

Michigan Economic
Development Corporation
Brownfield Redevelopment



Brownfield Redevelopment

OVERVIEW

Brownfield is a term describing the obstacle to industrial or commercial property redevelopment caused by the threat of liability for existing contamination. In Michigan, that obstacle has been removed. Buyers and lenders are now reliably protected from liability under Michigan law.

LIABILITY PROTECTION – Title may be taken to environmentally impaired property without assuming liability for existing contamination, provided the buyer conducts a baseline environmental assessment (BEA) and discloses it to the state. Lenders may also conduct a BEA to avoid potential liability upon taking title in lieu of foreclosure.

REDUCED REMEDIATION COSTS – Cleanup costs are now 50% lower for industrial and commercial properties with sites requiring restoration to the appropriate standard based on property reuse.

TIMELY GOVERNMENT RESPONSE – The Michigan Economic Development Corporation (MEDC) and the Department of Environmental Quality are working together to make brownfield redevelopment a high priority and to help expedite redevelopment projects.

BROWNFIELD SINGLE BUSINESS TAX INCENTIVES

In order to promote the redevelopment of brownfield sites, the state of Michigan provides Single Business Tax (SBT) credits, on a case-by-case basis, for projects that redevelop a contaminated, blighted or functionally obsolete property.

Credits are available for up to 10% of eligible investments, but no more than \$30 million. Projects with total credits greater than \$1 million require approval by the Michigan Economic Growth Authority (MEGA), with concurrence of the state treasurer. Projects with total credits of \$1 million or less require approval by the chairperson of the MEGA. Applications for credits are authorized by MEDC.

Recent changes to the SBT Act (PA 111 and PA 112 of 2006) create a new category of Brownfield SBT credits for projects with credits less than \$200,000. These new "mini" brownfields should help stimulate redevelopment of smaller scale projects.

ELIGIBILITY

STATUTORY REQUIREMENTS

Eligible property must be designated in a locally approved brownfield plan created under the Brownfield Redevelopment Financing Act. If the property is located in a **core community** (qualified local governmental unit, pursuant to PA 146 of 2000 - see attached list) it can qualify as contaminated, blighted or functionally obsolete. If not located in a core community, then the property must be contaminated. X

Projects that are seeking a "mini" brownfield credit (credit of \$200,000 or less) also may qualify as contaminated, blighted or functionally obsolete if the property is located within the boundaries of a Downtown Development Authority, even if not located in a core community.

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BROWNFIELD REDEVELOPMENT CONTINUED

Projects that qualify as functionally obsolete are required to submit an affidavit signed by a level 3 or level 4 assessor stating that the property is functionally obsolete and the underlying basis for that opinion.

Eligible investment includes demolition, construction, restoration, alteration, renovation or improvement of buildings or site improvements on eligible property and the addition of machinery, equipment and fixtures. These investments must occur pursuant to a brownfield plan and **after a pre-approval letter** has been issued.

A qualified taxpayer must own or lease the eligible property, and must certify that the Department of Environmental Quality has not sued or issued a unilateral order to the taxpayer to compel response activity on the eligible property.

SELECTION PRIORITIES

Credits will be awarded to projects that best meet the following criteria:

- The host community is a willing participant in the project and is making a substantial local financial/fiscal contribution to the project through programs such as Tax Increment Financing (TIF), property tax abatements, Neighborhood Enterprise Zones, local revolving funds or other programs.
- The project is a mixed-use project that is located in the traditional downtown or within immediate walking distance of the downtown area, including development "nodes" or walkable neighborhoods.
- Projects that, even after the Brownfield Redevelopment Authority TIF has mitigated the excess costs of the site related to brownfield conditions, still need an incentive to reuse the site due to market conditions, risk or other factors.
- Project plans that reasonably improve the condition that qualifies the project as a brownfield.
- Projects that assist our state's manufacturers in meeting the pressures of national or international competition by reusing existing facilities and preserving or creating new jobs.

PROCESS

All Brownfield SBT credits are applied for through MEGA. There is a four-step process to become eligible for a credit.

