indicated that, as a policy, they support the level of design and finishes proposed for the Project.

Therefore, for the purpose of evaluating the Project's need for TBP assistance, SB Friedman adjusted the average Midwest construction costs for office, residential, hotel and retail space upwards to account for the extraordinary and premium feature costs identified above. Only a portion of the \$296.1 million was allocated to office, residential, hotel and retail space by the Developer's contractors and SB Friedman. The remaining costs were allocated to exhibition/event space, parking and the OCM Addition, which were not adjusted from the Developer submittal. Following addition of the extraordinary costs and premium features to the Midwest average cost baseline, approximately \$398.8 million of the Developer's budget has not been accounted for in the costs associated with peer comparables or in Project-specific factors identified by the Developer. Therefore, for the purposes of evaluating the Project's need for TBP assistance, SB Friedman has tested a scenario in which Project costs are reduced by \$398.8 million, or approximately 18.5%.

Financing

The Developer identified preliminary financing sources for each component of the Project, but no documentation from potential lenders has been provided. The historic Book Tower project is expected to be financed with Historic Tax Credit (HTC) equity, conventional debt and Developer equity. All other Project components are anticipated to be financed with conventional debt and equity. The Developer has not determined how the TBP revenue stream will be financed but indicated it may be bond financed or could be considered as Project cash flow by conventional lenders. The Developer does not expect to have formal discussions with lenders, HTC syndicators and bond underwriters until the request for TBP assistance has been considered. One affiliate of the Developer is expected to provide all required equity.

The Developer's financing assumptions include relatively low leverage and a relatively high amount of equity during both construction and operations. The high level of equity commitment at the outset of construction is probably necessary given the perceived construction and lease-up risk of a transformational project. The strong financial commitment of the Developer is a positive for the Project. However, the debt to equity ratio may change, potentially substantially, as Project design and costs are finalized, and as lenders underwrite the Project and propose construction financing terms. Upon stabilization, the Project is likely to be viewed more favorably by lenders and obtain more advantageous debt financing.

Therefore, for the purposes of evaluating the Project's need for TBP assistance, SB Friedman adjusted the Developer's assumed 1.5x debt coverage ratio (DCR) for permanent financing to 1.3x, which reflects more typical market terms. This adjustment results in loan-to-value ratios more similar to recent permanent financing and refinancing terms in Detroit,

as identified using Real Capital Analytics. SB Friedman has reflected the reduction of equity that results from increased leverage at conversion to permanent financing. The equity level would be likely to change further when the Developer pursues bond or other financing for the TBP revenue stream and undertakes refinancing or sale of Project components, though such scenarios have not been evaluated here.

TBP Revenue Projections

Overall, SB Friedman has concluded that the Developer's TBP revenue projections appear to be reasonable. Current wages, employment sectors and employment density in downtown Detroit and the Detroit region align with the Developer's assumptions regarding potential employment and income tax generated by employees and residents of the Project. Assessed value assumptions for real property were reviewed based on comparable developments in downtown and confirmed with the Detroit Assessor's Office. While SB Friedman noted several adjustments or sensitivities to assumptions that could be made, the net effect of making these adjustments was not significant and would not materially impact the Project's financial returns.

FINANCIAL RETURNS ANALYSIS

SB Friedman evaluated the Project's need for TBP tax increment financing (TIF) assistance under three scenarios. In each scenario, the office operating expenses were reduced for the Hudson's Site, permanent debt was sized using the Developer's parameters and 1.3x DCR, and ongoing TBP assistance was recognized as annual cash flow. The scenarios are as follows:

1. **Developer Cost Scenario** | We used Project costs presented by the Developer and full capture of all available TBP benefit, as projected by Plante Moran.
2. **Adjusted Cost Scenario** | In this scenario, we used adjusted costs for the residential, hotel, office and retail uses, using the average cost of first-class Midwest comparables as a baseline and then added the extraordinary and premium feature costs applicable to each Project component. This results in a reduction of approximately \$398.8 million in costs, related to cost differences between the Project and Midwest cost baseline that have not been specified by the Developer. TBP TIF projections were adjusted downward to account for the reduced construction period costs and labor activity.
3. **Adjusted Cost Scenario + Residential Rent Sensitivity** | Using the same cost adjustments in Scenario 2, residential rents were adjusted downward to reflect a 10% premium over existing downtown per-square-foot rents (\$2.75/sf in 2018). This sensitivity analysis evaluates the impact on financial feasibility of not achieving the 25-35% residential rent premium currently assumed by the Developer. TBP TIF projections were adjusted downward to account for the reduced construction period costs and labor activity. Income tax capture assumptions were also adjusted to reflect reduced resident incomes aligning with the lower rent assumptions.

MEDC TBP Program Guidelines specify that the leveraged annual cash-on-cash return for a project receiving TBP assistance cannot exceed an average of 15% over the TBP assistance period. While Project financing is preliminary and variation in any financing assumptions would impact the amount of cash equity contributed by the Developer and potentially significantly alter the cash-on-cash returns, SB Friedman has primarily evaluated the need for TBP assistance based on MEDC Guidelines.

SB Friedman also considered two unleveraged return metrics, stabilized yield on cost and unleveraged IRR, to consider the overall viability of the Project, rather than equity returns based on a particular financing structure. To account for the mix of uses in the Project, SB Friedman established a range of market-appropriate, risk-adjusted rates of return for each land use, which were then weighted in aggregate to each land uses’ percentage of overall Project net operating income. The following ranges were established for appropriate Project returns: 7.0-7.7% for stabilized yield on cost and 8.3-8.8% for unleveraged internal rate of return. The results of the returns analysis are described below and shown in Figure 1:

1. **Developer Cost Scenario** | Under this scenario, Project returns without TBP assistance are below target return thresholds, indicating the Project is not feasible without TBP assistance. With the full requested \$618.0M in TBP assistance, the Project achieves an average 9.9% cash-on-cash return through 20 years of stabilized operations and is below the unleveraged return ranges listed above.
2. **Adjusted Cost Scenario** | Under this scenario, TBP assistance is reduced to \$346.5 million, with assistance ending after Year 18 of operations. The average cash-on-cash return from stabilization through Year 18 is 15.0%. The reduced assistance results in a stabilized yield on cost of 7.2%, which is within the target return range, and unleveraged IRR of 8.2%, which is just below the target range.
3. **Adjusted Cost Scenario + Residential Rent Sensitivity** | Under this scenario, TBP assistance totals \$422.2 million, with assistance ending after Year 21 of operations. The average cash-on-cash return from stabilization through Year 21 is 15.0%. The reduced assistance results in a stabilized yield on cost of 7.0%, which is at the low end of the target return range, and unleveraged IRR of 8.1%, which is just below the target range.

Figure 1. Required TBP Assistance to Achieve Financial Viability

Scenario [1]	Total Development Cost	TBP Assistance			Returns with Assistance		
		Total Assistance	Construction Period Assistance	Ongoing Assistance	Average Cash-on-Cash Return	Stabilized Yield on Cost [2]	Unleveraged IRR
1. Developer Cost Scenario	\$2.15 B	\$618.0 M	\$78.8 M	\$539.2 M	9.9%	5.9%	6.9%
2. Adjusted Cost Scenario	\$1.75 B	\$346.5 M	\$64.5 M	\$282.1 M	15.0% [3]	7.2%	8.2%
3. Adjusted Cost Scenario + Residential Rent Sensitivity	\$1.75 B	\$422.2 M	\$64.5 M	\$352.8 M	15.0% [4]	7.0%	8.1%
SBF RETURN BENCHMARK						7.0-7.7%	8.3-8.8%
MEDC TBP GUIDANCE: MAXIMUM AVERAGE TBP RETURN DURING ASSISTANCE PERIOD						15.0%	

[1] All scenarios reflect an adjustment to Hudson’s Site operating expenses and 1.3 DCR on permanent financing. In Scenario 3, income tax capture assumptions were adjusted to reflect reduced resident incomes aligning with the lower rent assumptions.

[2] Overall project stabilization in 2024 (Year 5)

[3] Stabilization through 2037 (Year 18)

[4] Stabilization through 2040 (Year 21)

Source: Bedrock, SB Friedman

CONCLUSIONS/RECOMMENDATIONS

The Developer's proposed Project is likely to be transformative to downtown Detroit, bringing a density of high-end new construction and renovated product that is expected to attract new office workers, residents and tourists to downtown. While the projected operating revenues associated with the Project are generally expected to exceed rents achieved in existing downtown developments, the Project rents appear to be insufficient to support construction costs associated with the Project's mix of uses, substantial underground parking, and level of quality and design.

SB Friedman's financial analysis primarily considered the leveraged annual cash-on-cash metric. With the full Developer estimated construction costs, and permanent financing sized using a 1.3 DCR, the Project requires the full \$618 million in TBP assistance to be financially viable. If costs are equal to the average of recent high-end projects in other Midwestern cities, adjusted upward for extraordinary and premium costs associated with the Project, TBP assistance would be reduced substantially to \$346.5 million. In a scenario where the residential rents achieve only a 10% premium above the top of the Detroit downtown market, and costs equal the Midwest cost plus extraordinary and premium finishes scenario, approximately \$422.2 million in TBP assistance is needed to achieve financial feasibility.

The Developer's construction cost estimates for the Project substantially exceed development costs of high-end mid- and high-rise development in major Midwestern cities, including the latest luxury residential and best-in-class office developments in downtown Chicago. The difference in cost between the Project and peer projects appears to be related to site-specific conditions, structural features to support the mix of uses, deterioration and other costs associated with the historic rehabilitation of the Book Tower, labor shortage premiums, and premium exterior and interior finishes. Approximately \$112 million in costs is associated with design elements and premium finishes for the residential, office, retail and hotel components of the Project that do not appear to contribute to the Project's cash flow. SB Friedman estimates that if these elements were eliminated from the Project, TBP assistance could be reduced approximately dollar for dollar. The premium costs do not result in additional cash flow, so each additional budget dollar above a certain level must be funded with equity and then fully serviced with TBP assistance during operations. Under guidance from MEDC, SB Friedman's analysis includes these premium costs because of their potential transformational impact on downtown Detroit.

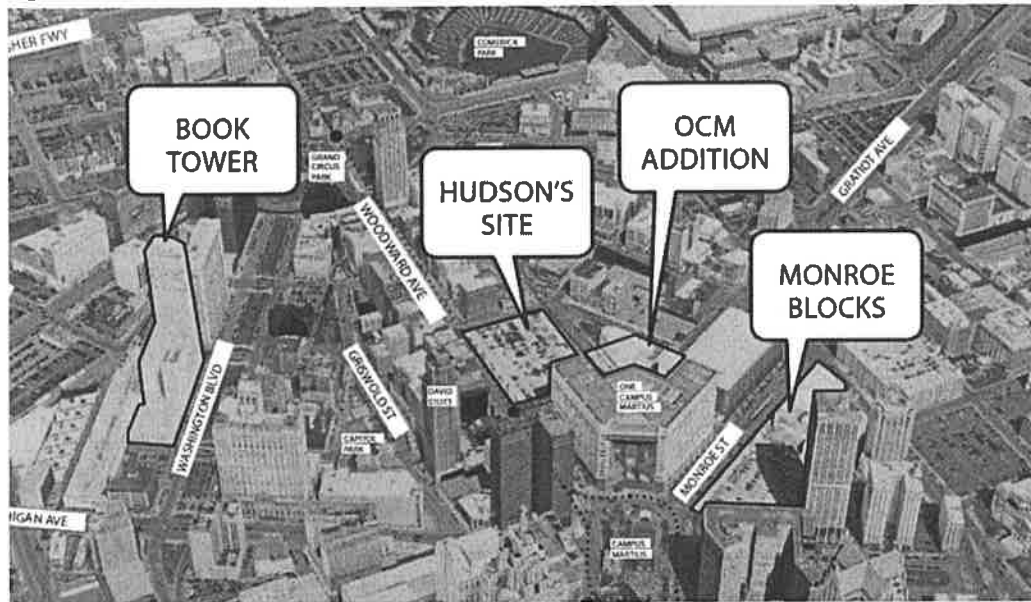
Two Project components are primarily driving the financial gap and need for TBP assistance: relatively high construction costs, including premium features, and conservative financing assumptions. While the Developer has identified certain cost components that cause Project costs to exceed typical first-class Midwest downtown projects, nearly \$400 million in Project costs are not accounted for after adjusting the average Midwest cost baseline upward to account for extraordinary costs and premium finishes. Furthermore, the state TBP statute allows for reductions of up to 10% in TBP project budgets before any adjustments to TBP assistance are required. Given the range of costs identified between the Developer submittal and typical Midwest downtown costs, adjusted for particular Project components, and the range of TBP assistance required to achieve viability under alternate cost scenarios, it is recommended that the TBP assistance structure be such that cost savings are reflected in the TBP assistance. In addition, there is currently great uncertainty related to the Developer's ability to finance the TBP revenues over time; the Developer pro formas and SB Friedman's analysis assume that the TBP revenues are not financed by a third-party entity, even after stabilization. Changes in the financing structure would impact the amount of equity in the Project and equity returns. SB Friedman therefore strongly recommends that the TBP assistance structure and redevelopment agreement require two "true ups" to right-size public TBP assistance at the time costs are solidified and conversion to permanent financing occurs for each Project component:

- **Construction Cost Verification and Savings Capture** | Costs could be verified at the time competitive bids are awarded, with assistance modified based on approved bids. Alternatively, costs could instead be verified following construction completion, comparing anticipated costs indicated in the pro formas to actual costs incurred, at the point at which a certificate of occupancy is issued for each component of the Project. The benefit of the latter scenario is that actual construction costs are verified, with the Developer submitting owner’s sworn statements for all costs. It is our understanding MEDC intends to certify costs after construction completion, and is putting a process in place to do so. In order to incentivize the Developer to reduce costs, any cost savings could be shared between the Developer and the state at a level to be negotiated prior to finalizing the development agreement. Construction-period assistance would be right-sized during construction based on actual costs incurred, and any resulting reduction in assistance during operations would first be taken from income tax revenue, as required by statute, and then real and personal property tax revenues.
- **Upside Sharing** | Following stabilized occupancy, a re-underwriting should be triggered when each Project component or the Project as a whole is converted to permanent financing, is sold, is refinanced or undergoes another financial change, such as monetization of the TBP revenues. At this point, the Project would be evaluated using actual costs, revenues, operating expenses and financing. The Developer would be allowed to maintain an agreed-upon return on equity (as indicated in the original underwriting or another market-appropriate threshold), with any additional revenue – the upside – shared between the Developer and state at a set ratio (e.g., the ratio of TBP assistance to developer equity in the Project at construction completion). This upside sharing provision could be structured such that there would be no impacts to the Developer’s ability to finance the TBP revenue stream.

Project Characteristics

The proposed \$2.15 billion Project consists of four related components, totaling approximately 4.2 million gross square feet, in Downtown Detroit. The Project locations are shown in more detail in Figure 2.

Figure 2. Project Components/Map



Source: Bedrock Management Services LLC

PROJECT PROGRAM

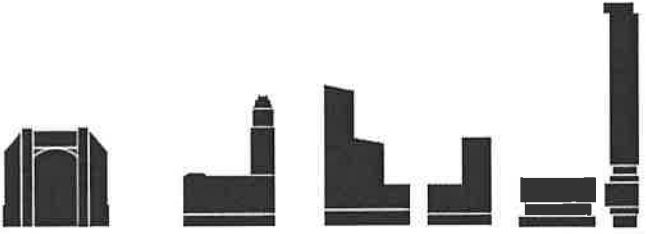
Each component involved a mix of uses. The components combined include over 900 residential units, approximately 1.5 million square feet of office, 300,000 square feet of retail, 200 hotel rooms and 2,400 parking stalls. Components also include less traditional space including event and exhibition space, a SkyDeck and public plazas. The project program for each component is identified in Figure 3.

PROJECT SCHEDULE

The Developer has indicated the four components will be developed concurrently, with construction beginning in 2017 and completed in 2022. **Figure 4** includes the project schedule for each component.

- **OCM Addition.** Construction is expected to begin in early 2018 and be completed in late 2019;
- **Book Tower.** The Developer commenced early stabilization work in early 2016 to ready Book Tower for renovation, which is expected to begin in the first quarter of 2019 and be finished in early 2021;
- **Monroe Blocks.** Construction of Phase I, which includes an office tower, 136 residential units, approximately 100,000 square feet of retail and below-grade parking, is expected to begin in spring 2018, and be fully completed in early 2021. Construction on Phase II, which includes 346 residential units and another 44,000 square feet of retail is anticipated to begin in Summer 2019 and be completed by early 2022; and
- **Hudson's Site.** The Developer broke ground on the Hudson's Site in December 2017 and the project is expected to be completed by in mid-2022.

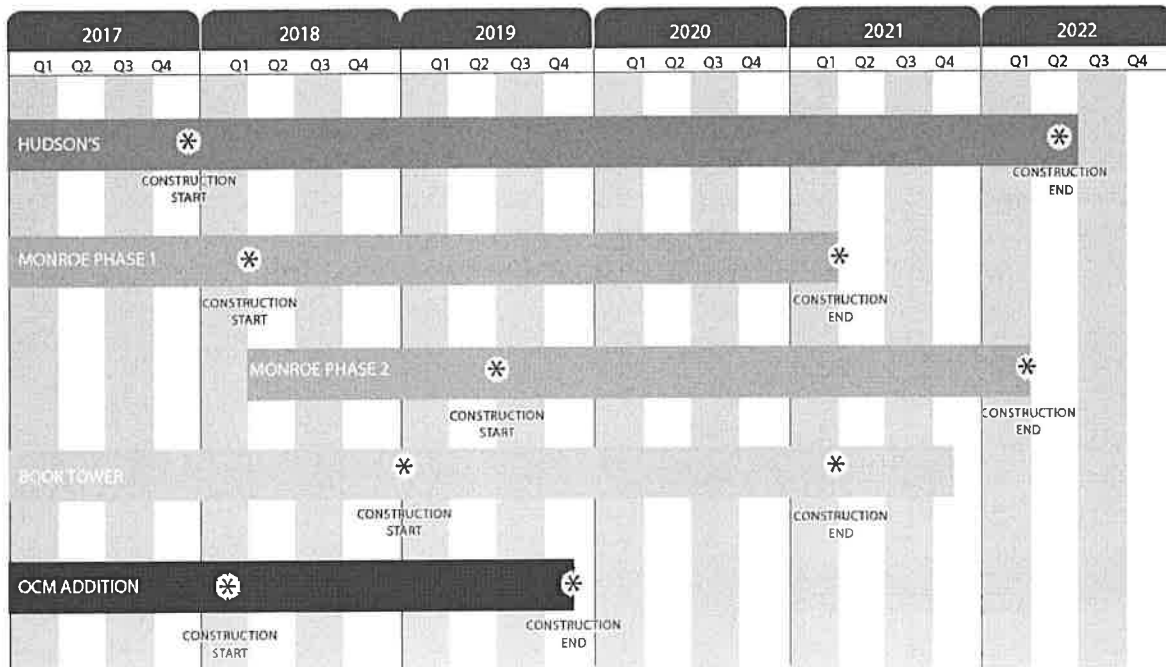
Figure 3. Project Program



PROGRAM	OCM ADDITION	BOOK TOWER	MONROE BLOCKS	HUDSON'S BLOCK	PROGRAM TOTALS
OFFICE (GSF)	269,160	106,400	814,000	262,662	1,452,222
RETAIL (GSF)		28,890	169,000	102,805	300,695
RESIDENTIAL (GSF)		143,083	433,000	439,217	1,015,300
RESIDENTIAL (UNITS)		95	482	330	907
EVENTS	41,040	49,780		167,968	258,788
HOTEL (GSF)		106,400			106,400
HOTEL (KEYS)		200			200
EXHIBITION (GSF)				93,464	93,464
PROJECT TOTALS (GSF)	310,200	434,553	1,416,000	1,066,116	3,226,869
PUBLIC SPACE (ACRES)			1.50	0.25	1.75
PARKING (SPACES)		400	1,261	711	2,372
TOTAL DEVELOPMENT COSTS [1]	\$94.8 M	\$311.4 M	\$830.1 M	\$909.0 M	\$2.07 B

[1] Before construction materials sales tax exemption and construction labor income tax capture
 Source: Bedrock. All areas are measured in Gross Square Feet and exclude Parking, BOH, and Public Space.

