

South Division-Grandville Corridor Improvement Authority Development Support Policy Supplemental Information

Background

The City of Grant Rapids asked all Corridor Improvement Authorities (CIA) in the City to consider approving CIA Development Support Policies. Major revisions to the policy were not possible. This supplemental document is intended to help clarify the policy and the South Division-Grandville CIA's authority.

Introduction

The policy's introduction paragraph describes how the CIA Board has authority to support Projects by entering into development agreements with private parties, then reimbursing them for their eligible investments in Public Facilities. Note that the policy applies only to *Public Facilities investment* as Public Facilities are defined in the policy and statute.

The policy's introduction leaves out the important first steps in this process: The developer must apply for support and the city and CIA must determine that the Project meets the criteria in the policy's "Development Support Guidelines." If the Board agrees to support the Project, then it executes a development agreement, which describes the terms under which the private developer will be reimbursed from the CIA's Tax Increment Revenues (TIR).

Objective

The policy's third objective is an important one. Some grants and incentives, particularly those awarded by the State of Michigan, require what is essentially a match from the local government. This is sometimes called "proportionality," which means that the state wants local investment to be about equal to the state's share of Project support. The policy lays out conditions under which CIA revenues can be used to leverage state funds for Public Facilities in the CIA by contributing to the Project's proportionality requirement.

Definitions

The policy uses the Public Act 57 of 2018 (the Act) definition of a Public Facility. The policy also uses several terms that it leaves undefined. Definitions have been included below.

"Development Support" as it's used in the policy is reimbursement to a developer from tax increment revenues (TIR) collected by the South Division-Grandville CIA for a Project in the South Division-Grandville corridor, with the consent of the CIA pursuant to the policy.

“Eligible Public Facilities” are Public Facilities as defined in the policy, approved by the South Division-Grandville CIA for Development Support, and included in a development agreement between the CIA and the developer.

“Initial taxes” is the amount of taxes paid on a property before it’s improved or redeveloped. In a brownfield plan, it’s called the tax baseline.

“Proposed Project” or “Project” is a new development proposed by a private developer, that includes the Public Facilities for which the developer is seeking Development Support. A proposed Project may include new construction, renovation, historic preservation, or other investment of private capital that creates new permanent jobs, increases the property’s taxable value, or results in new housing. The Project generates tax revenues that would pay for the Public Facilities. Without the Project, there’s no TIR to capture for the CIA or Public Facilities.

“Tax Increment Financing” (TIF) or “TIF plan” is a plan describing how TIR can be used for certain purposes described by the applicable statute. The CIA collects TIR for its operating costs and is required to spend its TIR under the terms of its approved TIF plan. Downtown Development Authorities and parts of brownfield redevelopment Projects are typically also funded under TIF plans.

“Tax Increment Revenues” (TIR) is the difference in tax revenues between initial taxes and a new higher tax amount that results after a property is reassessed. TIR and TIF are frequently used interchangeably. TIR is tax revenues, and TIF is the plan to use them. The tax increment revenues that are eligible to be captured depend on the legislation used to create tax increment finance authority. Not all taxes may be captured by CIAs. The South Division-Grandville CIA captures City, ITP, GRCC and Kent County operating millage levies. It does not capture other taxes, most notably those levied for school purposes which equal approximately half of the taxes levied on real property in Grand Rapids.

The incremental tax increase (the TIR) generally results from sale and/or improvement to a property, such as a new or renovated building. The South Division-Grandville CIA collects the majority of its revenue from captured TIR, authorized by the Act and the South Division-Grandville Tax Increment Financing and Development Plan (the “TIF Plan”). Under a TIF plan (whether the CIA’s or a brownfield or other plan), the initial taxes continue to accrue to the taxing jurisdictions (the city, county, community college, and interurban transit), while TIR is captured and used for specific eligible activities authorized by state legislation and the TIF and Development Plan.

For example: the taxable value of a vacant lot at 123 S. Division is \$10,000 and the annual property taxes are \$500 (that is, the initial taxes). A developer buys the property and builds a restaurant on it. The developer paves part of the property for public parking at a cost of \$100,000. That is the Public Facility for which they can be reimbursed with TIR.

The taxable value of the restaurant is \$1,000,000, and the annual property taxes are now \$20,000. The initial taxes are \$500, and \$10,000 of taxes cannot be captured by the CIA. The TIR, then, is \$9,500: \$20,000 (the new tax amount) minus \$500 (the initial tax amount) minus \$10,000 (the taxes that cannot be captured by the CIA). The taxing jurisdictions continue to collect the \$500 initial tax amount, while the increment of \$9,500 goes into the CIA's budget.