1. A Brownfield Redevelopment SBT Credit Application- Part 1 must be filed with the MEGA that outlines the project and allows MEGA staff to make a determination whether the project has a reasonable chance of being approved by the chair of the MEGA or the MEGA board of directors.
2. An invitation to file a full application (Part 1 and Part 2) is given if the project meets both the statutory requirements and selection priorities outlined above. If the application is complete, it is forwarded to the MEGA for approval or denial.
3. Approved projects receive a pre-approval letter from the MEGA before eligible investments may be initiated.
4. When the project is completed, the qualified taxpayer must submit a Certificate of Completion Request for the eligible investment and identify each taxpayer entitled to a credit for the project. If all requirements are met, the state will then issue a Certificate of Completion, after which the taxpayers may claim an SBT credit.

(MORE)

BROWNFIELD REDEVELOPMENT CONTINUED

FEES

- Applications considered by MEGA for SBT credits exceeding \$1 million require a \$10,000 application fee. In addition to the application fee, there is an administrative fee of seven-tenths of 1% (0.7%) of the pre-approved credit amount. One-half is to be paid prior to the issuance of the pre-approval letter, and the remainder is due one year from the date of the letter.
- Applications approved for credits between \$200,000 and \$1,000,000 require a \$5,000 application fee. In addition, an administrative fee based on 1.4% of the pre-approved credit amount is due at the time the Certificate of Completion is requested. The application fee will be applied to the administrative fee, and will reduce the amount due.
- Applications approved for credits of \$200,000 and less require a \$2,500 application fee. There is no administrative fee due for credits of this size.

TAX INCREMENT FINANCING

In addition to Single Business Tax credits, contaminated properties may be eligible for tax increment financing (TIF) through the Department of Environmental Quality for eligible environmental activities, including BEAs, due care and additional response activities. Tax increment financing allows projects to capture state and local property taxes (including school taxes) to pay for costs related to brownfield sites.

Projects locating in a core community (qualified local governmental unit pursuant to PA 146 of 2000) may also be eligible for TIF for non-environmental activities, including demolition, infrastructure improvements, site preparation and lead and asbestos abatement. These projects must occur on eligible property (contaminated, blighted or functionally obsolete) that is included in a local brownfield plan and located in a core community. Projects seeking the use of school tax capture must receive approval from the MEGA (Michigan Economic Growth Authority) board. In addition, a development agreement between the community and the developer must be included along with a work plan detailing the eligible activities to be completed for the project.

FEES

There is no application fee for work plan submittals; however MEDC will bill the Brownfield Redevelopment Authority submitting the plan for actual costs incurred for the review.

For more information, contact the Michigan Economic Development Corporation Customer Assistance at 517.373.9808.

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**BROWNFIELD REDEVELOPMENT
CONTINUED**

DESIGNATED CORE COMMUNITIES

Cities:

Adrian	Ferndale	Manistique	Traverse City
Albion	Flint	Marquette	Trenton
Alma	Gaastra	Melvindale	Vassar
Alpena	Gibraltar	Menominee	Wakefield
Ann Arbor	Gladstone	Midland	Warren
Bangor	Grand Haven	Monroe	Wayne
Battle Creek	Grand Rapids	Mt. Clemens	Wyandotte
Bay City	Grayling	Mt. Morris	Wyoming
Benton Harbor	Hamtramck	Mt. Pleasant	Ypsilanti
Bessemer	Harbor Beach	Muskegon	
Big Rapids	Harper Woods	Muskegon Heights	
Bronson	Hart	Norton Shores	
Burton	Hartford	Norway	
Cadillac	Hazel Park	Oak Park	
Carson City	Highland Park	Omer	
Caspian	Holland	Onaway	
Center Line	Inkster	Owosso	
Cheboygan	Ionia	Pinconning	
Coldwater	Iron Mountain	Pontiac	
Coleman	Iron River	Portage	
Crystal Falls	Ironwood	Port Huron	
Dearborn	Ishpeming	River Rouge	
Dearborn Heights	Jackson	Saginaw	
Detroit	Kalamazoo	Saint Louis	
Dowagiac	Lansing	Sault St. Marie	
East Lansing	Lincoln Park	Southfield	
Eastpointe	Livonia	Sturgis	
Ecorse	Ludington	Taylor	
Escanaba	Manistee	Three Rivers	

Townships:

Benton Charter Township
Buena Vista Charter Township
Genesee Township
Mt. Morris Charter Township
Redford Charter Township
Royal Oak Charter Township

Villages:

Baldwin Village

2007 BROWNFIELD PROGRAM GUIDELINES

PROGRAM OBJECTIVES

The primary purpose of Michigan's Brownfield Redevelopment Single Business Tax (SBT) credit program is to address existing brownfield conditions on significant sites to make them competitive with non-contaminated or greenfield development sites. Secondly, the program is designed to address weak market conditions, high risk and other negative business factors in order to spur private development activity and investment on brownfield sites and economically challenged sites in downtowns.