Figure 4. Project Schedule



Source: Bedrock

Methodology

SB Friedman was engaged by MEDC, on behalf of the MSF, to assist with the review and underwriting of a request from the Developer for financial assistance under the TBP amendment to the Michigan Brownfield Redevelopment Financing Act. Our work included:

- Reviewing the Project pro formas, TBP projections, Transformational Brownfield Plan, and supporting information;
- Conducting a conceptual review to evaluate the reasonableness of Project budgets;
- Evaluating the reasonableness of land purchase prices;
- Reviewing Project financing structures and terms;
- Analyzing Project operations and pro forma assumptions;
- Independently validating TBP projection calculations and assumptions;
- Conducting returns analyses and sensitivities to evaluate Project feasibility and Developer returns; and
- Recommending an appropriate level of public assistance and outlining potential structuring options.

Our methodology is outlined in the following section, with additional detail provided throughout this document. The purpose of this section is to clearly articulate processes undertaken in the course of our review and allow for all later sections of this document to focus specifically on the presentation of our findings and conclusions.

PROJECT PRO FORMAS, TBP PROJECTIONS, TBP PLAN, AND SUPPORTING INFORMATION REVIEW

SB Friedman conducted a detailed review of material submitted by the Developer and requested supplemental data required for our analysis. We also engaged the Developer in subsequent conversations and correspondence to obtain additional information to best understand and validate the underlying Project assumptions.

Key information submitted by the Developer and reviewed by SB Friedman included:

- **Project pro formas** | Individual live pro formas for each of the four Project components, received January 10, 2018, including development budgets, sources and uses, cash flow and underlying project assumptions.
- **TBP projections** | Live TBP model, prepared by Plante Moran, and received January 19, 2018, which outlined assumptions and projected TBP tax exemptions and capture by Project component.
- **TBP plan** | Summary document approved October 12, 2018, detailing site plans, request for assistance, description of costs to be paid, summary of eligible activities and job creation estimates.

Supporting documentation requested and review by SB Friedman included:

- Construction cost documentation, including:
 - Walbridge estimating summary letter and opinion of probable cost for Book Tower
 - Walbridge Memo: Construction Costs for the Book Building and Book Tower Redevelopment Project
 - Turner Construction Company budget estimate for the Monroe Blocks, based on 100% Schematic Design for Phase I and Master Plan-level design for Phase II (2018)
 - Dharam Consulting cost estimate for Monroe Blocks Phase 1, based on 100% Schematic Design
 - Turner Memo: Construction Cost for the Monroe Blocks Project
 - SHoP Architects Hudson’s Site Concept Design Narrative
 - Barton Malow concept design budget (2018) for the Hudson’s Site
 - Barton Malow Memo: Construction Costs for the Hudson’s Site Redevelopment Project – Rev. 3.30.18

- Dharam Consulting concept design construction cost and risk consultant report (2018) for the Hudson’s Site
- Hudson’s Core and Shell Cost Benchmarking, prepared by Developer
- Concept and schematic design (when available) drawings for Hudson’s Site and Monroe Blocks
- Project site plan and renderings for the OCM Addition
- Redevelopment term sheet for the Monroe Blocks (2016)
- Property transfer affidavits for Book Tower, the Monroe Blocks, and the Hudson’s Site
- Developer affiliate fee summary used to clarify fees paid to the Developer and its affiliates
- Third-party market studies, datasets and reports used to validate Project assumptions, including:
 - HR&A Residential and Retail Market Study
 - JLL Office Assumption and Market Demand Study
 - Dunn and Bradstreet office tenant data
 - Smith Travel Research (STR) 2017 HOST Almanac data
 - National Restaurant Association Operations Report
 - NRF Report on Wages in the Retail Industry

Throughout our engagement, SB Friedman also received written and verbal responses from the Developer to due diligence questions.

CONCEPTUAL PROJECT BUDGET REVIEW

We conducted a conceptual review of Project development costs, as well as evaluated the available basis provided by the Developer for these estimates. Our review was conceptual in that it did not involve independent cost estimating of hard costs and was based on information from comparable projects and industry data. We reviewed the level of design/construction estimation performed by the Developer, as well as the embedded design/construction contingencies. We also compared estimated soft costs (i.e., architect fees, developer and affiliate fees, financing costs, legal fees) against comparable project and industry benchmarks. Budget items were evaluated by Project component or land use as either a percent of total development costs or on a per-gross-square-foot (GSF) or per-unit basis.

Budget line items were allocated to five SB Friedman-defined cost categories: acquisition costs, hard costs, soft costs, financing fees, and developer fees. We also adjusted the Hudson’s Site budget to reconcile with the affiliate fee summary provided by the Developer on February 9, 2018. This resulted in an increase to the Hudson’s Site developer fee (including the Bedrock construction management fee and the tenant coordination fee) from \$6.8 million in the pro forma to the \$28.3 million outlined in the affiliate fee summary. The difference in costs was removed from the owner contingency line item in order to hold constant the total development cost. This adjustment is reflected in the SB Friedman budget adjustment sections below.

To evaluate costs on a per-square-foot, per-unit, or percentage of total cost basis, SB Friedman compiled cost information for first-class downtown mid- and high-rise projects in major Midwestern cities (Chicago, Milwaukee, Kansas City, Minneapolis, Cincinnati), each of which represent significant new construction or historic rehabilitation projects in those markets. Two luxury skyscraper mixed-use condominium and luxury hotel buildings in Chicago were excluded from the analysis: the 98-story Trump Tower Chicago and the 94-story Vista Tower, which is currently under construction. Certain structural design elements and costs are intrinsic to such “supertall” buildings, and both buildings provide a level of finishes appropriate for luxury condominiums but atypical of even high-end rental residential buildings.

To ensure an “apples to apples” comparison with the proposed Project, SB Friedman used the following methodology to allocate and adjust costs for each project individually:

- Parking costs and gross square footage were separated from other costs and land uses.
- For mixed-use projects, costs were allocated by land use (e.g., office, retail, residential), using detail from the developer or cost estimates when available, or using gross square footage by land use.
- When possible, costs were allocated to key cost categories; in certain cases, total development costs (TDC) were used.
- All costs were adjusted to 2019 or 2020 dollars, whichever reflects the midpoint of construction for the relevant component of the Project.
- Costs for projects in other Midwestern cities were adjusted to Detroit using the 2017 RS Means City Cost Index.^[1]

Following this process, a range of costs was established by land use for the purpose of evaluating Project costs. Two luxury skyscraper mixed-use condominium and luxury hotel buildings in Chicago were excluded from the analysis: the 98-story Trump Tower Chicago and the 94-story Vista Tower, which is currently under construction. Certain structural design elements and costs are intrinsic to such “supertall” buildings, and both buildings provide a level of finish appropriate for luxury condominiums but atypical of even high-end rental residential buildings.

When an allocation of costs by land use was not provided by the Developer, SB Friedman allocated each line item using the following methodology:

- Hard cost line items specific to a land use (i.e., office tenant improvements) were allocated to the corresponding land use.
- Hard costs spread amongst multiple uses (i.e., core and shell) were allocated proportionately by gross square foot (GSF).
- Hard costs relevant to all land uses (i.e., owner contingency) were allocated by the percentage of hard costs, less contingencies.
- Soft costs and developer fees specific to a land use (i.e., retail leasing commissions) were allocated to the corresponding land use.
- All other acquisition, soft costs, financing costs and developer fees were distributed across land use categories using the percentage of hard costs.

LAND PURCHASE PRICE EVALUATION

SB Friedman conducted analyses to determine the reasonableness of land purchase price by Project component. We received and reviewed land purchase price documentation from the Developer for Book Tower, the Monroe Blocks and the Hudson’s Site. Acquisition costs were evaluated on a per-land- or per-building-square-foot basis and as a percentage of total development costs using market-specific data available through Real Capital Analytics and CoStar, which are subscription data services that provide data on real estate transfers. Secondly, acquisition costs were evaluated as a percentage of total development costs, based on comparable projects reviewed by SB Friedman.

^[1] RS Means is a leading provider of construction cost data and produces an annual City Cost Index indicating the relative costs of construction in major cities as compared to the national average (which is indicated with a value of 100.0). The cost index for Detroit in 2017 was 100.9. Cost indices for relevant cities with comparable projects are: Chicago (120.0), Kansas City (102.5), Milwaukee (102.7), Minneapolis (105.7) and Cincinnati (89.1).

FINANCING STRUCTURE AND TERMS REVIEW

We evaluated the reasonableness of the Developer’s financing assumptions, particularly in terms of the status of financing, maximization of debt, the presence of a reasonable amount of equity, and adherence to market terms. Our review was based on information from recent projects reviewed by SB Friedman, industry sources that track financing trends and commitments (i.e., American Council of Life Insurers, PricewaterhouseCoopers, RealtyRates), and market-specific financings available through Real Capital Analytics.

CASH FLOW OPERATIONS AND PRO FORMA ASSUMPTIONS ANALYSIS

SB Friedman evaluated the appropriateness of the Developer’s operating assumptions by component and by land use. Revenues assumptions were evaluated on a per-square-foot basis, whereas expense assumptions were evaluated on a per-square-foot and percentage of revenue basis. Revenue and expense line items were analyzed both individually and in aggregate. Assumed occupancy rates and absorption were evaluated against market-specific historic analytic data and market projections. Where necessary, revenue and expense items were again allocated by land use using the methodology outlined above.

Specific data sources used in our analysis of the cash flow operations and pro forma assumptions, include:

- **CoStar** | Building characteristic and analytics data were evaluated, both regionally and in the Detroit CBD, to analyze office, residential and retail market rents, occupancy, and absorption of new product.
- **CompStak** | Office and retail lease comp information was used to evaluate Project revenue assumptions and the reasonableness of lease terms and structures.
- **Third-Party Market Studies/Data Sources** | These reports/data, including information from HR&A, HVS, Smith Travel Research (STR) and Zimmerman and Volk, were used to evaluate hotel, residential and retail market demand and validate revenue, expense and inflation assumptions.
- **Comparable Midwestern City Project Data** | Certain revenue and expense assumption benchmarks were derived from an internal SB Friedman database of comparable projects and adjusted to account for location factors and inflation.
- **MEDC Project Data** | MEDC provided SB Friedman with comparable project data within the local hotel industry. Data was used to evaluate operating assumptions included within the Developer pro forma.

Where necessary, revenue and expense assumptions were inflated or deflated to 2018 dollars using the Developer’s inflation assumption.

TBP PROJECTIONS AND ASSUMPTIONS REVIEW

SB Friedman evaluated the reasonableness of the Developer’s TBP projections, including all model assumptions (i.e., assessed/taxable value, construction and permanent employment generation, socioeconomic and demographic characteristics of expected residents, etc.). Our review was based on data provided by the Developer and available through other third-party sources. Data sources and a brief description of evaluated assumptions are outlined below:

- **Detroit Assessors Office** | We worked with the Detroit Central Business District Assessor to identify appropriate comparable projects and associated assessment values on a per-building-square-foot or per-unit basis.
- **CoStar** | CoStar data was used to identify vacancy rates of recent commercial development and basic building characteristics in downtown and competitive suburban markets. Vacancy rates were used to evaluate the potential likelihood that the Developer will be able to fully lease Project components.

- **US Census Longitudinal Employment Household Data (LEHD)** | LEHD combines payroll tax data with US Census Bureau data to allow for analysis of age, earnings, and industry profiles by a specific geography. SB Friedman used LEHD data to identify office employment levels in the Downtown and specific sites. In conjunction with CoStar building data, LEHD was also used to verify the office employee per-square-foot assumptions.
- **Securities and Exchange Commission 10-K Filings** | Data from 10-K filings was used to verify approximate employee density rates for the retail and food and beverage industries. SB Friedman reviewed density rates for types of tenants expected within Project components.
- **Bureau of Labor Statistics, Quarterly Census of Employment and Wages** | BLS data for Wayne County and a four-county region was used to compare the recent sectoral distribution of office employees to the distribution assumed in the Plante Moran model. BLS data was also used to analyze wages and wage growth over five- and ten-year periods.
- **Bureau of Labor Statistics, Consumer Expenditure Survey (CES)** | SB Friedman evaluated the expected rent to income factor for residents of the Project using BLS CES 2016 data for higher-income households.
- **Building Owners and Managers Association (BOMA)** | 2016 BOMA data was used to benchmark commercial management agent costs for each component.
- **State of Michigan 2018 Tax Tables** | Tax tables were used to verify withholding assumptions included in the Plante Moran model.
- **National Restaurant Association Operations Report** | This report was used to confirm wages for employees within the Food & Beverage space.
- **STR Host Almanac** | This report was used to verify hotel wages; the Project hotel is assumed to fall within the Luxury class.

RETURNS ANALYSES, SENSITIVITIES AND RECOMMENDATIONS

The results of the forgoing research and analysis were combined with information from the Developer’s four individual pro formas (by Project component) and incorporated into individual component-level models and a combined Project model. These models were then used to evaluate Project feasibility (with and without assistance) and analyze return on total development cost and return on investment for the Project overall. As part of the analysis, benchmark/hurdle rates of return, weighted in aggregate by each component’s percentage of stabilized net operating income, were derived based on SB Friedman’s experience with comparable projects and industry sources, including RealtyRates, PricewaterhouseCoopers, and Real Estate Research Corporation. Market-appropriate terminal capitalization rates were derived using this same methodology and data sources.

The component-level and combined Project models were then used to conduct sensitivities, where inputs and level of public assistance were adjusted to arrive at our conclusions and recommendations.

Development Cost Analysis

The Developer’s construction costs were estimated by three unaffiliated general contractors qualified to construct and eligible to bid on the projects: Turner Construction, Walbridge Aldinger and Barton Malow. Costs for the Hudson’s Site and Monroe Blocks were also reviewed by Dharam Consulting. No contractor documentation for OCM Addition was provided. The specifications and designs given to contractors for preparation of cost estimates were not provided to SB Friedman.

For the purposes of evaluating each Project component, SB Friedman identified total development costs (TDC) in addition to TDC net of parking costs.¹ SB Friedman used two primary cost metrics for key line items: costs per gross square foot and costs as a percentage of TDC. In order to evaluate Project budgets by land use and key cost component, SB Friedman allocated, on a gross square footage basis, costs which had not been allocated to a particular land use and reallocated certain soft costs to better align the Developer budgets with industry data and comparable projects.

Figures 5-8 present TDC by Project component from the Developer’s preliminary pro formas. According to the Developer, budgets for Book Tower and the OCM Addition are in the conceptual design phase, the Hudson’s Site costs are based on conceptual design, though the Developer is nearly at 50% schematic design, and Monroe Blocks is at 100% schematic design for the residential component, and concept phase for all other uses. While costs for all components except the OCM Addition were provided by general contractors, those costs were based on preliminary design and should be evaluated with the understanding that adjustments to costs will be made as the Developer finalizes the design for each component.

Figure 5. OCM Addition Budget

Development Costs [1]	Total Development Costs (TDC)		
	Developer Budget	% of TDC	\$ per GSF [2]
Acquisition Costs	\$0	0%	\$0
Hard Construction Costs	\$77,166,241	81%	\$249
Soft Costs	\$12,591,131	13%	\$41
Financing Costs	\$2,092,243	2%	\$7
Developer Fees [3]	\$2,933,166	3%	\$9
TOTAL DEVELOPMENT COSTS (TDC)	\$94,782,781	100%	\$306

[1] Costs reflect budget provided by Developer on 01/10/2018

[2] Component does not include parking, GSF provided by Developer

[3] Includes Developer fee and fees paid to Developer-affiliated entities.

Source: Bedrock, SB Friedman

¹ See the Methodology Section for a description of how costs are allocated by land use.