Funding Public Facilities

TIR resulting from private investment in a property in the South Division-Grandville CIA is currently captured by the South Division-Grandville CIA under a TIF plan for its operational costs and other eligible investments in the corridor. Under the policy, when a developer builds Public Facilities (as defined by the policy and the Act) as part of a Project, they can apply to the South Division-Grandville CIA through the city to be reimbursed with a share of the CIA's TIR for their investment in the Public Facilities. When the CIA agrees to reimburse a developer from its TIR, the investment may leverage state TIR for other Project costs by helping the Project meet the proportionality requirement mentioned above. Once the developer is reimbursed for their investment in Public Facilities, the full TIR will be retained by the CIA.

Using the example numbers from above, under an agreement to provide Development Support for a Project, the city would collect its \$500 tax initial taxes and the CIA would collect its \$9,500 TIR. If the CIA has agreed to reimburse the developer for their investment in eligible Public Facilities, the CIA would pay the developer a portion of the CIA's \$9,500 until the developer's costs for Public Facilities were reimbursed or the reimbursement agreement ends. The CIA would retain whatever part of the \$9,500 that was not being used to reimburse the developer and use that for its operations or for other projects in the district See more on this below.

Development Support Guidelines

This section describes evaluation criteria and how much TIR can be reimbursed to a developer for eligible costs.

- Duration:

The policy says in paragraph 7 of this section that the developer can be reimbursed eligible Public Facilities investment for up to 15 years, until their eligible activities are reimbursed in full. If their costs for eligible Public Facilities are reimbursed in, for example, 12 years, then the reimbursements end and the CIA retains 100% of the TIR thereafter. If their costs are not fully paid within 15 years, the reimbursement ends without full payment to the developer.

- Amount:

In paragraph 8, the developer would be reimbursed for eligible activities from TIR in whatever approach results in a smaller payment to the developer, either (a) 1/15th of their eligible costs

(an equal amount each year for 15 years), or (b) up to 75% of the TIR with the 25% balance of the TIR being retained by the CIA, for a period not to exceed 15 years.

Note: in paragraph 9, the policy assumes that the developer would be reimbursed over time, but gives the CIA the option of reimbursing the developer in some other way. The examples below assume reimbursement.

Under the 1/15th option, the reimbursement would be a set amount annually of 1/15th of the developer's investment in Public Facilities for 15 years. Payment is based on Public Facilities costs, rather than TIR income. If the property's tax values drop below the reimbursement amount, the developer is reimbursed less than 1/15th – the CIA is not obligated to pay more than its TIR. The development agreement referenced in paragraph 9 addresses what happens if TIR doesn't cover payments. This is generally the default option because it typically results in more TIR going to the CIA. See the example below.

Under the 75/25 split, the developer would be reimbursed 75% of the total, actual TIR until the cost of the approved Public Facilities are paid or for a maximum of 15 years, and the CIA would collect the other 25% of TIR for its operating costs during that time. This option is usually used only if the cost of the eligible Public Facility is in excess of what can be reimbursed under the 1/15th option. It's an option that maximizes revenues for the CIA and still addresses proportionality. After the developer's eligible activities are fully reimbursed or starting in year 16, the CIA would keep 100% of the TIR. Under this option, if tax revenues decrease (the building burns down, for example), the CIA is not obligated to an annual set reimbursement amount, only to the agreed upon portion of the TIR.

Here's a comparison of the two reimbursement options using the example numbers from above.

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| | Annual property taxes = \$20,000; TIR is \$9,500 and initial taxes is \$500 | |
| | 75% of TIR reimbursed to developer, 25% to CIA | 1/15th of Public Facilities cost reimbursed to developer for 15 years |
| Developer's annual reimbursement of \$100,000 Public Facilities investment would equal | \$7,125 (75% of \$9,500 TIR) | \$6,667 per year (\$100,000 divided by 15) |
| CIA's annual TIR would equal | \$2,375 (25% of \$9,500 TIR) | \$2,833 (\$9,500 TIR minus \$6,667 payment to the developer) |
| City of GR's initial taxes would equal | \$500 | \$500 |
| Repayment duration would be | About 14 years in the example, maximum of 15 years | 15 years |

The policy states that the default option would be whichever maximizes the amount of TIR available to the CIA – in the example above, that's the 1/15th split. Again, the 75-25% split might be used for higher cost Public Facilities to help the project meet the proportionality requirement for state funding. The development agreement between the CIA and the developer referenced in paragraph 9 of the policy and discussed below would describe whichever option is used.