The Michigan Economic Growth Authority (MEGA) will give priority to projects that are located in Qualified Local Governmental Units (QLGU), based on PA 146 of 2000, or reuse significantly environmentally challenged sites. Additionally, preference will be given to projects that are of sufficient scale to transform the surrounding area in which they are located.

OVERALL GUIDELINES

These guidelines are intended to clarify how the MEGA Board and the MEDC will evaluate brownfield redevelopment projects for both SBT Tax Credits and Act 381 Work Plan requests. Developers, consultants and communities are strongly encouraged to evaluate projects based on these guidelines before requesting MEGA Board or MEDC assistance, as projects will only be considered if they meet the following overall guidelines. Notwithstanding the guidelines below, individual projects are not considered approved until they have received formal notification of such approval from either the MEGA Board or Chair of the MEGA Board.

- The host community is a strong supporter of the project and is making a substantial local financial/fiscal contribution through vehicles such as tax increment financing, tax abatements, land cost write-downs, Neighborhood Enterprise Zones, Obsolete Property Rehabilitation, local revolving loan funds, façade grants, etc. Projects should not look to the State to make up a gap created due to the developer and/or local community not fully maximizing available funding sources.
- The intent of this program is to have tax increment financing (TIF) capture pay for the cost difference of developing a brownfield site as compared to a greenfield site. The Brownfield Redevelopment Authority Work Plan is expected to cover the cost of all eligible activities via its tax increment financing capture. Extraordinary costs related to the project that arise from the site's status as a brownfield, such as due care and additional response activities, and in Qualified Local Governmental Units only: demolition; site preparation; infrastructure improvements; and lead and asbestos abatement should be dealt with through the TIF Work Plan and not the SBT credit.
- It is expected that use of the TIF for a project will improve the condition that qualifies the site as a brownfield. In cases where a project qualifies as a "facility", adequate due care and response activities must be addressed. In

cases where a project qualifies as a brownfield due to blight or functional obsolescence (in QLGUs), the TIF tax capture must significantly improve or affirmatively cure the brownfield condition. Eligible investments must include a significant investment in capital improvements to the structure or structures.

- Only after the Brownfield Redevelopment Authority TIF capture has mitigated the excess costs of site development related to brownfield conditions will an SBT credit be considered. This consideration will be based on a quantitative and qualitative business case that demonstrates the project will not be undertaken without an SBT credit. The business case must include an analysis of market conditions, expected return on investment and justification of the ROI versus a non-incented project.
- Property acquisition costs of significantly disadvantaged sites must be reasonably proportional to the acquisition costs of non-brownfield properties.
- Projects located in areas or on properties that are desirable locations experiencing increasing market demand and property values, that do not substantially improve real property conditions or do not stimulate other non-subsidized growth in the community will generally not be considered for an SBT credit.

MIXED USE PROJECT GUIDELINES

- A mixed-use project is defined as one which incorporates multiple land uses including residential, retail, office and cultural/entertainment in a single or connected structure(s).
- Preference will be given to mixed-use projects that are located in the traditional downtown or within immediate walking distance of the downtown area. Significant development "nodes" or walkable neighborhoods within a QLGU are also a priority.
- High density, multi-story projects which incorporate market-rate housing, around-the-clock activity and contribute to safe and walkable downtown or near-downtown neighborhoods are particularly encouraged.
- Adaptive re-use of existing vacant and deteriorated structures, especially if they embrace historic rehabilitation, will be given special consideration.

HOUSING PROJECT GUIDELINES

- Housing projects of any variety that act as a catalyst to significantly improve a neighborhood will be considered on a case by case basis.
- Special consideration and evaluation will be given to housing projects that address specific neighborhood needs including, but not limited to, related commercial development such as a grocery store, affordable housing, walkability, community green space or reduction of blight.