Figure 6. Book Tower Budget

Development Costs [1]	Total Development Costs (TDC)			TDC Net of Parking		
	Developer Budget	% of TDC	\$ per GSF	Developer Budget	% of TDC	\$ per GSF [3]
Acquisition Costs [2]	\$26,000,000	8%	\$1,045	\$26,000,000	9%	\$1,045
Hard Construction Costs	\$237,237,624	76%	\$395	\$223,797,624	76%	\$515
Soft Costs	\$20,570,524	7%	\$34	\$19,509,666	7%	\$45
Financing Costs	\$18,510,352	6%	\$31	\$17,461,703	6%	\$40
Developer Fees [4]	\$9,125,744	3%	\$15	\$8,616,295	3%	\$20
TOTAL DEVELOPMENT COSTS (TDC)	\$311,444,245	100%	\$519	\$295,385,288	100%	\$680

[1] Costs reflect budget provided by Developer on 01/10/2018
 [2] Value per square foot is shown as per land square foot.
 [3] Excludes parking square footage indicated in the pro forma.
 [4] Includes Developer fee and fees paid to Developer-affiliated entities.
 Source: Bedrock, SB Friedman

Figure 7. Monroe Blocks Budget

Development Costs [1]	Total Development Costs (TDC)			TDC Net of Parking		
	Developer Budget	% of TDC	\$ per GSF	Developer Budget	% of TDC	\$ per GSF [3]
Acquisition Costs [2]	\$1,800,001	0%	\$14	\$1,800,001	0%	\$14
Hard Construction Costs	\$683,879,447	82%	\$330	\$623,088,865	75%	\$436
Soft Costs	\$69,359,213	8%	\$34	\$64,874,919	8%	\$45
Financing Costs	\$47,996,032	6%	\$23	\$43,729,627	5%	\$31
Developer Fees [4]	\$27,056,522	3%	\$13	\$24,738,817	3%	\$17
TOTAL DEVELOPMENT COSTS (TDC)	\$830,091,215	100%	\$401	\$758,232,230	91%	\$531

[1] Costs reflect budget provided by Developer on 01/10/2018
 [2] Value per square foot is shown as per land square foot.
 [3] Excludes parking square footage indicated in the pro forma.
 [4] Includes Developer fee and fees paid to Developer-affiliated entities.
 Source: Bedrock, SB Friedman

Figure 8. Hudson’s Site Budget

Development Costs [1]	Total Development Costs (TDC)			TDC Net of Parking		
	Developer Budget	% of TDC	\$ per GSF	Developer Budget	% of TDC	\$ per GSF [3]
Acquisition Costs [2]	\$15,000,000	2%	\$158	\$15,000,000	2%	\$158
Hard Construction Costs	\$796,872,183	88%	\$626	\$756,156,365	88%	\$674
Soft Costs	\$40,944,942	5%	\$32	\$39,254,591	5%	\$35
Financing Costs	\$49,187,880	5%	\$39	\$46,584,762	5%	\$42
Developer Fees [4]	\$6,975,536	1%	\$5	\$5,052,729	1%	\$5
TOTAL DEVELOPMENT COSTS (TDC)	\$908,980,541	100%	\$714	\$862,170,883	100%	\$769

[1] Costs reflect budget provided by Developer on 01/10/2018
 [2] Value per square foot is shown as per land square foot.
 [3] Excludes parking square footage indicated in the pro forma.
 [4] Includes Developer fee and fees paid to Developer-affiliated entities.
 Source: Bedrock, SB Friedman

HARD COSTS BY LAND USE

Development budgets were evaluated by land use to ensure consistency between benchmark data and Project components. Costs by land use, per component, are provided in **Figure 9**. For each land use, a range of location-adjusted costs per GSF for comparable first class mid- and high-rise downtown projects in Midwest cities are presented. Costs are inflated to the midpoint of construction for the appropriate Project component. All costs allocated to a land use are presented net of parking and parking square footage.

Figure 9. Comparable Development Cost Table

	Hard Costs/GSF		TDC/GSF	
	2019\$			
Office	OCM Addition	\$256		\$316
	Book Tower	\$473		\$634
	Midwestern Comparable Project Range	\$165 - 330		\$210 - 445
	2020\$			
	Monroe Blocks	\$419		\$516
	Hudson's Site	\$591		\$705
	Midwestern Comparable Project Range	\$170 - 330		\$220 - 460
Residential	Hard Costs/GSF		TDC/GSF	
	2019\$			
	Book Tower	\$478		\$628
	Midwestern Comparable Historic Rehabilitation Project Range	\$150 - 185		\$190 - 265
	2020\$			
	Monroe Blocks	\$480		\$572
	Hudson's Site	\$660		\$768
Midwestern Comparable Project Range	\$180 - 280		\$240 - 390	
Retail	Hard Costs/GSF		TDC/GSF	
	2019\$			
	Book Tower	\$461		\$619
	Midwestern Comparable Project Range	\$195 - 255		\$270 - 420
	2020\$			
	Monroe Blocks	\$405		\$500
	Hudson's Site	\$588		\$705
Midwestern Comparable Project Range	\$200 - 265		\$275 - 430	

Source: Bedrock, SB Friedman

Office

Office TDC ranges widely by Project component, from approximately \$316/GSF for the OCM Addition to \$705/GSF for the Hudson’s Site. For comparable Midwest projects, TDC ranged from \$220-460/GSF in 2020 dollars, with an average of \$380/GSF. OCM Addition is the only component with costs within range of comparable office development in the Midwest. Total development costs for office space in each of the other three components are significantly higher, ranging from \$516-705/GSF, substantially exceeding costs of Midwest Comparable project costs.

SB Friedman evaluated costs allocated specifically to office tenant improvements (TI) to ensure those costs were within a reasonable range. TI allowances for the Project ranged from \$44-64/GSF. TI varies across markets and is a function

of rent, lease terms and quality of space. Comparable projects and industry data suggests TI of approximately \$45-55/GSF is common. The Hudson’s Site is the only component with TI (\$64/GSF) above this range; the TI allowance for Hudson’s Site appears to be reasonable given typical variation in office TI and higher rents for this component.

Residential

Residential TDC ranges from \$570-770/GSF for Project components, with hard costs ranging from \$480-660/GSF, with the highest costs/GSF on the Hudson’s Site. Book Tower TDC and hard costs were benchmarked against historic rehab residential projects in major Midwest cities. Midwestern comparable historic rehabilitation projects ranged from \$190-265 TDC/GSF, less than half the costs included in Book Tower estimates on a per-square-foot basis. Historic rehabilitation imposes additional developer risk that new construction does not; however, the spread in costs between Book Tower and comparable projects exceeds typical risk contingencies. The Developer did not provide any additional information to clarify the cost differential between Midwestern comparables and component costs.

Compared against similar Midwest projects, the costs appear well above average, with the Monroe Blocks TDC/GSF 146% greater than the high end of the benchmark range and Hudson’s Site TDC/GSF 197% greater than the benchmark range. Irrespective of the TDC or hard cost metric, Monroe Blocks and Hudson’s Site costs are nearly double the expected range.

Retail

Retail project costs by component ranged from approximately \$500-705/GSF. Again, costs were 16-64% above the \$270-430/GSF range for comparable projects.

SB Friedman evaluated retail tenant improvements as a function of retail GSF. The benchmark range for retail space in similar Midwest projects is \$65-95/GSF. The Project components all included TI allowances within the range, varying from \$40-88/GSF. The highest TI per GSF rate is projected for the Hudson’s Site, which is to be expected given the higher rents in the component.

Hotel

Hotel TDC for Book Tower is \$770/GSF, 11% above the high end of the Midwest comparable project range of \$370-695 per gross square foot. Benchmark ranges are from historic rehabilitation/conversion and new construction projects previously reviewed by SB Friedman or provided by MEDC. Hotel costs and comparable project ranges are identified in **Figure 10** below. The analysis excludes square footage of the food and beverage space within Book Tower and the associated \$38.6 million in food and beverage specific hard costs.

Figure 10. Hotel Comparable Development Cost Table

	Hard Costs/GSF	TDC/GSF
2019\$		
Book Tower	\$587	\$770
Midwestern Comparable Project Range	\$240-485	\$370-695

Source: Bedrock, MEDC, SB Friedman

Parking

Parking construction costs were evaluated on a per-stall basis. Costs for Project components vary from \$34,000-58,000/stall, as indicated in Figure 11, with a majority of the variation related to whether the parking structure is above or below ground. Book Tower is the only component with above ground parking and the cost per stall (\$33,600) is 12% above the benchmark range. Monroe Blocks and the Hudson’s Site both have below ground parking. The Developer indicated in preliminary budgets that the high number of stalls in a small space would require a stackable parking system and higher than normal hard costs for parking. The Monroe Blocks cost per stall is within range at \$48,000/stall, however the Hudson’s Site is above benchmark range by 15%.

Figure 11. Parking Comparable Development Cost Table

	Parking Hard Costs	Cost/Stall
Book Tower (above ground)	\$13,440,000	\$ 33,600
Monroe Blocks (below ground)	\$60,790,581	\$ 48,208
Hudson's Site (below ground)	\$41,040,169	\$ 57,722
Above Ground Benchmark		\$20,000-\$30,000
Below Ground Benchmark		\$30,000-\$50,000

Source: Bedrock, SB Friedman

Events/Exhibition Space

Hudson’s Site will include exhibition space featuring immersive installations, flexible private event space and a publicly accessible observation deck with wrap-around views. Monroe Blocks includes a meeting center within the office tower for use by tenants of the tower. The hard costs per GSF varied from \$203-815 in different Project components, as shown in Figure 12. The Developer indicated the OCM Addition costs are lower than other components due to the event space being considered supplemental office meeting space and not the unique exhibition space included in the Hudson’s Site. Costs for event and exhibition space are difficult to benchmark and evaluate because they vary widely based on anticipated uses and buildout. The Developer’s hard cost estimates for event and exhibition space appear to be high on a per-square-foot basis, particularly for Hudson’s Site, but SB Friedman has reviewed costs for smaller hotel-related event spaces in other projects which are similar to the Developer’s range of costs, though the event spaces are not directly comparable to what is proposed for the Project.

Figure 12. Events/Exhibition Comparable Development Cost Table

	Hard Costs	Hard Costs/GSF
OCM Addition	\$8,673,723	\$203
Book Tower	\$29,224,705	\$587
Hudson's Site	\$136,923,203	\$815

Source: Bedrock, SB Friedman

Contingency

Contingency is included as a line item within hard costs for each component. SB Friedman evaluates contingency as a percentage of hard costs. A reasonable design contingency as a percentage of hard costs varies depending on the level of design work completed to date. At the schematic design stage, a design contingency of 10% may be reasonable, while only 5% design contingency would be reasonable at design development; higher contingencies would be

appropriate during the conceptual design stage. Contractor contingencies are typically equal to 3-5% of hard costs. An additional owner-level contingency of 5% is also common, with higher contingencies included for projects where there are environmental or other conditions that are unknown and could impact costs.

The contingencies specifically listed in the Project budgets or contractor estimates are generally within the ranges stated above. However, budget line items varied by component, and certain contractor estimates did not specify each level of contingency. Therefore, it appears certain contingencies may have been built into the baseline hard cost estimates. Under SB Friedman's cost adjustments for the purposes of evaluating the Project's need for public assistance (as described below), contingencies were included with all other Project costs before overall costs were reduced to benchmark ranges.

HARD COST ADJUSTMENTS

SB Friedman's review of Project hard costs indicates that the Developer cost assumptions for certain Project components exceed costs for similar construction projects in downtown Midwestern cities by a substantial margin. While it is difficult to evaluate costs of special purpose space (e.g., event space, exhibition space), costs for mid- and high-rise construction of office, residential, retail and hotel components in Detroit would not be expected to vary to the extent seen from other projects in the Midwest.

The Developer has provided additional documentation from contractors identifying Project-specific costs that would result in residential and office costs in the Project exceeding first-class Midwest comparables. Such costs include extraordinary costs related to site-specific conditions that impact foundations and the structure of the Hudson's Site tower; structural features related to the mix of uses, including transfer load grids above event/exhibition space; and design features integral to the Project intent, such as multiple building elements with differing setbacks on the Monroe Blocks. The additional costs also include premium features, including an infinite floorplate in the office space on the Hudson's Site, premium finishes, including terra cotta cladding on Hudson's Site and Monroe Blocks, and luxury residential fit-out. Certain of these costs had already been allocated to other land uses (e.g., SkyDeck and exhibition space) or already appear to be included in the Midwest comparables figure (e.g., upgraded HVAC to meet LEED/Well standards). SB Friedman therefore has not included certain costs that the Developer identified as extraordinary, as they had already been accounted in our analysis. Extraordinary costs and premium features that are specific to the Project and that have not been accounted for elsewhere total approximately \$296.1 million, as shown in **Figure 13**.

Figure 13. Extraordinary and Premium Project Costs

Project Element	Project Component(s)	Cost
Extraordinary Costs		
Structural Features related to Substandard Soil Conditions	Hudson's Site, Monroe Blocks	\$10,013,800
Structural Features to Support Mix of Uses and Design	Hudson's Site, Monroe Blocks	\$42,997,200
Vertical Transportation related to Mix of Uses and Design	Hudson's Site, Monroe Blocks	\$23,408,800
Deterioration, Façade Restoration, Etc.	Book Tower	\$16,341,309
Building Systems Configuration	Book Tower	\$13,944,174
Labor Market Premiums	Hudson's Site, Monroe Blocks, Book Tower	\$48,107,490
Premium Features		
Premium Exterior Surfaces	Hudson's Site, Monroe Blocks	\$98,824,800
Infinite Office Floorplate and Premium Office Design	Hudson's Site, Monroe Blocks	\$26,146,400
Luxury Residential Interior Fit-out	Hudson's Site	\$16,300,000
Total Extraordinary and Premium Costs Identified by Developer [2]		\$296,083,972

[1] Includes anticipated labor shortages that would increase the cost of labor, declines in labor efficiency related to complexity of Project, and contributions under the City of Detroit Executive Order Workforce Target.

[2] Excludes extraordinary and premium feature costs that are accounted for elsewhere in SB Friedman's analysis.

Source: Bedrock, Walbridge, Turner Construction Company, Barton Malow SB Friedman

SB Friedman has concluded that the extraordinary costs totaling \$154.8 million, associated with structural requirements and labor, are reasonable based on-site conditions and overall design requirements to meet the broad intent of the Project in a manner consistent with the quality and character of the peer first-class projects in other downtowns. The approximately \$141.3 million in premium feature costs are related to design choices made by the Developer and fall outside the range and character of peer projects. The Developer has indicated the improvements are necessary for the success of the Project. Furthermore, the MEDC staff and City of Detroit Planning and Development Department have indicated that, as a policy, they support the level of design and finishes proposed for the Project.

Therefore, for the purpose of evaluating the Project's need for TBP assistance, SB Friedman adjusted the average Midwest cost base for office, residential, hotel and retail space upwards to account for all the extraordinary and premium feature costs in **Figure 13**. Only a portion of the \$296.1 million was allocated to office, residential, hotel and retail space by the Developer's contractors and SB Friedman. The remaining costs were allocated to exhibition/event space, parking and the OCM Addition, which were not adjusted from the Developer submittal. Following addition of the extraordinary costs and premium features to the Midwest average cost baseline, approximately \$398.8 million of the Developer's budget has not been accounted for in the costs associated with peer comparables or in Project-specific factors identified by the Developer. Therefore, for the purposes of evaluating the Project's need for TBP assistance, SB Friedman has tested a scenario in which Project costs are reduced by \$398.8 million, or approximately 18.5%.

Figure 14 identifies the average cost of Midwest comparables by land use. It also shows the adjusted Project costs by component and land use following the addition of extraordinary costs and premium features to the Midwest cost base.

Figure 14. Adjusted Cost Scenario (TDC per Square Foot)

	Residential	Office	Retail	Hotel
2019 Midwest Cost Base (Average of comparables)	\$355	\$365	\$365	\$615
Adjusted Book Tower [1]	\$445	\$455	\$455	\$705
OCM Addition	\$316			
2020 Midwest Cost Base (Average of comparables)	\$370	\$380	\$370	
Adjusted Monroe Blocks [1]	\$429	\$467	\$439	
Adjusted Hudson's Site [1]	\$531	\$485	\$380	

[1] TDC per square foot, plus extraordinary costs and premium features

Source: SB Friedman

Using the adjusted TDC per square foot defined in **Figure 14**, SB Friedman interpolated new hard costs and total development costs for each Project component. Hard costs and TDC for the Adjusted Cost Scenario and the original Developer budget are included in **Figure 15**.

Figure 15. Adjusted Midwest Hard Costs and TDC

	Developer Hard Costs	Developer TDC	Adjusted Cost Scenario Hard Costs	Adjusted Cost Scenario TDC
OCM Addition	\$77,166,241	\$94,782,781	\$77,166,241	\$94,782,781
Book Tower	\$237,237,624	\$311,444,245	\$180,740,831	\$254,614,576
Monroe Blocks	\$683,879,447	\$830,091,215	\$570,276,184	\$716,936,687
Hudson's Site	\$775,485,013	\$908,980,541	\$549,431,439	\$680,146,831
TOTAL	\$1,773,768,324	\$2,145,298,782	\$1,377,614,695	\$1,746,480,875

Source: Bedrock, SB Friedman

The hard costs included in the Adjusted Cost Scenario are incorporated in the cost analysis by line item moving forward.

ACQUISITION COSTS

Land acquisition costs were included for three Project components: Book Tower, Monroe Blocks and Hudson's Site. Acquisition costs have been evaluated on a per-land-square-foot basis and as a percentage of total development costs.

Book Tower has the highest acquisition costs, reflecting the purchase of an existing building from a private entity, rather than vacant land. Acquisition costs for Book Tower are approximately 8% of original TDC and 10% of the revised TDC for the Project component. According to property transfer affidavits provided by the Developer, the site was acquired from a private entity in 2015 for \$25.1 million. The Book Tower component also required acquisition of a \$928,000 community center. Book Tower acquisition costs are within the expected range as a percentage of total costs and therefore are considered appropriate.

Acquisition costs for the Monroe Blocks and Hudson's Site have a low percentage of TDC because all or portions of the sites were acquired directly from the City of Detroit at a discounted value. Both properties were well below comparable Midwestern project ranges for typical percentage of total development costs. Furthermore, land transfer prices (per land square foot) for the Monroe Blocks (\$1/SF) and the Hudson's Site (\$14/SF) appear to be well below the

acquisition price of recent redevelopment site land transfers reported through Real Capital Analytics, which were in excess of \$50/SF.

Figure 16 below includes acquisition costs for the Project components as well as the range seen in recent comparable Midwestern projects. Overall, the land acquisition costs are favorable to the projects and the relatively low overall costs for land should help limit total development costs for the Project.

Figure 16. Land Acquisition Cost as a Percentage of TDC by Scenario

	Acquisition Costs % of Developer TDC	Acquisition Costs % of Adjusted TDC
Book Tower	8.3%	10.2%
Monroe Blocks	0.2%	0.3%
Hudson's Site	1.7%	2.2%
Midwest Comparable Project Range		5-13%

Source: Bedrock, SB Friedman

SOFT & FINANCING COSTS

Soft and financing costs are typically evaluated as a percentage of TDC. Project component soft costs and financings fees per TDC ranged from 10-15% of total development costs and 13-16% in the Adjusted Cost Scenario. According to the Developer budget, the component with the highest cost ratio is the OCM Addition which appears to be the result of lower structural costs and lack of acquisition costs, given that the project is an expansion of an existing structure. Book Tower, Monroe Blocks and Hudson’s Site are all within a typical range. Figure 17 includes soft costs and financing fees by Project component, in addition to the percentage of TDC.