- Development Agreements

If the South Division-Grandville CIA approves Development Support, the CIA and the developer of the proposed Project will enter into a development agreement pursuant to paragraph 9 of the Development Support Guidelines section of the policy. A development agreement describes the terms and conditions under which the developer will be reimbursed for eligible activities (or if the developer will be paid in some way other than reimbursement, that method would be described). The agreement should reflect the terms of the Policy, articulate any CIA conditions on the Development Support (for example, if the developer agrees to pay for a public art project in the corridor), and is a legally binding contract. The city will likely provide a template development agreement. It should include, at a minimum, the following or something like this. *Italicized text* is for explanation, not for the development agreement.

- A. Eligible activities shall be documented with copies of contractor invoices and invoices for supplies and materials. The Public Facilities and/or proposed Project may be inspected by CIA members or staff with reasonable advance notice to the developer.

- B. *The CIA will need to determine or negotiate how it will reimburse eligible activities. Either way, the development agreement should protect the CIA if TIR is less than estimated, the developer defaults on their loan, or the Project isn't completed.*

The City on behalf of the CIA will reimburse the developer in annual reimbursements of an amount agreed to by the CIA and the developer under the development agreement. The developer shall not be reimbursed more than the actual documented cost of eligible activities.

Option 1: The developer shall be reimbursed 1/15th of eligible costs per year for a total of 15 years unless TIR is not adequate to pay 1/15th of eligible costs in any given year. In that event, the shortfall shall be paid in the next year or over multiple years as TIR is available to pay for eligible activities. Reimbursement shall not exceed 15 years even if eligible activities are not paid in full. **OR**

Option 2: The developer shall be reimbursed 75% of the actual annual TIR attributable to the proposed Project for a total of 15 years or until all documented eligible activities are reimbursed, whichever is first.

It's important to include "actual" TIR above, since TIF plans are based on TIR projections. Actual future tax revenues can't be predicted.

If the CIA wants to pay longer so the developer is reimbursed for more of their investment in Public Facilities, it could amend the development agreement at a public meeting of the board.

- C. TIR collected under a development agreement shall be administered and reimbursed to the developer for documented and approved eligible Public Facilities costs by the South Division-Grandville CIA or the City on behalf of the CIA.
- D. In the event of a transfer or sale of property, the development agreement may (but is not required to) be assigned to the new owner of the property with prior written consent of the South Division-Grandville CIA. However, the sale of individual residential condominium units constituting a part of the Project shall not require assignment of the agreement or approval of the South Division-Grandville CIA.

If the property ownership changes, this allows the developer who paid for the Public Improvements to transfer that debt and its reimbursement to a new owner, provided the CIA approves, except individual units of the development Project.

- E. The South Division-Grandville CIA's approval to invest its future TIR under the Act to reimburse a developer for the cost of Public Facilities shall expire unless construction on the Public Facilities begins within two years after the CIA enters into the development agreement.

As indicated below, the policy doesn't put a time requirement on the Public Facilities, only on the development Project. The paragraph above specifically requires the Public Facilities that receive the CIA's Development Support to start within two years, consistent with the development timeframe. The timeframe is, of course, negotiable. Consider whether the development Project needs to be finished before construction of the public facility – a plaza in front of a new building, for example – can begin.

- Project start date

Paragraph 11 requires the developer to begin construction of the Project – not the Public Facilities – within two years of the approval of Development Support. There is no requirement for starting or finishing the Public Facilities. The CIA may want to articulate an expected starting and ending date for the Public Facilities in a written offer of Development Support or resolution approving the Development Support, and document it in the development agreement.

Application Process / Project Evaluation

At the request of CIA Design Committee members, a question was added to the application for Development Support each developer will submit, asking for a description of the developer's "initiatives or commitment to racial equity, hiring or promoting people of color, environmental justice, historic preservation, and neighborhood investment, either historically or for this Project."

The question was left open-ended, asking for a description of the developer's history or initiatives, and framed as an "extra credit" or informational item instead of an evaluation criteria. This gives the CIA the flexibility to approve a Project where the developer has not made any commitment to CIA priorities, but sends the message that these are important.

Applications will be reviewed by the city's Economic Development Office staff to ensure Proposed Projects meet minimum criteria before they are brought to the CIA for Development Support approval.

The South Division-Grandville CIA will review any application for Development Support presented by City staff, and vote whether to approve the requested Development Support for the proposed Project at a public meeting of its Board, consistent with its by-laws. The policy does not require a specific point system for evaluation or weighting one criteria more heavily than another. The CIA can choose to support all or a portion of a Public Facilities project.

Administration, Amendments, Waiver

The City will administer Development Support approved under the policy for the CIA. This would include collecting, evaluating, and approving documentation of eligible Public Facilities costs.

The amendments statement has some limits, as the city requested that the policy be consistent with policies approved by other CIAs for ease of administration. The CIA's control over and input into Projects will come more from vetting applications than the policy itself.