- Adaptive re-use of existing vacant and deteriorated structures, especially if they embrace historic rehabilitation, will be given special consideration.

RETAIL PROJECT GUIDELINES

- Because retail-only projects are driven primarily by market demand, the business case necessary for the MEGA to consider brownfield incentives must be particularly compelling. Qualitative and quantitative data must be presented that justifies the use of an SBT credit for a retail project versus a non-incented retail project.
- The MEGA will in most circumstances not consider “big box” or “category killer” retail operations unless they anchor a retail center that includes other independent local retailers and is located in a historically underserved market with significant retail leakage to surrounding areas.
- Priority will be given to retail projects that are located in traditional downtown areas or significant commercial nodes and that complement rather than compete with the existing retail base. Convenience retail centers are preferred to comparison retail centers.

MANUFACTURING PROJECT GUIDELINES

- Manufacturing projects which re-use existing vacant, functionally obsolete and/or blighted industrial facilities will be given priority for SBT credits in this category.
- Preference will be given to established, Michigan-based manufacturers trying to meet the pressure of national or international competition and who preserve or create new jobs.
- High-growth potential technology-based companies are also encouraged to utilize the brownfield SBT credit incentive, particularly if they fall within the definition of the 21st Century Jobs Fund.

APPLICATION PROCESS

The guidelines outlined above should not be considered a complete list but provide a framework by which MEGA will screen projects for incentive consideration. Communities, developers and companies are strongly urged to communicate their interest and intentions for brownfield incentive consideration as early as possible.

For SBT requests, the Brownfield Program will continue to evaluate projects in a two-phase process. The initial document which will be evaluated is a Brownfield Redevelopment SBT Part I application, which replaced the NOI in 2006. Once MEGA receives a Part I application, staff will be assigned to review the project, which in most instances will require a project scoping meeting and site visit. This process will ensure that sufficient information and timely feedback are provided. Submission of complete and accurate information by the applicant for Part I of the application will expedite the turnaround time. Once the project has been reviewed internally, staff will contact the applicant to indicate whether or not Part II of the application will be invited. Part I and

Part II of the application as well as required attachments and the required application fee make up a full, administratively complete application.

To begin discussions on potential projects or share concerns or questions, please contact your MSHDA CATEam representative directly or call MEDC's Customer Assistance Center at 517.373.9808.

Please submit application (Part I and/or Part II) to:

Michigan Economic Growth Authority
Michigan Economic Development Corporation
Brownfield Redevelopment
300 North Washington Square
Lansing, Michigan 48913

Please note: If application and required attachments are not received through the above address, applications will not be considered administratively complete.

BROWNFIELD FEES

All brownfield projects will be assessed a fee to assist with administrative expenses. At the December, 2006 MEGA Board, a fee increase was approved for "small" and "large" brownfield credits in order to align revenues with program expenditures for the Brownfield Program. The new fee structure is detailed below:

"Mini" Brownfield SBT credits (\$200,000 or less) - A \$2,500 application fee payable upon submittal of the Part II. There is no administrative fee for "mini" credits.

"Small" Brownfield SBT credits (between \$200,000 and \$1 million) - A \$5,000 application fee payable upon submittal of the Part II and an administrative fee of 1.4% of the total credit amount, less the \$5,000 application fee, payable prior to the issuance of the project Certificate of Completion.

"Large" Brownfield SBT credits (over \$1 million) - A \$10,000 application fee payable upon submittal of the Part II and an administrative fee of 7/10 of 1 percent (0.7%) of the total approved credit amount, not to exceed \$100,000. One half of the administrative fee is due prior to the issuance of the Pre-Approval letter and the balance is due one year from the date of the Pre-Approval letter.

MEGA TIF Work Plan - The Brownfield Redevelopment Authority submitting a MEGA Work Plan request will be billed \$1,000 for the actual costs of reviewing a Work Plan.

OTHER CHANGES

In addition to the fee increases, the MEGA Board also adopted an Eligible Investment Policy at the December, 2006 MEGA Board. This policy is intended to provide clarification for Brownfield SBT projects on what constitutes eligible investment, especially for project soft costs. This policy is effective for all projects approved and all Certificate of Completions requested after January 1, 2007. Further information and details on the eligible investment policy will become available as our Certificate of Completion materials are updated.