Figure 17. Soft and Financing Costs as a Percentage of TDC by Scenario

	Soft Costs & Financing	Soft Costs/ Developer TDC	Soft Costs/ Adjusted TDC
OCM Addition	\$14,683,374	15%	15%
Book Tower	\$39,080,877	13%	15%
Monroe Blocks	\$117,355,245	14%	16%
Hudson's Site	\$90,132,822	10%	13%
Midwestern Comparable Project Range			8-20%

Source: Bedrock, SB Friedman

DEVELOPER & CONSULTING FEES

Developer fees for each Project component range from 1-3.5% of total costs (net of acquisition costs) according to the original budgets provided. SB Friedman included fees paid directly to Bedrock or affiliated consultants in the developer fee, which include the following:

- **Tenant Coordination Fee** | Fees paid for coordination of all tenant construction, design and review of prepared space plans.
- **Incentive Coordination Fee** | Fees paid for providing services in connection with any economic incentive pursued.

- **Standard Developer Fee** | General overhead fee.
- **Internal Financing Fee** | Fees paid for providing services in connection with any financing pursued.
- **Construction Management Fee** | Developer-side CM fee (separate from GC CM fee).

Comparable Midwestern projects evaluated by SB Friedman consistently include developer fees between 2-4% of TDC, net of acquisition costs. In SB Friedman’s experience, projects with larger budgets typically have smaller developer fees as a percentage of TDC. The combined developer fee for the Project overall does not exceed 4%, but is a high dollar figure given the magnitude of the Project components.

Despite the original developer fees proposed by the Developer falling within a reasonable range, the developer fees for Hudson’s Site, Monroe Blocks and Book Tower surpassed 4% after adjusting costs and reallocating certain fees that are paid to the Developer but were originally included as soft costs. Developer and consultant fees must be limited to 4% of the total development cost of the project according to the MSF and Michigan Treasury, therefore SB Friedman limited such fees to 4%.

The adjustment to the developer fee ultimately reduced TDC for Book Tower, Monroe Blocks and Hudson’s Site. The revised and original developer fees are included in **Figure 18** below.

Figure 18. Developer Fees Provided in the Developer Budget

	Developer Fee	% of Developer Costs [1]	Adjusted Developer Fee [2]	% of Adjusted Costs [1,2]
OCM Addition	\$2,933,166	3.2%	\$2,933,166	3.2%
Book Tower	\$9,125,744	3.3%	\$8,792,868	4.0%
Monroe Blocks	\$27,056,522	3.4%	\$27,505,257	4.0%
Hudson's Site	\$6,975,536	0.8%	\$25,582,570	4.0%
SB Friedman Comparable Projects		4.0%		4.0%
MSF Regulatory Limit		4.0%		4.0%

[1] Developer fee is calculated as a percentage of total hard costs, soft costs and financing costs.

[2] Includes Developer fee and fees paid to Developer-affiliated entities.

Source: Bedrock, SB Friedman

In addition to developer and consultant fees, the Developer provided an Affiliated Fees Summary which identifies other fees paid to Bedrock or its affiliates, which includes office and retail leasing commissions. SB Friedman evaluated leasing commission assumptions as a percentage of revenue. **Figure 19** below identifies the leasing commission per by Project component and land use, in addition to SB Friedman benchmarks based on industry standards.

Figure 19. Leasing Fees as a Percentage of Revenue

	Office Leasing Commissions (LC)	LC % of Rent [1]	Retail LC	LC % of Rent [1]
Book Tower	\$1,416,531	5%	\$428,144	5%
Hudson's Site	\$6,818,331	4%	\$2,186,151	3%
SB Friedman Comparable Projects		2-6%		2-6%

[1] Assumes 10-year lease term

Source: Bedrock, SB Friedman

Related party fees collectively total more than \$86.5 million in developer fees and leasing commissions paid to the Developer or associated parties.

CONCLUSION: DEVELOPMENT COST ANALYSIS

For the purposes of evaluating the Project’s need for public assistance, SB Friedman adjusted the Developer’s costs for residential, office, hotel and residential land uses to the average of the Midwestern cost range. Costs were then adjusted upward to reflect demonstrated extraordinary and premium feature costs. The Midwestern adjusted costs were based on extraordinary costs identified by the Developer above what would be seen in other projects and markets. The remaining difference between the \$2.15 billion in costs according to the Developer submittal and the \$1.75 billion assumed by SB Friedman per the Adjusted Cost Scenario is the result of unspecified extraordinary or premium costs associated with the office, retail, residential and hotel uses. SB Friedman did not modify costs associated with other land uses included in the Project.

Proposed Financing Sources

The Developer anticipates financing the Project with a combination of conventional debt financing, equity generated from federal historic tax credits, and developer/investor (cash) equity. SB Friedman reviewed the financing assumptions, particularly in terms of the status of financing, maximization of debt, the presence of a reasonable amount of equity, and adherence to market terms, using market data and information from recent comparable projects. Additional detail regarding the Developer’s preliminary financing sources is described below:

- Construction Debt** | The Developer anticipates obtaining interest-only construction loans for each Project component, the terms of which are presented in **Figure 20** below. Per the Developer, term sheets from potential lenders are not available as only preliminary conversations with lenders have occurred. The Developer is assuming that construction debt will be sized as a percentage of loan-to-cost (LTC), ranging from 44.2-55.0%, depending on the Project component. This assumption appears conservative based on recent projects reviewed by SB Friedman, as well as data from RealtyRates and Real Capital Analytics, where LTC assumptions for construction financing have ranged from 65-75%. The Developer indicated that the lower LTC assumptions are due to the risk involved with this Project, as well as the large amount of non-traditional space (i.e., exhibition and event space). Interest rates appear reasonable based on recent transactions in downtown Detroit and industry data, where interest rates have consistently ranged from 4.5-5.0% for both construction and permanent financing. SB Friedman accepted the Developer’s construction debt assumption due to the perceived lease-up and development risk associated with the Project.

Figure 20. Construction Debt Assumptions

Project Component	Loan to Cost	Interest Rate	Term
OCM Addition	53.4%	4.49%	29 months
Book Tower	45.0%	5.0%	68 months
Monroe Blocks	55.0%	5.0%	72 months
Hudson’s Site	44.2%	5.0%	84 months

Source: Bedrock

- Permanent Debt** | The Developer’s pro forma ultimately sizes the amount of available permanent debt based on a 1.5 debt coverage ratio (DCR) and stabilized net operating income, net of TBP revenues. Per the Developer, the lower level of leverage is again attributable to the risk associated with the Project. However, leverage assumptions appear conservative when compared to comparable projects where DCRs typically range from 1.25-1.30. Permanent loan conversion would occur at stabilization, at which point the Developer is assuming the Project will benefit from high rents and occupancy. With the development risk and lease-up risk minimized, it would be expected that the Project would achieve more favorable debt financing terms. The Developer assumes a 30-year amortization for all components, with interest rates ranging from 5.0-5.5%. The longer amortization is favorable to the Project and interest rates are largely within typical 4.5-5.0% ranges, with the exception of the Hudson’s Site, which appears to be somewhat conservative.

For the purposes of this underwriting analysis, permanent debt was sized using a 1.3 DCR. This adjustment results in loan-to-value ratios more similar to recent permanent financing and refinancing terms in Detroit, as identified using Real Capital Analytics. All other financing assumptions were determined to be reasonable. Conversion from construction to permanent financing results in refinancing proceeds that reduce the initial equity investment. Distribution of the refinancing proceeds and the reduced equity investment are reflected in the SB Friedman underwriting analysis. Permanent debt assumptions are presented in **Figure 21**.

Figure 21. Permanent Debt Assumptions

Project Component	Developer DCR	Adjusted DCR	Interest Rate	Amortization
OCM Addition	1.5	1.3	5.0%	30 years
Book Tower	1.5	1.3	5.0%	30 years
Monroe Blocks	1.5	1.3	5.0%	30 years
Hudson's Site	1.5	1.3	5.5%	30 years

Source: Bedrock

- Historic Tax Credits** | The Developer is pursuing federal historic tax credits for the rehabilitation of Book Tower and estimates approximately \$218.0 million in qualified eligible expenses. Term sheets from potential tax credit investors were not available; however, the Developer is assuming awarded tax credits will be valued at \$0.70 per credit, resulting in \$30.5 million in HTC benefit. This represents approximately 9.8% of total sources within the Developer's budget.

Current HTC pricing is impacted by a number of market-driven and project-specific factors; however, the assumed pricing appears to be conservative. In recent projects reviewed by SB Friedman, pricing for federal credits following the December 2017 tax bill has ranged from \$0.80-0.85/credit. However, there is continuing uncertainty within the market regarding recent changes to the HTC program and the federal tax code that could impact the marketability and pricing of credits, particularly now that HTCs are amortized over a 5-year period.

- Developer/Investor Equity** | Remaining Project costs will be financed with cash equity from the Developer. Equity, as a percentage of total development sources, is high when compared to more conventional projects; however, this is a factor of the perceived risk during construction, which is limiting construction financing. As discussed above, conversion to permanent debt will result in refinancing proceeds which would be payable to equity investors, thereby reducing their long-term investment in the Project during operations.
- Bond Proceeds** | The Developer stated that bond financing against TBP revenues could be pursued; however, such bonding was not reflected within the Developer's pro forma. Per the Developer, this was because there is some uncertainty regarding how the market will value the TBP revenue streams. Presumably, the cost of funds associated with bond financing would be below that of cash equity. Therefore, bond proceeds would likely reduce the developer/investor equity in the Project resulting in a lower initial investment and a higher rate of return on remaining capital.

Project sources used within the SB Friedman Project returns analysis, reflecting the adjustments outlined above, are presented in **Figures 22 and 23**.

Figure 22. Project Sources – Developer Cost Scenario

	Without TBP				Refinancing Proceeds	With TBP				Refinancing Proceeds
	Construction	%	Permanent	%		Construction	%	Permanent	%	
OCM ADDITION										
TOTAL	\$94,782,781	100%	\$94,782,781	100%		\$91,172,295	100%	\$91,172,295	100%	
Debt	\$50,602,564	53%	\$67,479,152	71%	\$16,876,588	\$48,675,000	53%	\$67,479,152	74%	\$18,804,152
Equity	\$44,180,217	47%	\$27,303,629	29%		\$42,497,295	47%	\$23,693,143	26%	
BOOK TOWER										
TOTAL	\$311,444,245	100%	\$311,444,245	100%		\$300,344,271	100%	\$300,344,271	100%	
Debt	\$140,149,910	45%	\$174,815,035	56%	\$34,665,125	\$135,154,922	45%	\$174,815,035	58%	\$39,660,113
HTC Equity	\$140,772,799	45%	\$106,107,674	34%		\$135,755,611	45%	\$96,095,498	32%	
Equity	\$30,521,536	10%	\$30,521,536	10%		\$29,433,739	10%	\$29,433,739	10%	
MONROE BLOCKS										
TOTAL	\$830,091,215	100%	\$830,091,215	100%		\$803,263,320	100%	\$803,263,320	100%	
Debt	\$456,550,168	55%	\$510,971,028	62%	\$54,420,859	\$441,794,826	55%	\$510,971,028	64%	\$69,176,201
Equity	\$373,541,047	45%	\$319,120,188	38%		\$361,468,494	45%	\$292,292,293	36%	
HUDSON'S SITE										
TOTAL	\$908,980,541	100%	\$908,980,541	100%		\$871,696,153	100%	\$871,696,153	100%	
Debt	\$401,601,423	44%	\$465,643,587	51%	\$64,042,164	\$385,128,614	44%	\$465,643,587	53%	\$80,514,974
Equity	\$507,379,118	56%	\$443,336,954	49%		\$486,567,539	56%	\$406,052,566	47%	
TDC	\$2,145,298,782					\$2,066,476,039				

[1] Debt assumes 1.5 debt coverage ratio based on stabilized year net operating income

[2] Historic tax credit equity held constant as percentage of total development costs

[3] Remainder of project sources assumed to be developer/investor equity

Source: Bedrock, SB Friedman

Figure 23. Project Sources - Adjusted Cost Scenario

	Without TBP				Refinancing Proceeds	With TBP				Refinancing Proceeds
	Construction	%	Permanent	%		Construction	%	Permanent	%	
OCM ADDITION										
TOTAL	\$94,782,781	100%	\$94,782,781	100%		\$91,172,295	100%	\$91,172,295	100%	
Debt	\$50,602,564	53%	\$67,479,152	71%	\$16,876,588	\$48,675,000	53%	\$67,479,152	74%	\$18,804,152
Equity	\$44,180,217	47%	\$27,303,629	29%		\$42,497,295	47%	\$23,693,143	26%	
BOOK TOWER										
TOTAL	\$254,614,576	100%	\$254,614,576	100%		\$246,157,999	100%	\$246,157,999	100%	
Debt	\$114,576,559	45%	\$174,815,035	69%	\$60,238,476	\$110,771,099	45%	\$174,815,035	71%	\$64,043,936
HTC Equity	\$115,085,788	45%	\$54,847,313	22%		\$111,263,415	45%	\$47,219,480	19%	
Equity	\$24,952,228	10%	\$24,952,228	10%		\$24,123,484	10%	\$24,123,484	10%	
MONROE BLOCKS										
TOTAL	\$716,936,687	100%	\$716,936,687	100%		\$690,254,367	100%	\$690,254,367	100%	
Debt	\$394,315,178	55%	\$510,971,028	71%	\$116,655,850	\$379,639,902	55%	\$510,971,028	74%	\$131,331,126
Equity	\$322,621,509	45%	\$205,965,660	29%		\$310,614,465	45%	\$179,283,339	26%	
HUDSON'S SITE										
TOTAL	\$680,146,831	100%	\$680,146,831	100%		\$654,439,804	100%	\$654,439,804	100%	
Debt	\$300,499,211	44%	\$465,643,587	68%	\$165,144,376	\$289,141,455	44%	\$465,643,587	71%	\$176,502,132
Equity	\$379,647,620	56%	\$214,503,244	32%		\$365,298,348	56%	\$188,796,216	29%	
TDC	\$1,746,480,876					\$1,682,024,464				

[1] Debt assumes 1.5 debt coverage ratio based on stabilized year net operating income

[2] Historic tax credit equity held constant as percentage of total development costs

[3] Remainder of project sources assumed to be developer/investor equity

Source: Bedrock, SB Friedman

FINANCING CONCLUSIONS

Uncertainty exists regarding the overall financing of the Project, particularly in terms of financing terms, tax credit pricing and the potential bonding of TBP revenue streams. Overall, the Developer's financing assumptions include relatively low leverage and a relatively high amount of equity during both construction and operations. The high level of equity commitment at the outset of construction is probably necessary given the perceived construction and lease-up risk of a transformational project. The strong commitment of the Developer is a positive for the Project.

However, the debt to equity ratio at conversion to permanent financing is conservative and the Project would likely achieve a higher debt coverage ratio than the 1.5 currently assumed by the Developer, particularly given the Project's high rent and occupancy assumptions. As discussed above, for the purposes of this underwriting analysis, permanent debt was sized using a 1.3 DCR. This adjustment results in loan-to-value ratios more similar to recent permanent financing and refinancing terms in Detroit, as identified using Real Capital Analytics. SB Friedman has reflected the reduction of equity that results from increased leverage at conversion to permanent financing

The remaining financing assumptions appear reasonable; however, these assumptions may change, potentially substantially, as Project design and costs are finalized, as lenders underwrite the Project and propose construction financing terms and as the Developer pursues bond or other financing for the TBP revenue stream. For the purpose of this analysis, SB Friedman accepted the Developer's assumption that TBP assistance will be self-funded. Given the uncertainties associated with the long-term financing, uncertainties which are reasonable given the risk levels of the project as pioneering in many ways in downtown Detroit, SB Friedman will later discuss reset mechanisms and actions upon sale and refinancing to protect the state from over-subsidizing the project.

Pages 32-39 – Operating Cash Flow Assumptions has been redacted.

Review of Developer TBP Projections

The Developer provided SB Friedman with a model prepared by Plante Moran used to estimate assistance for each of the six forms of financial assistance over the course of the 30-year TBP period. The TBP revenue projection model is dependent on a series of assumptions including taxable value per unit, employment, wages, residential income, residential capture rates and occupancy rates. SB Friedman reviewed each assumption to determine reasonableness. Basic tax rate and abatement assumptions were verified directly with MEDC and the State of Michigan.

TAXABLE VALUE

The Developer provided taxable value on a per-unit, -stall, -key or -square-foot basis. Original assumptions by land use are included in **Figure 29** below.

Figure 29. Developer Taxable Value by Component

	OCM Addition	Book Tower	Monroe Block Phase 1	Monroe Block Phase 2	Hudson's Site
Office/Commercial (\$/SF)	\$34	\$40	\$40	\$40	\$40
Retail (\$/SF)	\$40	\$40	\$40	\$40	\$40
Residential (\$/unit)	\$55,000	\$55,000	\$55,000	\$55,000	\$75,000
Hotel (\$/SF)	\$50	\$50	\$50	\$50	\$50
Parking (\$/space)	\$6,800	\$6,800	\$6,800	\$6,800	\$6,800

Source: Bedrock, SB Friedman

As mentioned above, SB Friedman worked with the Detroit Assessors Office to review the taxable value assumptions provided by the Developer. A summary of SB Friedman benchmarks is included in **Figure 30** by land use.

Figure 30. SB Friedman Taxable Value Benchmark

	SBF Benchmark	Properties Included in SBF Analysis
Office/Commercial (\$/SF)	\$40	OCM, One Kennedy Square, 150 W Jefferson, One Detroit Center
Residential (\$/unit)	\$37,000	The Scott at Brush Park
Hotel (\$/SF)	\$40	Foundation Hotel, David Whitney Building, Hilton Garden Inn
Parking (\$/space)	\$7,000	2 Detroit Garage, 1000 Franklin, Port Atwater Parking, 621 Franklin St

Source: Bedrock, Detroit Assessors Office, SB Friedman

Comparing the Developer assumptions against the Detroit benchmarks, the only taxable value assumption significantly different is the taxable value per unit rate for residential. The Developer taxable value assumption for residential ranges between \$55,000 and \$75,000. Benchmark data for stabilized downtown new construction development was unavailable at the time of analysis. Instead, SB Friedman used a slightly modified value per unit the Developer provided for the Scott at Brush Park, located in Midtown. The SB Friedman adjustment changed taxable value per unit from \$48,000 to \$37,000 by removing parking to isolate non-parking value. As the calculated taxable value was nearly half the value of either of the Developer assumptions for taxable value, SB Friedman worked with the Assessor's Office to reconcile assumptions. The Assessor's Office stated high rent downtown residential units are generally between

\$100,000 and \$125,000 market value per unit, which is roughly between \$50,000 and \$62,000 taxable value. Using the Assessor’s Office back of the envelope values, the Project components are all within range except Hudson’s Site which has a 20% premium over existing value.

The office taxable value per-square-foot assumption in the OCM Addition is slightly below the benchmark, \$34 as opposed to \$40, and will be addressed with the potential adjustments.

POTENTIAL ADJUSTMENTS

SB Friedman evaluated each assumption within the Plante Moran model. Basic industry assumptions were quickly validated, such as the percentage of hard costs attributed to wages and ongoing vacancy rates. Other assumptions which include more variability within the data and required a closer look. A summary of specific items evaluated is located in **Figure 31** below.

Figure 31. SB Friedman Taxable Value Benchmark

Assumption	Developer	SBF Benchmark
Wages [1]		
Hotel	\$24,000	\$21,000
Retail	\$26,000	\$24,000
Office	\$85,000	\$92,000
Food & Beverage	\$25,000	\$17,000
Event/Auditorium/Exhibition	\$40,000-68,000	
Commercial Management Agent (CMA)	\$4.00 / SF	\$3.80 /SF
SF per Employee		
Office	175-200	200-400
Retail	164	150-200
Food & Beverage	160	140
Wage Growth Rate	2%	2%
Resident Rent-to-Income Factor	25%	20%
Withholding Rates	3.7-3.875%	3.6-3.85%

[1] Annual wage unless otherwise noted
 Source: Bedrock, Detroit Assessors Office, SB Friedman

Using SB Friedman benchmark research, each of the following assumptions was considered as a potential adjustment.

- Taxable Value** | The only taxable value per unit rates proposed by the Developer below SB Friedman benchmarks is the taxable value per parking stall rate for all components and the office taxable value per square foot for the OCM Addition. The difference between parking taxable value was de minimis and would not impact real property taxes. The 2017 taxable value for OCM Phase I is \$36 per square foot and the newest product fully assessed, One Kennedy Square, has a taxable value of \$40 per square foot. Based on SB Friedman conversations with the Assessor’s Office the taxable value of the OCM Addition is likely to reflect the One Kennedy Square taxable value, indicating the taxable value is below appropriate levels in the Plante Moran model.
- Withholding Rates** | The model provided by Plante Moran incorporated approximate withholding rates calculated using rough wage estimates early in the model design process. In the course of evaluating the

projections, SB Friedman adjusted the withholding rates to values which aligned with final salary assumptions to identify if the adjustment impacted TBP revenue.

- **Employee Composition & Wages**

- The original model assumed Rock Family of Companies employees would occupy 20% of office space within the Project components. During the course of SB Friedman’s analysis, the Developer indicated the Family of Companies would likely occupy 50% of office space. Maintaining the Bedrock methodology for calculating office employee incomes, income would decrease from \$85,000 per employee to \$79,000.
- Wage estimates included in the Developer source materials were from either 2016 or 2013 datasets. Inflating the wages to 2017 values would create a more meaningful baseline for analysis, to then be inflated 2% annually as is currently modeled.

- **Office Employment Density** | The Plante Moran model assumes a higher density (175 SF/employee) in the OCM Addition as opposed to the other Project Components. The difference is attributed to the higher percentage of Rock Family of Companies employees anticipated within the OCM Addition, which are assumed to occupy 135 SF per employee rather than the traditional 200-250 SF standard. In the event the number of Rock Family of Companies employees increases above the projected 20% of total employees within Project components, the density of employees within the components will also increase.

- **Rent-to-Income Factor** | The Developer has assumed residents of the Project will have household incomes of approximately \$125,000, based on applying a rent-to-income factor of 25% to the anticipated rents. BLS CES data indicates households with higher incomes (\$75,000+) only spend 20% of their income on housing. SB Friedman elected to not adjust the rent-to-income factor to match the BLS CES rate as it would ultimately increase wage projections to an unlikely level given the high rent PSF rate.

- The 25% rent-to-income factor did remain a slight concern given that wages for Project component employees are expected to range between \$25,000 and \$85,000 annually and the Developer is assuming 10% of employees within Project components will also live within a component.
- Large units could offset the difference between individual wages and household wages necessary, as the household size is likely to be 2+ people in each unit. However specific detail on target residents and household size was not included in Developer materials.

- **Live-Work Ratio** | Existing LEHD live-work data for the Detroit Central Business District (CBD) indicates less than 2% of the people who currently work in the CBD also live in the CBD. The Developer has projected 10% of office employees will both live and work in Project components. This assumption could be reasonable, given that the Project will provide a new stock of residential units that will likely be attractive to CBD office workers. In the event the live-work factor is lower than 10%, the Project will yield higher income and withholding captures than the Developer currently assumes.

Applying these potential adjustments to the Developer assumptions resulted in only marginal differences (<1%) in total projected TBP assistance over the 30-year period (undiscounted). Many of the adjustments were offsetting, with one adjustment increasing and another decreasing the amount of TBP revenue generated by the Project. Given the uncertainty related to all projections and absence of significant change, all assumptions included within the Plante

Moran model appear to be reasonable for the purposes of estimating likely TBP revenues and evaluating public assistance.

TBP MODEL ADJUSTMENTS

Following SB Friedman’s adjustments to hard costs for Book Tower, Monroe Blocks and the Hudson’s Site, the TBP Projections were modified to reflect a reduced sales tax exemption on construction materials and reduced revenue from construction period tax capture reimbursement.

Developer Capacity

SB Friedman reviewed at a high level the Developer's capacity to undertake the Project. Bedrock Real Estate Services is a full-service developer with in-house design, engineering, finance, development, leasing and property management capabilities. Materials provided by the Developer indicate a staff of approximately 450, with roughly half of those devoted to property management. While detailed information was not provided, the Developer has been involved in the rehabilitation and development of many recent projects in downtown Detroit, including residential, office, retail and hotel space. Organizationally, it appears the Developer has the staff capacity and experience to execute several development projects of varying uses simultaneously.

The Developer's CEO/Managing Partner provided a letter indicating that they have the financial capacity to undertake the Project as proposed using a combination of conventional financing and equity. It is SB Friedman's understanding that one affiliated party will provide all cash equity required for the Project. SB Friedman requested that the Developer provide at least three references related to financial relationships and public-private partnerships. A reference letter from JP Morgan Chase indicates the entity has provided banking services to the Developer and the Quicken Loans Family of Companies since 2005 and affirms the Developer's reputation and track record of undertaking a range of high quality projects in downtown Detroit. No other references were provided to SB Friedman. However, based on the number of Detroit projects undertaken by the Developer and their anticipated source of equity, it appears likely the Developer has the financial capacity to undertake the Project as proposed if appropriate sources of conventional financing can be identified through existing or new lending relationships.

Need for Financial Assistance

SB Friedman evaluated the Project's need for TBP TIF assistance under two scenarios. In each scenario, the office operating expenses were reduced for the Hudson's Site, permanent debt was sized using the Developer's parameters and 1.3x DCR, and on-going TBP assistance was recognized as annual cash flow. The scenarios are as follows:

1. **Developer Cost Scenario** | Project costs presented by the Developer. Full capture of all available TBP benefit, as projected by Plante Moran.
2. **Adjusted Cost Scenario** | Adjusted costs for the residential, hotel, office and retail uses, using the average cost of first-class Midwest comparables as a baseline and then added the extraordinary and premium feature costs applicable to each Project component. This results in a reduction of approximately \$398.8 million in costs, related to cost differences between the Project and Midwest cost baseline that have not been specified by the Developer. TBP TIF projections were adjusted downward to account for the reduced construction period costs and labor activity.
3. **Adjusted Cost Scenario + Residential Rent Sensitivity** | Using the same cost adjustments in Scenario 2, residential rents were adjusted downward to reflect a 10% premium over existing downtown per-square-foot rents (\$2.75 per square foot in 2018). This sensitivity analysis evaluates the impact on financial feasibility of not achieving the 25-35% residential rent premium currently assumed by the Developer. TBP TIF projections were adjusted downward to account for the reduced construction period costs and labor activity. Income tax capture assumptions were also adjusted to reduced resident incomes aligning with the lower rent assumptions.

SB Friedman typically uses one or more of the following return metrics to evaluate the need for public assistance:

1. **Unleveraged Internal Rate of Return (IRR)** | This is the rate of return or discount rate for a project, accounting for initial expenditures to construct the Project (total project costs, net of HTC equity) and ongoing cash inflows (annual net operating income [NOI] before debt service), as well as a hypothetical sale (reversion) of the Project at the end of the analysis period.
2. **Stabilized Yield on Cost** | This metric is calculated by dividing NOI before debt service in the first year of stabilized operations by total project costs (net of HTC equity) and is an indicator of the annual overall return on investment for the Project.
3. **Leveraged Internal Rate of Return** | This is the annualized rate of return the Project's non-HTC equity investors would be projected to realize over their full investment period, including an assumed hypothetical sale of the Project at the end of the analysis period.
4. **Stabilized Cash-on-Cash Return** | This metric indicates the annual cash return to non-HTC equity investors once the Project reaches stabilization and is calculated by dividing net cash flow (after debt service) in a given year by the total cash equity investment.

MEDC TBP Program Guidelines specify that the leveraged annual cash-on-cash return for a project receiving TBP assistance cannot exceed an average of 15% over the life of the Project, stated as 20 years. While Project financing is preliminary and variation in any financing assumptions would impact the amount of cash equity contributed by the Developer and potentially significantly alter the cash-on-cash returns, SB Friedman has primarily evaluated the need for TBP assistance based on MEDC's Guidelines.

SB Friedman also considered two unleveraged return metrics, stabilized yield on cost and unleveraged IRR, to consider the overall viability of the Project, rather than equity returns based on a particular financing structure. To account for the mix of uses in the Project, SB Friedman estimated a range of market-appropriate, risk-adjusted rates of return for each land use, which were then weighted in aggregate to each land uses' percentage of overall Project net operating income. This results in the following range of appropriate Project returns: 7.0-7.7% for stabilized yield on cost and 8.3-8.8% for unleveraged internal rate of return.

For the purposes of sizing TBP assistance for the Project, SB Friedman has considered 2024 to be the first stabilized year of operations for the Project overall. In this year, each of the Project components have reached stabilized occupancy and TBP projections have also stabilized. SB Friedman has assumed reversion in Year 24 of operations for each component to align with MEDC's guidelines of a 20-year Project horizon. Reversionary values are based on Year 25 NOI, net of TBP assistance, capitalized at a weighted terminal rate ranging by Project component from 6.8-7.3%. TBP assistance that occurs in Year 25 and beyond has been discounted to Year 24, using the terminal capitalization rate and added to cash flow in the reversion year. This treatment of future TBP revenue reflects the price a potential seller would pay for the ongoing TBP revenue streams.

The results of the returns analysis are described below and shown in **Figure 32**:

1. **Developer Cost Scenario** | Under this scenario, Project returns without TBP assistance are below target return thresholds, indicating the Project is not feasible without TBP assistance. With the full requested \$618.0M in TBP assistance, the Project achieves an average 9.9% cash-on-cash return through 20 years of stabilized operations and is below the unleveraged return ranges listed above.
2. **Adjusted Cost Scenario** | Under this scenario, TBP assistance is reduced to \$346.5 million, with assistance ending after Year 18 of operations. The average cash-on-cash return from stabilization through Year 18 is 15.0%. The reduced assistance results in a stabilized yield on cost of 7.2%, which is within the target return range, and unleveraged IRR of 8.2%, which is just below the target range.
3. **Adjusted Cost Scenario + Residential Rent Sensitivity** | Under this scenario, TBP assistance totals \$422.2 million, with assistance ending after Year 21 of operations. The average cash-on-cash return from stabilization through Year 21 is 15.0%. The reduced assistance results in a stabilized yield on cost of 7.0%, which is at the low end of the target return range, and unleveraged IRR of 8.1%, which is just below the target range.

Figure 32. Required TBP Assistance to Achieve Financial Viability

Scenario [1]	Total Development Cost	TBP Assistance			Returns with Assistance		
		Total Assistance	Construction Period Assistance	Ongoing Assistance	Average Cash-on-Cash Return	Stabilized Yield on Cost [2]	Unleveraged IRR
1. Developer Cost Scenario	\$2.15 B	\$618.0 M	\$78.8 M	\$539.2 M	9.9%	5.9%	6.9%
2. Adjusted Cost Scenario	\$1.75 B	\$346.5 M	\$64.5 M	\$282.1 M	15.0% [3]	7.2%	8.2%
3. Adjusted Cost Scenario + Residential Rent Sensitivity	\$1.75 B	\$422.2 M	\$64.5 M	\$352.8 M	15.0% [4]	7.0%	8.1%
SBF RETURN BENCHMARK						7.0-7.7%	8.3-8.8%
MEDC TBP GUIDANCE: MAXIMUM AVERAGE TBP RETURN DURING ASSISTANCE PERIOD					15.0%		

[1] All scenarios reflect an adjustment to Hudson’s Site operating expenses and 1.3 DCR on permanent financing. In Scenario 3, income tax capture assumptions were adjusted to reflect reduced resident incomes aligning with the lower rent assumptions.

[2] Overall project stabilization in 2024 (Year 5)

[3] Stabilization through 2037 (Year 18)

[4] Stabilization through 2040 (Year 21)

Source: Bedrock, SB Friedman

Conclusions and Recommendations

The Developer's proposed Project is likely to be transformative to downtown Detroit, bringing a density of high-end new construction and renovated product that is expected to attract new office workers, residents and tourists to downtown. While the projected operating revenues associated with the Project are generally expected to exceed rents achieved in existing downtown developments, the Project rents appear to be insufficient to support construction costs associated with the Project's mix of uses, substantial underground parking, and level of quality and design.

SB Friedman's financial analysis primarily considered the leveraged annual cash-on-cash metric. With the full Developer estimated construction costs, and permanent financing sized using a 1.3 DCR, the Project requires the full \$618 million in TBP assistance to be financially viable. If costs are equal to the average of recent high-end projects in other Midwest cities, adjusted upward for extraordinary and premium costs associated with the Project, TBP assistance would be reduced substantially to \$346.5 million. In a scenario where the residential rents achieve only a 10% premium above the top of the Detroit downtown market, and costs equal the Midwest cost plus extraordinary and premium finishes scenario, approximately \$422.2 million in TBP assistance is needed to achieve financial feasibility.

The Developer's construction cost estimates for the Project substantially exceed development costs of high-end mid- and high-rise development in major Midwestern cities, including the latest luxury residential and best-in-class office developments in downtown Chicago. The difference in cost between the Project and peer projects appears to be related to site-specific conditions, structural features to support the mix of uses, deterioration and other costs associated with the historic rehabilitation of the Book Tower, labor shortage premiums, and premium exterior and interior finishes. Approximately \$112 million in costs is associated with design elements and premium finishes associated with the residential, office, retail and hotel components of the Project that do not appear to contribute to the Project's cash flow. SB Friedman estimates that if these elements were eliminated from the Project, TBP assistance could be reduced approximately dollar for dollar. The premium costs do not result in additional cash flow, so each additional budget dollar above a certain level must be funded with equity and then fully serviced with TBP assistance during operations. Under guidance from MEDC, SB Friedman's analysis includes these premium costs because of their potential transformational impact on downtown Detroit.

Two Project components are primarily driving the financial gap and need for TBP assistance: relatively high construction costs, including premium features, and conservative financing assumptions. While the Developer has identified certain cost components that cause Project costs to exceed typical first-class Midwest downtown projects, nearly \$400 million in Project costs are not accounted for after adjusting the average Midwest cost baseline upward to account for extraordinary costs and premium finishes. Furthermore, the state TBP statute allows for reductions of up to 10% in TBP project budgets before any adjustments to TBP assistance are required. Given the range of costs identified between the Developer submittal and typical Midwest downtown costs, adjusted for particular Project components, and the range of TBP assistance required to achieve viability under alternate cost scenarios, it is recommended that the TBP assistance structure be such that cost savings are reflected in the TBP assistance. In addition, there is currently great uncertainty related to the Developer's ability to finance the TBP revenues over time; the Developer pro formas and SB Friedman's analysis assume that the TBP revenues are not financed by a third-party entity, even after stabilization. Changes in the financing structure would impact the amount of equity in the Project and equity returns. SB Friedman therefore strongly recommends that the TBP assistance structure and redevelopment agreement require two "true ups" to right-size public TBP assistance at the time costs are solidified and conversion to permanent financing occurs for each Project component:

- **Construction Cost Verification and Savings Capture** | Costs could be verified at the time competitive bids are awarded, with assistance modified based on approved bids. Alternatively, costs could instead be verified

following construction completion, comparing anticipated costs indicated in the pro formas to actual costs incurred, at the point at which a certificate of occupancy is issued for each component of the Project. The benefit of the latter scenario is that actual construction costs are verified, with the Developer submitting owner's sworn statements for all costs. It is our understanding MEDC intends to certify costs after construction completion and is putting a process in place to do so. In order to incentivize the Developer to reduce costs, any cost savings could be shared between the Developer and the state at a level to be negotiated prior to finalizing the development agreement. Construction-period assistance would be right-sized during construction based on actual costs incurred, and any resulting reduction in assistance during operations would first be taken from income tax revenue, as required by statute, and then real and personal property tax revenues.

- **Upside Sharing** | Following stabilized occupancy, a re-underwriting should be triggered when each Project component of the Project as a whole is converted to permanent financing, is sold, is refinanced or undergoes another financial change, such as monetization of the TBP revenues. At this point, the Project would be evaluated using actual costs, revenues, operating expenses and financing. The Developer would be allowed to maintain an agreed-upon return on equity (as indicated in the original underwriting or another market-appropriate threshold), with any additional revenue – the upside – shared between the Developer and state at a set ratio (e.g., the ratio of TBP assistance to developer equity in the Project at construction completion). This upside sharing provision could be structured such that there would be no impacts to the Developer's ability to finance the TBP revenue stream.

LIMITATIONS OF OUR ENGAGEMENT

Our deliverables are based on estimates, assumptions and other information developed from research of the market, knowledge of the industry, and meetings/teleconferences with the Michigan Economic Development Corporation and the Developer during which we obtained certain information. The sources of information and bases of the estimates and assumptions are stated in the deliverables. Some assumptions inevitably will not materialize, and unanticipated events and circumstances may occur; therefore, actual results achieved during the period covered by our analysis will necessarily vary from those described in our report, and the variations may be material.

The terms of this engagement are such that we have no obligation to revise analyses or the deliverables to reflect events or conditions that occur subsequent to the date of the deliverable. These events or conditions include, without limitation, economic growth trends, governmental actions, changes in state statute or City ordinance, additional competitive developments, interest rates, and other market factors. However, we will be available to discuss the necessity for revision in view of changes in the economic or market factors affecting the proposed project.

Our deliverables are intended solely for your information, for purposes of reviewing a request for financial assistance, and is not a recommendation to issue bonds or other securities. The report should not be relied upon by any other person, firm or corporation, or for any other purposes. Neither the report nor its contents, nor any reference to our Firm, may be included or quoted in any offering circular or registration statement, appraisal, sales brochure, prospectus, loan, or other agreement or document intended for use in obtaining funds from individual investors without our prior written consent.

We acknowledge that upon submission to the MEDC, the report may become a public document within the meaning of the Freedom of Information Act. Nothing in these limitations is intended to block the disclosure of the documents under such Act.

Figure A1. SB Friedman Inflation Factors

Year	Hard Cost Adjustment Factor	Non-Hard Cost Adjustment Factor
2017	1.00	1.00
2016	1.05	1.02
2015	1.10	1.03
2014	1.15	1.02

Source: SB Friedman, Turner Construction, BLS

Figure A2. SB Friedman Location Factors

Chicago	Cincinnati	Detroit	Kansas City	Milwaukee	Minneapolis	Omaha
120.0	89.1	100.9	102.5	102.7	105.7	90.0

Source: RS Means, SB Friedman

Figure A3. Financial Returns Analysis – Developer Cost Scenario, without Assistance

UNLEVERAGED CASH FLOW NO ASSISTANCE	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
	Year 0	Year 0	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
OCM Addition													
Net Operating Income	\$0	\$0	\$62,431	\$4,142,855	\$5,650,986	\$5,766,805	\$5,883,778	\$6,002,264	\$6,129,833	\$6,247,635	\$6,365,938	\$6,490,663	\$6,617,465
Revision Proceeds (Year 24)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Project Costs	-\$63,188,521	-\$31,594,260	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Book Tower													
Net Operating Income	\$0	\$0	\$0	\$3,127,279	\$12,113,320	\$13,987,524	\$14,639,741	\$15,105,867	\$15,585,977	\$16,080,491	\$16,589,840	\$17,114,470	\$17,654,838
Revision Proceeds (Year 24)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Project Costs	-\$9,287,602	-\$112,999,154	-\$112,999,154	-\$76,158,334	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Less HTC Equity or Upfront Assistance	\$0	\$0	\$30,521,536	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Monroe Blocks													
Net Operating Income	\$0	\$0	\$0	\$0	\$11,140,556	\$30,646,514	\$39,001,914	\$41,317,615	\$42,790,846	\$44,308,274	\$45,871,225	\$47,481,065	\$49,139,200
Revision Proceeds (Year 24)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Project Costs	-\$62,724,837	-\$292,038,513	-\$333,177,680	-\$333,177,680	-\$122,035,763	-\$70,114,422	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Hudson's Site													
Net Operating Income	\$0	\$0	\$0	\$0	\$0	\$19,764,038	\$35,966,317	\$40,292,980	\$41,244,420	\$42,214,757	\$43,164,823	\$45,119,143	\$46,631,856
Revision Proceeds (Year 24)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Project Costs	-\$16,490,531	-\$200,634,797	-\$200,634,797	-\$201,184,481	-\$206,634,797	-\$89,401,139	\$0	\$0	\$0	\$0	\$0	\$0	\$0
TOTAL	-\$25,778,133	-\$439,547,308	-\$606,682,758	-\$603,250,360	-\$293,765,698	-\$39,350,680	\$95,401,748	\$102,718,725	\$105,751,076	\$109,851,157	\$112,470,826	\$116,205,341	\$120,043,359
Annual Yield on Cost	0.0%	0.0%	0.0%	0.4%	1.4%	3.3%	4.5%	4.9%	5.0%	5.1%	5.3%	5.5%	5.7%
Unleveraged IRR - No Assistance	5.9%												

LEVERAGED CASH FLOW NO ASSISTANCE	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Year 0	Year 0	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	
OCM Addition													
Equity Contribution	\$0	\$0	\$0	\$16,876,588	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Equity Distribution	\$0	\$0	\$62,431	\$1,969,399	\$1,304,074	\$1,419,893	\$1,536,865	\$1,655,352	\$1,782,920	\$1,900,723	\$2,019,026	\$2,143,751	\$2,270,553
Book Tower													
Equity Contribution	-\$9,287,602	-\$112,999,154	-\$18,486,042	\$0	\$0	\$34,665,125	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Equity Distribution	\$0	\$0	\$0	\$3,127,279	\$12,113,320	\$11,172,189	\$3,378,402	\$3,844,528	\$4,324,639	\$4,819,152	\$5,328,501	\$5,853,131	\$6,393,499
Monroe Blocks													
Equity Contribution	-\$62,724,837	-\$292,038,513	-\$18,777,697	\$0	\$0	\$30,646,514	\$0	\$54,410,859	\$9,874,811	\$11,392,239	\$12,955,190	\$14,565,029	\$16,223,164
Equity Distribution	\$0	\$0	\$0	\$0	\$0	\$0	\$39,001,914	\$6,401,579	\$0	\$0	\$0	\$0	\$0
Hudson's Site													
Equity Contribution	-\$16,490,531	-\$200,634,797	-\$200,634,797	-\$89,618,993	\$0	\$0	\$0	\$0	\$64,042,164	\$0	\$0	\$0	\$0
Equity Distribution	\$0	\$0	\$0	\$0	\$0	\$19,764,038	\$35,966,317	\$40,292,980	\$41,244,420	\$42,214,757	\$43,164,823	\$45,119,143	\$46,631,856
TOTAL	-\$25,778,133	-\$430,539,005	-\$511,096,921	-\$586,423,424	\$24,557,950	\$97,667,760	\$79,883,497	\$108,615,298	\$89,542,477	\$28,600,394	\$32,210,062	\$35,954,577	\$39,792,595
Annual Cash-on-Cash Return	7.0%												
Leveraged IRR - No Assistance	7.1%												

Source: Bedrock Management Services, LLC; SB Friedman

Figure A3. Financial Returns Analysis – Developer Cost Scenario, without Assistance - CONTINUED

UNLEVERAGED CASH FLOW AND ASSISTANCE	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044
OCM Addition															
Net Operating Income	\$6,746,364	\$6,877,379	\$7,010,531	\$7,145,838	\$7,283,319	\$7,422,991	\$7,564,872	\$7,708,977	\$7,855,322	\$8,003,922	\$8,154,792	\$8,307,943	\$8,463,388	\$8,621,138	\$8,781,188
Reversion Proceeds (Year 24)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$118,416,901
Total Project Costs	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Book Tower															
Net Operating Income	\$18,212,246	\$18,787,229	\$19,380,342	\$19,992,155	\$20,623,257	\$21,274,256	\$21,945,778	\$22,638,470	\$23,352,997	\$24,090,048	\$24,850,331	\$25,634,578	\$26,443,544	\$27,278,007	\$28,138,007
Reversion Proceeds (Year 24)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$360,247,028
Total Project Costs	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Less HTC Equity or Upfront Assistance	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Menroe Blocks															
Net Operating Income	\$50,847,079	\$52,614,005	\$54,442,011	\$56,333,199	\$58,289,744	\$60,313,893	\$62,407,973	\$64,574,389	\$66,815,628	\$69,134,266	\$71,532,961	\$74,014,468	\$76,581,633	\$79,237,399	\$81,984,617,977
Reversion Proceeds (Year 24)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Project Costs	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Hudson's Site															
Net Operating Income	\$48,193,435	\$49,801,861	\$51,463,761	\$53,180,907	\$54,955,129	\$56,788,318	\$58,682,427	\$60,639,474	\$62,661,543	\$64,750,788	\$66,909,434	\$69,139,777	\$71,444,191	\$73,825,129	\$76,297,995
Reversion Proceeds (Year 24)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$1,019,799,695
Total Project Costs	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Less HTC Equity or Upfront Assistance	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
TOTAL	\$123,992,133	\$128,680,474	\$133,296,645	\$138,052,099	\$141,151,449	\$145,799,458	\$150,601,049	\$155,561,309	\$160,685,491	\$165,978,024	\$171,447,538	\$177,096,766	\$182,937,756	\$188,981,274	\$195,239,274
Annual Yield on Cost	5.9%	6.1%	6.3%	6.5%	6.7%	6.9%	7.1%	7.4%	7.6%	7.8%	8.1%	8.4%	8.7%	9.0%	9.3%

LEVERAGED CASH FLOW AND ASSISTANCE	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044
OCM Addition															
Equity Contribution	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Equity Distribution	\$2,999,452	\$2,530,467	\$2,663,619	\$2,798,926	\$2,936,407	\$3,076,079	\$3,217,959	\$3,362,064	\$3,508,410	\$3,657,010	\$3,807,890	\$3,961,031	\$4,116,276	\$4,272,576	\$98,610,570
Book Tower															
Equity Contribution	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Equity Distribution	\$6,950,907	\$7,525,890	\$8,119,003	\$8,730,816	\$9,361,918	\$10,012,917	\$10,684,439	\$11,377,131	\$12,091,658	\$12,828,709	\$13,588,992	\$14,373,240	\$15,182,205	\$286,586,490	\$0
Menroe Blocks															
Equity Contribution	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Equity Distribution	\$17,931,043	\$19,697,969	\$21,525,975	\$23,417,164	\$25,373,708	\$27,397,857	\$29,491,937	\$31,658,353	\$33,899,593	\$36,218,230	\$38,616,926	\$41,098,432	\$43,665,597	\$950,666,784	\$0
Hudson's Site															
Equity Contribution	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Equity Distribution	\$16,466,558	\$18,075,384	\$19,737,284	\$21,454,430	\$23,228,652	\$25,061,841	\$26,955,950	\$28,912,997	\$30,935,066	\$33,024,312	\$35,181,957	\$37,413,300	\$39,717,714	\$799,050,188	\$0
TOTAL	\$43,746,359	\$47,829,711	\$52,045,882	\$56,491,336	\$60,900,685	\$65,348,694	\$70,830,286	\$76,340,286	\$81,985,727	\$87,778,261	\$93,728,261	\$99,846,003	\$106,131,293	\$2,144,914,032	\$0
Annual Cash-on-Cash Return	4.9%	5.3%	5.8%	6.3%	6.8%	7.3%	7.9%	8.4%	9.0%	9.6%	10.2%	10.8%	11.5%		

Source: Bedrock Management Services, LLC; SB Friedman

Figure A4. Financial Returns Analysis – Developer Cost Scenario, with Assistance

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
	Year 0	Year 0	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
UNLEVERAGED CASH FLOW - FULL ASSISTANCE													
OCM Addition													
Net Operating Income	\$0	\$62,431	\$0	\$4,142,855	\$5,650,986	\$5,766,805	\$5,883,778	\$6,002,264	\$6,129,833	\$6,247,635	\$6,365,938	\$6,490,663	\$6,617,465
Total TBP TIF Reimbursement	\$0	\$0	\$0	\$2,137,369	\$2,282,506	\$2,324,292	\$2,440,530	\$2,484,907	\$2,551,415	\$2,604,789	\$2,652,864	\$2,702,594	\$2,761,033
PV of Remaining Assistance (Year 24)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Revision Proceeds	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Project Costs	-\$60,781,530	-\$60,781,530	-\$30,390,765	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Book Tower													
Net Operating Income	\$0	\$0	\$0	\$3,127,279	\$12,113,320	\$13,987,524	\$14,639,741	\$15,105,867	\$15,585,977	\$16,080,491	\$16,589,840	\$17,114,470	\$17,654,838
Total TBP TIF Reimbursement	\$0	\$0	\$0	\$0	\$1,209,536	\$1,389,938	\$1,419,943	\$1,454,577	\$1,485,178	\$1,537,541	\$1,574,631	\$1,603,690	\$1,633,837
PV of Remaining Assistance (Year 24)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Revision Proceeds	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Project Costs	-\$8,956,589	-\$108,971,828	-\$108,971,828	-\$73,444,027	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Less HTC Equity or Upfront Assistance	\$0	\$0	\$29,433,739	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Monroe Blocks													
Net Operating Income	\$0	\$0	\$0	\$0	\$11,140,556	\$30,646,514	\$39,001,914	\$41,317,615	\$42,790,846	\$44,308,274	\$45,871,225	\$47,481,065	\$49,139,200
Total TBP TIF Reimbursement	\$0	\$0	\$0	\$0	\$0	\$0	\$8,016,672	\$8,273,998	\$8,451,763	\$8,605,704	\$8,841,089	\$9,031,102	\$9,198,440
PV of Remaining Assistance (Year 24)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Revision Proceeds	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Project Costs	-\$60,697,619	-\$282,600,059	-\$282,600,059	-\$322,409,639	-\$118,091,663	-\$19,464,340	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Hudson's Site													
Net Operating Income	\$0	\$0	\$0	\$0	\$0	\$19,764,038	\$35,966,317	\$40,292,980	\$41,244,420	\$42,214,757	\$43,643,823	\$45,119,143	\$46,631,856
Total TBP TIF Reimbursement	\$0	\$0	\$0	\$0	\$0	\$233,166	\$4,262,979	\$4,779,076	\$4,629,859	\$4,484,695	\$4,574,578	\$4,694,786	\$4,799,147
PV of Remaining Assistance (Year 24)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Revision Proceeds	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Project Costs	-\$15,814,126	-\$192,405,197	-\$192,405,197	-\$192,932,335	-\$192,405,197	-\$85,734,100	\$0	\$0	\$0	\$0	\$0	\$0	\$0
TOTAL	-\$34,770,714	-\$422,865,175	-\$584,871,673	-\$579,378,497	-\$278,099,856	-\$31,086,163	\$111,631,872	\$119,711,283	\$122,865,291	\$126,083,986	\$130,113,987	\$134,337,512	\$138,435,816
Annual Yield on Cost	0.0%	0.0%	0.0%	0.6%	1.7%	3.6%	5.5%	5.9%	6.0%	6.2%	6.4%	6.6%	6.8%
Unleveraged IRR - Full Assistance	6.9%												
LEVERAGED CASH FLOW - FULL ASSISTANCE													
OCM Addition													
Equity Contribution	-\$42,497,295	\$0	\$0	\$18,804,152	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Equity Distribution	\$0	\$62,431	\$0	\$4,106,768	\$3,586,580	\$3,744,184	\$3,977,395	\$4,140,259	\$4,334,335	\$4,505,512	\$4,671,890	\$4,846,345	\$5,031,585
Book Tower													
Equity Contribution	-\$8,956,589	-\$108,971,828	-\$17,827,194	\$0	\$0	\$39,660,113	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Equity Distribution	\$0	\$0	\$0	\$3,127,279	\$13,322,855	\$12,562,128	\$4,798,344	\$5,299,105	\$5,809,817	\$6,356,693	\$6,903,132	\$7,456,821	\$8,027,337
Monroe Blocks													
Equity Contribution	-\$60,697,619	-\$282,600,059	-\$282,600,059	-\$18,170,816	\$0	\$0	\$0	\$69,176,201	\$0	\$0	\$0	\$0	\$0
Equity Distribution	\$0	\$0	\$0	\$0	\$11,140,556	\$30,646,514	\$47,018,586	\$16,675,577	\$18,326,574	\$19,997,943	\$21,796,279	\$23,596,132	\$25,421,604
Hudson's Site													
Equity Contribution	-\$15,814,126	-\$192,405,197	-\$192,405,197	-\$85,943,019	\$0	\$0	\$0	\$0	\$80,514,974	\$0	\$0	\$0	\$0
Equity Distribution	\$0	\$0	\$0	\$0	\$19,997,205	\$106,610,143	\$96,023,621	\$45,072,055	\$14,147,802	\$14,972,975	\$16,491,823	\$18,087,452	\$19,704,526
TOTAL	-\$24,770,714	-\$404,571,940	-\$492,770,018	-\$78,075,636	-\$28,049,652	\$106,610,143	\$96,023,621	\$140,363,198	\$123,133,502	\$145,833,122	\$149,863,224	\$153,886,749	\$158,185,052
Annual Cash-on-Cash Return	9.9%			0.7%	2.8%	6.9%	9.9%	7.9%	5.2%	5.6%	6.1%	6.6%	7.1%
Average Annual Cash-on-Cash Return (Yrs 5-23)	9.9%												
Leveraged IRR - No Assistance	8.7%												

Source: Bedrock Management Services, LLC; SB Friedman

MEDC / Bedrock Transformational Sites – Underwriting Analysis

Figure A4. Financial Returns Analysis – Developer Cost Scenario, with Assistance - CONTINUED

UNLEVERAGED CASH FLOW - FULL ASSISTANCE	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044
	Year 11	Year 12	Year 13	Year 14	Year 15	Year 16	Year 17	Year 18	Year 19	Year 20	Year 21	Year 22	Year 23	Year 24	Year 24
OCM Addition															
Net Operating Income	\$6,746,364	\$6,877,379	\$7,010,531	\$7,145,838	\$7,283,319	\$7,422,991	\$7,564,872	\$7,708,977	\$7,855,322	\$8,003,932	\$8,154,792	\$8,307,943	\$8,463,388	\$8,621,138	\$8,781,188
Total TBP TIF Reimbursement	\$2,839,724	\$2,891,621	\$2,953,776	\$3,009,171	\$3,067,651	\$3,128,908	\$3,217,692	\$3,279,823	\$3,351,349	\$3,416,422	\$3,482,275	\$3,550,003	\$3,618,783	\$3,688,616	\$3,759,501
PV of Remaining Assistance (Year 24)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Reversion Proceeds	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Project Costs	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Book Tower	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Net Operating Income	\$18,212,246	\$18,787,229	\$19,380,342	\$19,991,155	\$20,623,257	\$21,274,256	\$21,945,778	\$22,638,470	\$23,352,997	\$24,090,048	\$24,850,331	\$25,634,578	\$26,443,544	\$27,278,007	\$28,137,399
Total TBP TIF Reimbursement	\$1,673,062	\$1,727,266	\$1,759,168	\$2,187,156	\$2,233,671	\$2,283,671	\$2,370,639	\$2,418,300	\$2,469,525	\$2,531,187	\$2,585,273	\$1,188,313	\$1,224,083	\$1,251,997	\$1,281,083
PV of Remaining Assistance (Year 24)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Reversion Proceeds	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Project Costs	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Less HTC Equity or Uplift Assistance	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Monroe Blocks	\$50,847,079	\$52,614,005	\$54,442,011	\$56,333,199	\$58,289,744	\$60,313,883	\$62,407,973	\$64,574,389	\$66,815,628	\$69,130,266	\$71,532,951	\$74,014,468	\$76,581,633	\$79,237,399	\$81,981,633
Total TBP TIF Reimbursement	\$9,370,597	\$9,575,285	\$10,336,434	\$10,559,687	\$11,001,920	\$11,811,280	\$12,067,713	\$12,448,937	\$12,713,014	\$12,975,570	\$13,274,860	\$13,552,731	\$13,927,784	\$14,303,524	\$14,680,454
PV of Remaining Assistance (Year 24)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Reversion Proceeds	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Project Costs	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Hudson's Site	\$48,183,435	\$49,801,861	\$51,463,761	\$53,180,907	\$54,955,129	\$56,788,218	\$58,682,427	\$60,639,474	\$62,661,543	\$64,750,788	\$66,909,434	\$69,139,777	\$71,444,191	\$73,825,129	\$76,287,399
Total TBP TIF Reimbursement	\$4,897,685	\$4,999,303	\$5,113,032	\$5,594,439	\$5,711,569	\$6,567,845	\$6,794,507	\$6,887,835	\$7,085,820	\$7,253,728	\$7,418,218	\$7,597,076	\$7,770,140	\$8,370,305	\$8,552,731
PV of Remaining Assistance (Year 24)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Reversion Proceeds	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Project Costs	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
TOTAL	\$142,780,190	\$147,773,949	\$152,459,034	\$158,002,532	\$163,166,259	\$169,611,071	\$174,916,600	\$180,596,204	\$186,315,198	\$192,155,931	\$198,198,144	\$200,034,089	\$206,463,546	\$212,934,795	\$219,981,633
Annual Yield on Cost	7.0%	7.2%	7.5%	7.8%	8.0%	8.2%	8.6%	8.9%	9.1%	9.4%	9.6%	9.8%	10.1%	10.3%	9.8%

LEVERAGED CASH FLOW - FULL ASSISTANCE	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044
	Year 11	Year 12	Year 13	Year 14	Year 15	Year 16	Year 17	Year 18	Year 19	Year 20	Year 21	Year 22	Year 23	Year 24	Year 24
OCM Addition															
Equity Contribution	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Equity Distribution	\$5,239,176	\$5,422,088	\$5,617,395	\$5,809,097	\$6,004,058	\$6,234,987	\$6,435,651	\$6,641,888	\$6,859,759	\$7,073,433	\$4,380,155	\$4,560,234	\$4,725,259	\$102,819,135	\$102,819,135
Book Tower	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Equity Contribution	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Equity Distribution	\$8,633,969	\$9,253,156	\$9,876,171	\$10,917,972	\$11,595,589	\$12,296,498	\$13,055,079	\$13,795,431	\$14,561,183	\$15,359,896	\$16,174,265	\$15,561,552	\$16,406,288	\$305,834,359	\$305,834,359
Monroe Blocks	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Equity Contribution	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Equity Distribution	\$27,301,640	\$28,273,254	\$31,862,409	\$33,976,851	\$36,375,628	\$39,209,137	\$41,559,650	\$44,107,290	\$46,612,607	\$49,193,800	\$51,891,786	\$54,651,163	\$57,593,381	\$991,064,831	\$991,064,831
Hudson's Site	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Equity Contribution	\$21,354,643	\$23,074,687	\$24,850,316	\$27,048,869	\$28,940,221	\$31,629,686	\$33,680,457	\$35,800,837	\$38,000,886	\$40,278,039	\$42,601,175	\$45,010,376	\$47,487,854	\$627,546,407	\$627,546,407
Equity Distribution	\$67,539,427	\$67,033,186	\$72,108,291	\$77,751,749	\$82,915,496	\$89,370,307	\$94,730,837	\$100,345,440	\$106,064,435	\$111,005,168	\$115,057,381	\$118,783,335	\$126,312,782	\$3,227,666,731	\$3,227,666,731
TOTAL	\$142,780,190	\$147,773,949	\$152,459,034	\$158,002,532	\$163,166,259	\$169,611,071	\$174,916,600	\$180,596,204	\$186,315,198	\$192,155,931	\$198,198,144	\$200,034,089	\$206,463,546	\$212,934,795	\$219,981,633
Annual Cash-on-Cash Return	7.6%	8.2%	8.8%	9.5%	10.1%	10.9%	11.6%	12.3%	13.0%	13.7%	14.1%	14.6%	15.4%	15.4%	15.4%

Source: Bedrock Management Services, LLC; SB Friedman

Figure A5. Financial Returns Analysis – Adjusted Cost Scenario, without Assistance – CONTINUED

UNLEVERAGED CASH FLOW NO ASSISTANCE	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044
OCM Addition															
Net Operating Income	\$6,746,364	\$6,877,379	\$7,010,531	\$7,145,838	\$7,283,319	\$7,422,991	\$7,564,872	\$7,708,977	\$7,855,322	\$8,003,922	\$8,154,792	\$8,307,943	\$8,463,388	\$8,621,138	\$8,781,191
Reversion Proceeds (Year 24)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$11,816,901
Total Project Costs	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Book Tower															
Net Operating Income	\$18,212,246	\$18,781,229	\$19,380,342	\$19,992,155	\$20,623,257	\$21,274,256	\$21,945,778	\$22,638,470	\$23,352,997	\$24,090,048	\$24,850,331	\$25,634,578	\$26,443,544	\$27,278,007	\$28,138,007
Reversion Proceeds (Year 24)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$560,247,028
Total Project Costs	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Less: HTC Equity or Upfront Assistance	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Monroe Blotds															
Net Operating Income	\$50,847,079	\$52,614,005	\$54,442,011	\$56,333,199	\$58,289,744	\$60,313,893	\$62,407,973	\$64,574,389	\$66,815,628	\$69,134,268	\$71,532,961	\$74,014,468	\$76,581,633	\$79,237,399	\$81,979,695
Reversion Proceeds (Year 24)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$1,166,617,977
Total Project Costs	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Hudson's Site															
Net Operating Income	\$48,193,435	\$49,801,861	\$51,463,761	\$53,180,907	\$54,955,129	\$56,788,318	\$58,682,427	\$60,639,474	\$62,661,543	\$64,750,788	\$66,909,434	\$69,139,777	\$71,444,191	\$73,825,129	\$76,277,695
Reversion Proceeds (Year 24)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$1,019,799,695
Total Project Costs	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
TOTAL	\$123,998,123	\$128,080,474	\$132,296,645	\$136,652,099	\$141,151,449	\$145,789,458	\$150,603,049	\$155,561,309	\$160,665,491	\$165,979,024	\$171,447,518	\$177,096,766	\$182,932,756	\$188,979,256	\$195,144,274
Annual Yield on Cost	7.2%	7.4%	7.7%	7.9%	8.2%	8.5%	8.7%	9.0%	9.3%	9.6%	10.0%	10.3%	10.6%	10.9%	11.0%
LEVERAGED CASH FLOW NO ASSISTANCE															
OCM Addition															
Equity Contribution	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Equity Distribution	\$2,399,452	\$2,530,467	\$2,663,619	\$2,798,926	\$2,936,407	\$3,076,079	\$3,217,959	\$3,362,064	\$3,508,410	\$3,657,010	\$3,807,880	\$3,961,031	\$4,116,476	\$4,273,116	\$4,432,956
Book Tower															
Equity Contribution	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Equity Distribution	\$6,950,907	\$7,525,890	\$8,119,003	\$8,730,816	\$9,361,918	\$10,012,917	\$10,684,439	\$11,377,131	\$12,091,658	\$12,838,709	\$13,618,992	\$14,433,240	\$15,282,205	\$16,165,890	\$17,089,326
Monroe Blotds															
Equity Contribution	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Equity Distribution	\$17,931,043	\$19,697,969	\$21,525,975	\$23,417,164	\$25,373,708	\$27,397,857	\$29,491,937	\$31,658,353	\$33,899,593	\$36,218,230	\$38,616,926	\$41,098,432	\$43,665,597	\$46,323,832	\$49,077,164
Hudson's Site															
Equity Contribution	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Equity Distribution	\$16,456,958	\$18,075,384	\$19,737,284	\$21,454,430	\$23,238,652	\$25,091,841	\$26,995,950	\$28,911,997	\$30,935,066	\$33,024,312	\$35,184,957	\$37,413,300	\$39,717,714	\$42,102,500	\$44,572,164
TOTAL	\$43,748,359	\$47,829,711	\$52,045,282	\$56,401,336	\$60,900,665	\$65,546,694	\$70,350,286	\$75,310,545	\$80,434,727	\$85,728,261	\$91,196,754	\$96,846,003	\$102,681,993	\$108,711,414	\$114,941,432
Annual Cash-on-Cash Return	8.7%	9.5%	10.4%	11.2%	12.1%	13.0%	14.0%	15.0%	16.0%	17.1%	18.1%	19.3%	20.4%	21.6%	22.8%

Source: Bedrock Management Services, LLC; SB Friedman

Figure A6. Financial Returns Analysis – Adjusted Cost Scenario, with Adjusted Assistance

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
UNLEVERAGED CASH FLOW - ADJ ASSISTANCE													
Net Operating Income	\$0	\$0	\$62,431	\$7,270,135	\$28,904,862	\$70,164,881	\$95,491,748	\$102,718,725	\$105,751,076	\$108,951,157	\$112,470,826	\$116,205,341	\$120,043,359
TBP Assistance	\$0	\$0	\$0	\$2,137,369	\$3,492,042	\$3,947,396	\$16,140,123	\$16,992,557	\$17,118,214	\$17,232,728	\$17,643,160	\$18,032,171	\$18,392,456
Reversion Proceeds	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Project Costs	-\$19,182,886	-\$346,331,548	-\$482,500,882	-\$481,719,125	-\$245,557,649	-\$82,608,890	\$0	\$0	\$0	\$0	\$0	\$0	\$0
TOTAL	-\$19,182,886	-\$346,331,548	-\$482,438,450	-\$474,311,622	-\$213,160,745	-\$8,441,009	\$11,163,187	\$119,711,282	\$122,869,290	\$126,083,885	\$130,113,986	\$134,237,511	\$138,435,815
Annual Yield on Cost	0.0%	0.0%	0.0%	0.7%	2.1%	4.5%	6.7%	7.2%	7.4%	7.6%	7.8%	8.1%	8.4%
Unleveraged IRR - Adj Assistance	8.2%												
LEVERAGED CASH FLOW - ADJ ASSISTANCE													
Equity Contribution	-\$19,182,886	-\$328,047,313	-\$401,152,723	-\$62,106,450	\$0	\$64,043,936	\$0	\$131,331,126	\$176,502,132	\$0	\$0	\$0	\$0
Equity Distribution from Cash Flow	\$0	\$0	\$62,431	\$5,096,679	\$24,657,950	\$63,002,635	\$79,883,497	\$54,494,439	\$25,500,313	\$28,600,394	\$32,220,062	\$35,954,571	\$39,792,595
Equity Distribution from TBP	\$0	\$0	\$0	\$2,137,369	\$3,492,042	\$3,947,396	\$16,140,123	\$16,992,557	\$17,118,214	\$17,232,728	\$17,643,160	\$18,032,171	\$18,392,456
TOTAL	-\$19,182,886	-\$318,047,313	-\$401,470,292	-\$54,872,402	-\$28,049,992	\$130,993,966	\$95,023,630	\$202,318,111	\$191,130,659	\$45,833,121	\$49,863,223	\$53,986,748	\$58,185,051
Annual Cash-on-Cash Return	15.0%			0.9%	3.5%	9.0%	12.9%	11.6%	9.7%	10.4%	11.4%	12.3%	13.3%
Average Annual Cash-on-Cash Return (Yrs 5-18)	11.3%												
UNLEVERAGED CASH FLOW - ADJ ASSISTANCE													
Net Operating Income	\$143,995,123	\$148,080,474	\$132,296,645	\$141,151,449	\$145,799,658	\$150,601,049	\$155,561,309	\$160,685,491	\$165,979,024	\$171,447,518	\$177,096,766	\$182,932,756	\$188,961,673
TBP Assistance	\$18,781,067	\$19,193,474	\$20,162,408	\$21,350,452	\$22,014,810	\$23,882,161	\$24,480,550	\$1,251,745	\$0	\$0	\$0	\$0	\$0
Reversion Proceeds	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Project Costs	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
TOTAL	\$142,780,189	\$147,273,948	\$152,459,053	\$163,166,258	\$169,621,069	\$174,981,599	\$186,813,053	\$160,685,491	\$165,979,024	\$171,447,518	\$177,096,766	\$182,932,756	\$188,961,673
Annual Yield on Cost	8.6%	8.9%	9.2%	9.8%	10.2%	10.6%	9.5%	9.7%	10.0%	10.3%	10.7%	11.0%	11.4%
LEVERAGED CASH FLOW - ADJ ASSISTANCE													
Equity Contribution	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Equity Distribution from Cash Flow	\$43,746,359	\$47,829,711	\$52,045,882	\$56,401,336	\$60,900,685	\$65,548,694	\$70,350,286	\$75,310,545	\$80,434,727	\$85,728,261	\$91,196,754	\$96,846,003	\$102,681,993
Equity Distribution from TBP	\$18,781,067	\$19,193,474	\$20,162,408	\$21,350,452	\$22,014,810	\$23,882,161	\$24,480,550	\$1,251,745	\$0	\$0	\$0	\$0	\$0
TOTAL	\$62,529,426	\$67,023,185	\$72,208,290	\$77,751,788	\$82,915,495	\$89,370,806	\$94,730,836	\$76,562,290	\$80,434,727	\$85,728,261	\$91,196,754	\$96,846,003	\$102,681,993
Annual Cash-on-Cash Return	14.2%	15.3%	16.4%	17.7%	18.9%	20.4%	21.6%	17.4%	19.5%	20.8%	22.1%	23.4%	24.9%

Source: Bedrock Management Services, LLC; SB Friedman

Figure A7. Financial Returns Analysis – Adjusted Cost Scenario + Residential Rent Sensitivity, with Adjusted Assistance

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044															
LEVERAGED CASH FLOW - ADJ ASSISTANCE																																											
Equity Contribution	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0													
Equity Distribution from Cash Flow	\$19,199,285	\$328,246,832	\$401,732,242	\$61,691,014	\$24,391,248	\$61,856,737	\$77,096,737	\$51,709,977	\$24,652,798	\$24,652,798	\$24,652,798	\$24,652,798	\$24,652,798	\$24,652,798	\$24,652,798	\$24,652,798	\$24,652,798	\$24,652,798	\$24,652,798	\$24,652,798	\$24,652,798	\$24,652,798	\$24,652,798	\$24,652,798	\$24,652,798	\$24,652,798	\$24,652,798	\$24,652,798	\$24,652,798	\$24,652,798	\$24,652,798												
Equity Distribution from TRP	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0													
TOTAL	\$19,199,285	\$328,246,832	\$401,732,242	\$61,691,014	\$24,391,248	\$61,856,737	\$77,096,737	\$51,709,977	\$24,652,798	\$24,652,798	\$24,652,798	\$24,652,798	\$24,652,798	\$24,652,798	\$24,652,798	\$24,652,798	\$24,652,798	\$24,652,798	\$24,652,798	\$24,652,798	\$24,652,798	\$24,652,798	\$24,652,798	\$24,652,798	\$24,652,798	\$24,652,798	\$24,652,798	\$24,652,798	\$24,652,798	\$24,652,798	\$24,652,798												
Annual Cash-on-Cash Return														10.8%	8.6%	9.3%	10.1%	10.9%	11.8%																								
Average Annual Cash-on-Cash Return (Yrs 5-21)														15.0%																													
Leveraged IRR - Adj Assistance														11.0%																													
UNLEVERAGED CASH FLOW - ADJ ASSISTANCE																																											
Net Operating Income	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0													
TRP Assistance	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0													
Reversion Proceeds	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0													
Total Project Costs	\$19,199,285	\$346,531,057	\$487,700,401	\$481,919,191	\$245,757,168	\$81,793,869	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0												
TOTAL	\$19,199,285	\$346,531,057	\$487,700,401	\$481,919,191	\$245,757,168	\$81,793,869	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0												
Annual Yield on Cost														0.0%	0.0%	0.7%	2.0%	4.4%	6.5%	7.0%	7.2%	7.4%	7.6%	7.8%	8.1%																		
Unleveraged IRR - Adj Assistance														8.1%																													
LEVERAGED CASH FLOW - ADJ ASSISTANCE																																											
Equity Contribution	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0												
Equity Distribution from Cash Flow	\$42,319,408	\$46,273,817	\$50,359,266	\$54,580,108	\$58,940,940	\$63,446,108	\$68,100,714	\$72,909,618	\$77,877,946	\$83,010,995	\$88,314,236	\$93,793,324	\$99,454,102	\$105,299,568	\$111,329,314	\$117,549,332	\$123,954,522	\$130,549,884	\$137,339,418	\$144,328,116	\$151,520,978	\$158,924,004	\$166,542,194	\$174,379,558	\$182,440,196	\$190,729,108	\$199,259,594	\$208,035,666	\$217,061,924	\$226,343,478	\$235,886,326												
Equity Distribution from TRP	\$18,520,670	\$18,927,869	\$19,481,693	\$20,174,116	\$21,074,116	\$22,173,947	\$23,534,112	\$25,187,701	\$27,175,780	\$29,545,510	\$32,334,510	\$35,589,709	\$39,359,324	\$43,689,568	\$48,539,354	\$53,959,682	\$59,999,562	\$66,729,994	\$74,213,078	\$82,503,914	\$91,676,502	\$101,707,794	\$112,674,802	\$124,564,536	\$137,464,004	\$151,469,218	\$166,676,172	\$183,181,854	\$201,084,266	\$220,481,418	\$241,470,326												
TOTAL	\$60,840,078	\$65,201,686	\$69,940,959	\$74,754,232	\$79,915,056	\$85,620,055	\$91,878,415	\$98,686,319	\$106,053,656	\$114,026,505	\$122,648,746	\$131,973,838	\$142,113,426	\$153,138,732	\$165,088,668	\$178,038,916	\$192,084,084	\$207,389,072	\$224,037,094	\$242,213,814	\$262,093,702	\$283,879,212	\$308,000,000	\$334,643,836	\$364,000,000	\$397,400,000	\$434,900,000	\$476,600,000	\$522,700,000	\$573,500,000	\$629,300,000	\$690,500,000											
Annual Cash-on-Cash Return														12.6%	13.6%	14.6%	15.2%	16.8%	18.1%	19.2%	20.3%	21.5%	22.6%	18.4%	19.5%	20.7%	20.7%	20.7%	20.7%	20.7%	20.7%	20.7%	20.7%	20.7%	20.7%	20.7%	20.7%	20.7%	20.7%	20.7%	20.7%	20.7%	
Unleveraged IRR - Adj Assistance														8.3%	8.6%	8.9%	9.2%	9.5%	9.9%	10.2%	10.6%	10.9%	11.2%	10.0%	10.3%	10.7%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%

Source: Bedrock Management Services, LLC; SB Friedman

MEMORANDUM

Date: May 22, 2018

To: Michigan Strategic Fund (“MSF”) Board

From: Mark Morante, Fund Manager

Subject: Background Review Policy

Request

Michigan Economic Development Corporation (“MEDC”) staff is requesting that the Michigan Strategic Fund (“MSF”) Board approve a revised Background Review Policy (the “Request”).

Background

Public Act 225 of 2005 established Chapter 8A of the MSF Act and the 21st Century Jobs Trust Fund initiative to encourage diversification of the economy and the creation of jobs in the State of Michigan by investing in early stage technologies and companies and providing support services to early stage companies. Public Act 250 of 2011 amended Chapter 8A to authorize creation of the Michigan Business Development Program (“MBDP”). Public Act 252 of 2011 established Chapter 8C of the MSF Act and authorized creation of the Michigan Community Revitalization Program (“MCRP”).

At the time the MBDP and MCRP were created, the MSF Act required that the MSF Board establish policies and procedures to conduct background checks on qualified businesses applying for a grant, loan, or other economic assistance. To that end, the MSF Board adopted a policy on February 27, 2012 to establish background review policies and procedures for the MBDP and MCRP. The MSF amended the background review policy on September 27, 2012 to include a five-year look back on the background checks and to set forth the process for resolving any issues that arose in the course of the civil and criminal background check. On March 27, 2013, the MSF again amended the background review policy to allow an exemption from the civil and criminal background checks for non-profit entities, municipalities, and institutions of higher education. The MSF amended the policy on August 28, 2013 to limit the civil and criminal background check to certain key personnel of the applicants.

The legislature amended the MSF Act by Public Act 503 of 2014, which, among other things, consolidated the requirement for background reviews under Section 88c(4) of the MSF Act. Section 88c(4) of the MSF Act, MCL 125.2088c(4), as amended, requires the MSF to establish requirements to ensure that money expended under sections 88d, 88e, 88f, 88g, 88k, 88q, and 88r and Chapter 8C is not used for any of the following:

- Provision of money to a person who has been convicted of a criminal offense incident to the application for or performance of a state contract or subcontract.
- Provision of money to a person who has been convicted of a criminal offense, or held liable in a civil proceeding, that negatively reflects on the person's business integrity, based on a finding of embezzlement, theft, forgery, bribery, falsification or destruction of records,

receiving stolen property, violation of state or federal antitrust statutes, or for any additional findings as determined by the fund board.

On March 25, 2014, the MSF Board adopted the current Background Review Policy, a copy of which is attached as Exhibit A to this memo. The revised Background Review Policy, attached as to the proposed Resolution, includes the following key changes:

- It would require a civil and criminal background check only on those applicants seeking an MSF incentive in an amount of \$15,000 or more. These incentives would still require the company to represent and warrant that, to the best of its knowledge, the company, including its affiliates, subsidiaries, officers, directors, managerial employees, and any person who, directly or indirectly, holds a pecuniary interest in the Applicant of 20% or more, do not have criminal convictions or civil liabilities as described in Sections 88c(4)(a) and 88c(4)(b).
- If the applicant is a partnership, limited partnership, limited liability partnership or limited liability company, a civil and criminal background check would be performed on those individuals and entities with an ownership interest in the applicant of 20% or more.
- Under the new policy, key individuals of any non-profit corporation, municipality, and institution of higher education would be subject to a civil and criminal background check. Under the current policy, the MSF Fund Manager and MSF President may approve an exemption from review for these individuals.
- The policy permits the MSF President or the MSF Fund Manager to request additional reviews of any Applicant, its Key Individuals, Key Owners, or any other person or entity at his or her discretion.

MEDC staff believes the proposed revisions to the Background Review Policy satisfy the requirements of Section 88c(4) of the MSF Act. In addition, the proposed revisions cover individuals and entities that are not currently reviewed under the existing policy. These proposed changes are necessary to conduct proper due diligence on the various types of entities seeking incentives from the MSF. In addition, the revised policy is easier for both staff and applicants to understand as it more clearly lays out the requirements for each type of entity.

Recommendation

MEDC Staff recommends the MSF Board approve the Request

Exhibit A

BACKGROUND REVIEW POLICY

The following guidelines shall be utilized as part of the due diligence process for programs created and operated by the MSF prior to finalizing a written agreement providing for any incentive:

1. **Certification Form.** All applicants shall provide staff with the completed certification form, including all requested information to correctly identify the applicant, and the following: the Chief Executive Officer, or the similarly situated position in charge of the applicant's executive operations; the Chief Financial Officer, or the similarly situated person in charge of the applicant's financial affairs; the Chief Operating Officer, or the similarly situated person in charge of the applicant's daily operations; and the person that is responsible for managing the incentive for the applicant (collectively, "Key Individuals").
2. **Background Check.** A background check, covering the previous five (5) calendar year period, via Westlaw, LexisNexis, Google, or any other internet search engine shall be conducted on all applicants and all Key Individuals.
3. **Joint Ventures/Business Combinations.** If an applicant is comprised of one or more business entities, such as a joint venture, or other business combination, each of the involved business entities comprising the business combination shall be considered an applicant for purposes of the Background Review process, and each, and their respective Key Individuals, are subject to the above guidelines.
4. **Publicly Traded Applicants (or their parent companies).** If an applicant (or its parent company) is publicly traded, and has filed all of its required SEC filings, a certification form shall not be required and a background check, covering the previous five (5) calendar year period, shall be conducted by reviewing the applicant's (or, as applicable, its parent company's) public filings with the SEC (e.g. annual reports and current event reports); provided, however, that if the Applicant (or, as applicable, its parent company) has not filed all of its required SEC filings, then a certification form shall be required and processed as set forth in Paragraphs 1-3 above.
5. **Findings of a criminal conviction described under Section 88c(4)(a) and 88k(6)(a)** (dealing with state contract or subcontract). If a background check results in a finding of any offense listed in Section 88c(4)(a) or 88k(6)(a), the potential award may not continue to proceed through the process toward a final written agreement.
6. **Findings of a criminal conviction or civil liability described under Section 88c(4)(b) and 88k(6)(b)** (dealing with criminal or civil liabilities, that negatively reflect on business integrity, based on certain described events):
 - a. If a background check results in a finding of any offense listed in Section 88c(4)(b) or 88k(6)(b):
 - i. the applicant may submit, in writing, to the MSF Chairperson and the MSF Fund Manager, mitigating circumstances that it believes support that the particular finding does not negatively reflect on the business integrity of the applicant or the Key Individuals, as applicable.

- ii. The MSF Chairperson and the MSF Fund Manager may, but are not obligated to, consider the mitigating circumstances; and
- iii. For the potential award to continue to proceed through the process toward a final written agreement, the results of the background check must be satisfactory to either: (i) both the MSF Chairperson and the MSF Fund Manager in consultation with the MEDC General Counsel, or (ii) the MSF Board.

7. **Representation and Warranty by the Applicant in the Final Agreement.** All written agreements memorializing a final award shall, in addition to other normal and customary representations and warranties required by the MSF, include representation and warranty language from the applicant, to the effect that to the best of its knowledge, the applicant and its Key Owners and Personnel, do not have criminal convictions or civil liabilities and will not use the funds for the prohibited purposes described in Section 88c(4), Section 88k(6), and Section 88r(5) of the MSF Act.

Key Owners and Personnel means: if the applicant is a business entity, its affiliates, subsidiaries, officers, directors, managerial employees, and anyone holding 20 percent or more of a pecuniary interest, directly or indirectly, in that business entity (which includes a parent company).

For purposes of defining an Applicant, incentives that flow through a financial institution from the MSF for the benefit of a borrower, the background check will be performed on the borrower and the Key Individuals of the borrower.

Provided, however, that municipalities, non-profit entities and institutions of higher education, and their boards of directors and Key Owners and Personnel, may be exempted from the background check process, in part or in whole except for Paragraph 7, at the discretion and approval of the MSF Chairperson and the MSF Fund Manager.

The MSF Chairperson and the MSF Fund Manager, with only one required to act, may request additional reviews on potential awardees at their discretion.

MICHIGAN STRATEGIC FUND
RESOLUTION 2018-
BACKGROUND REVIEW POLICY

WHEREAS, Public Act 270 of 1984, MCL 125.2001 *et seq.* (the “MSF Act”), established the Michigan Strategic Fund (the “MSF”);

WHEREAS, Public Acts 215 and 225 of 2005 established the 21st Century Jobs Fund initiative (the “21st Century Jobs Fund”);

WHEREAS, the Michigan Economic Development Corporation (“MEDC”) provides administrative services to the MSF;

WHEREAS, pursuant to Section 88c(4), MCL 125.2088c(4), of the MSF Act, the MSF is required to establish requirements toward prohibiting providing incentive awards under sections 88d, 88e, 88f, 88g, 88k, 88q, and 88r and Chapter 8C to awardees with certain criminal convictions or civil liabilities;

WHEREAS, on March 25, 2014, the MSF adopted background review guidelines as required under Section 88c(4) of the MSF Act for all programs operated by the MSF Board (the “Background Review Policy”);

WHEREAS, the MEDC recommends that the MSF adopt the revised Background Review Policy attached to this Resolution; and

WHEREAS, the MSF wishes adopt the revised Background Review Policy attached to this Resolution.

NOW, THEREFORE, BE IT RESOLVED, the MSF adopts the Background Review Policy attached to this Resolution.

Ayes:

Nays:

Recused:

Lansing, Michigan
May 22, 2018

Michigan Strategic Fund Background Review Policy	Eff. March 25, 2014
	Rev. May 22, 2018

Background

Section 88c(4) of the Michigan Strategic Fund (“MSF”) Act, MCL 125.2088c(4), requires the MSF Board to establish requirements to ensure that money expended under Sections 88d, 88e, 88f, 88g, 88k, 88q and 88r and Chapter 8C of the MSF Act shall not be used for any of the following:

- Provision of money to a person who has been convicted of a criminal offense incident to the application for or performance of a state contract or subcontract. 125.2088c(4)(a)
- Provision of money to a person who has been convicted of a criminal offense, or held liable in a civil proceeding, that negatively reflects on the person's business integrity, based on a finding of embezzlement, theft, forgery, bribery, falsification or destruction of records, receiving stolen property, violation of state or federal antitrust statutes, or for any additional findings as determined by the fund board. 125.2088c(4)(b)

The guidelines and procedure outlined in this Background Review Policy (the “Policy”) shall be used to satisfy the requirements of Section 88c(4) of the MSF Act and as part of the due diligence process for programs and activities created and operated by the MSF. The Michigan Economic Development Corporation (“MEDC”) will perform the civil and criminal background reviews for the MSF in accordance with this Policy.

Definitions

“**Applicant**” means a sole proprietorship, partnership, limited partnership, limited liability partnership, limited liability company, joint venture, profit or nonprofit corporation including an institution of higher education, public utility, municipality, local industrial development corporation, economic development corporation, other association of persons organized for agricultural, commercial, or industrial purposes, or any other entity seeking the benefit of an incentive from the MSF.

“**Certification and Disclosure Form**” means the form(s) completed by the Applicant and the Key Individuals and Key Owners, as applicable, that contains the information necessary for the MEDC to perform a civil and criminal background check, as may be revised by the MEDC from time to time.

“**Key Individuals**” means the Applicant’s Chief Executive Officer, or the similarly situated person in charge of the Applicant’s executive operations; the Chief Financial Officer, or the similarly situated person in charge of the Applicant’s financial affairs; the Chief Operation Officer, or the similarly situated person in charge of the Applicant’s daily operations; and the individual who is responsible for managing the MSF incentive for the Applicant.

“**Key Owners**” means, if the Applicant is a business entity, any individual or business entity that, directly or indirectly, holds a pecuniary interest of 20% or more in the Applicant.

“**SEC**” means the United States Securities and Exchange Commission.

Guidelines

- Any Applicant seeking an MSF incentive in the amount of \$15,000 or more is subject to a civil and criminal background check in accordance with this Policy.
- Key Individuals and Key Owners are subject to a civil and criminal background check in the following circumstances:

- If the Applicant is a corporation, the Applicant's Key Individuals and Key Owners are subject to a civil and criminal background check. If the Applicant (or the Applicant's parent company) is publicly traded and has filed all of its required SEC filings, then a review of the Applicant's (or the Applicant's parent company's) public filings for the Applicant's (or the Applicant's parent company's) previous five (5) fiscal years may be conducted in lieu of the individual civil and criminal background checks on the Applicant's Key Individuals and Key Owners.
 - If the Applicant is a partnership, limited partnership, limited liability partnership or limited liability company, the Applicant's Key Individuals and Key Owners are subject to a civil and criminal background check.
 - If the Applicant is a non-profit organization, municipality or an institution of higher education, the Applicant's Key Individuals are subject to a civil and criminal background check.
 - In the case of incentives that flow through a financial institution or any entity from the MSF for the benefit of an Applicant, the Applicant and the Applicant's Key Individuals are subject to a civil and criminal background check.
- All final written agreements memorializing an incentive from the MSF shall include language requiring the Applicant to represent and warrant that, to the best of its knowledge, the Applicant, including its affiliates, subsidiaries, officers, directors, managerial employees, and any person who, directly or indirectly, holds a pecuniary interest in the Applicant of 20% or more, do not have criminal convictions or civil liabilities as described in Sections 88c(4)(a) and 88c(4)(b) and will not use the funds for the prohibited purposes described in Sections 88c(4)(c)-(e).
 - The MSF President and the MSF Fund Manager, with only one required to act, may request additional reviews of any Applicant, its Key Individuals, Key Owners, or any other person or entity at his or her discretion.

Procedure

1. Applicants provide MEDC Staff with completed Certification and Disclosure Forms.
2. Upon receipt of a complete Certification and Disclosure Forms from the Applicant, Key Owners, and Key Individuals, as applicable, MEDC Staff will conduct a civil and criminal background check using Westlaw, LexisNexis, or another similar program that performs civil and criminal background checks.
3. If a background check results in a finding of a criminal conviction described under Section 88c(4)(a), the potential incentive may not proceed through the process to a final written agreement.
4. If a background check results in a finding of a criminal conviction or civil liability described under Section 88c(4)(b), the potential incentive may continue through the process to a final written agreement only upon the occurrence of all of the following:
 - a. The Applicant submits in writing an explanation of the findings and mitigating circumstances that it believes support that the findings do not negatively reflect on the business integrity of the Applicant, its Key Individuals, and its Key Owners.
 - b. The MSF President and the MSF Fund Manager may, but are not obligated to, consider the mitigating circumstances; and

- c. For the potential award to proceed through the process to a final written agreement, the results of the civil and criminal background check must be satisfactory to (i) the MSF President and the MSF Fund Manager after discussion with the MEDC General Counsel or (ii) the MSF Board.
5. The MSF President and the MSF Fund Manager, with only one required to act, may consider any other factor which, in their sole discretion, prohibits the potential incentive from proceeding to a final written agreement.

MEMORANDUM

Date: May 22, 2018
To: MSF Board Members
From: Michelle Grinnell, Director, Public Relations
Subject: China Tourism Promotion Services Amendment

REQUEST

This request is for the Michigan Strategic Fund (MSF) Board to approve a one-year extension of an existing contract with Aviareps for leisure travel promotion in China for \$270,000.00.

BACKGROUND

On March 22, 2016, the MSF Board approved an RFP to seek a representative for tourism promotion services in China and authorized the MSF Fund Manager to appoint a Joint Evaluation Committee (JEC) to review the proposals. The MSF Board subsequently awarded the RFP to Aviareps on May 24, 2016 for the period of June 1, 2016 to May 31, 2017, with the option to extend the contract for four, one-year terms.

On February 28, 2017, the MSF Board approved the amendment request to exercise the first option to extend the contract to May 31, 2018, and allocated \$270,000 in additional funds.

During the contract term, Aviareps has created a strategy to attract more Chinese visitors, particularly leisure visitors to Michigan.

The scope of work includes

- creating Chinese-language brochures, e-newsletters, social media and website;
- working with tour operators to get more Michigan product in Chinese tour operator catalogs;
- identifying Chinese travel journalists to invite to Michigan for Familiarization Tours;
- identifying and representing Michigan at key Chinese travel and tourism trade shows;
- securing appointments with top Chinese tour operators and media;
- devising and executing consumer promotions to build consumer awareness of Michigan as a destination.

RECOMMENDATION

To use the Pure Michigan appropriations monies to continue the marketing efforts underway, it is staff's recommendation for approval to exercise the second year option with Aviareps for tourism promotion services in China for the period of June 1, 2018 to May 31, 2019, at a cost of \$270,000.00.

MICHIGAN STRATEGIC FUND

RESOLUTION

2018-

AVIAREPS CONTRACT EXTENSION

WHEREAS, Public Acts 215 and 225 of 2005 (“Act”) established the 21st Century Jobs Trust Fund initiative;

WHEREAS, the Michigan Economic Development Corporation (“MEDC”) provides administrative services to the Michigan Strategic Fund (“MSF”) for the 21st Century Jobs Fund initiative;

WHEREAS, at its March 22, 2016 meeting, the MSF Board authorized a Request for Proposals to invite proposals from vendors to develop and implement a campaign for Michigan tourism promotion in China (the “Michigan Promotion RFP”);

WHEREAS, at its May 24, 2016 meeting the MSF Board awarded a contract to Aviareps in the initial amount of \$300,000 and for an initial term of June 1, 2016 to May 31, 2017, with the option to extend the term of the contract for an additional four one-year terms (the “Aviareps Contract”);

WHEREAS, at its February 28, 2017 meeting the MSF Board exercised its first, one-year option to extend the Aviareps Contract and allocated additional funds;

WHEREAS, MEDC recommends that the MSF Board exercise its second, one-year option to extend the Aviareps Contract to May 31, 2019 and allocate \$270,000 in additional funds (the “Amendment Request”);

WHEREAS, the MSF Board wishes to approve the Amendment Request.

NOW, THEREFORE, BE IT RESOLVED, the MSF Board approves the Amendment Request; and

BE IT FURTHER RESOLVED, the MSF Board authorizes the MSF Fund Manager to negotiate the final terms and conditions and to execute all documents necessary to effectuate the Amendment Request in accordance with the terms and conditions of this Resolution.

Ayes:

Nays:

Recused:

Lansing, Michigan
May 22, 2018