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Center City Project Gets \$55 Million Tax Incentive Approval from BRA ^[1]

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By:

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Above: The latest artist's rendering of the Center City District redevelopment proposal, shown looking down on Albert Avenue from the northwest.

East Lansing's Brownfield Redevelopment Authority (BRA) has voted to approve a Tax Increment Financing plan for the Center City District project that will capture almost \$55 million over a period of 30 years, only 10% of which will be passed through to taxing jurisdictions, including the City of East Lansing.

At the BRA's meeting yesterday, where the vote occurred, City staff told BRA members that the Tax Increment Financing (TIF) plan would likely go to the City Council at the end of April, along with the site plan for the project. Planning Commission discussed ^[2] that site plan on Wednesday, and the lead developer has indicated he wants Planning Commission to act on the plan at its next meeting.

The \$55 million TIF for Center City is by far the largest Brownfield TIF that the East Lansing City Council will have considered. The largest brownfield TIFs East Lansing agreed to previously were below \$9 million. (The size of previous TIFs, which have been issued since 2000, is shown

in the "Total" column in this list [3].)

Of course, one of the variables affecting the size of the TIF is the size of the project itself—and this project is large—but as the City faces serious financial problems [4] including an almost \$200 million debt [5], plans to divert new taxes to pay for redevelopment have become increasingly controversial [6] in East Lansing.

Brownfield TIFs of the type being proposed here are designed as a tool for facilitating redevelopment of properties with environmental contamination or obsolete structures. Under this system, the developer initially obtains private financing for the project and is then reimbursed for eligible expenses from tax payments on the additional property tax that results from the project. After the reimbursement period, which can last as long as 30 years, all property tax payments go to the taxing jurisdictions. (See the end of this article for links to more information about TIFs.)

The two largest components of the Center City TIF plan are \$23.3 million for construction of a 715-space parking ramp, to be built on what is now the City-owned surface parking lot on Albert Avenue, and \$20 million in interest for financing of the construction. Reimbursements to the developer for these costs would take 90% of the amount of new property tax on this project, leaving 10% to go to local jurisdictions.

A unique feature of this project is the plan to finance construction with "non-recourse revenue bonds" that would be issued by the BRA and then sold to the developer. Investopedia defines such bonds this way: "Non-recourse finance is a loan where the lender is only entitled to repayment from the profits of the project the loan is funding, not from other assets of the borrower. These types of projects are characterized by high capital expenditures, long loan periods and uncertain revenue streams."

East Lansing's Economic Development Administrator, Lori Mullins, explained to the BRA the three revenue streams that would provide security to pay off these bonds. The first source would be the TIF payments reimbursed to the developer. If that is insufficient, the second source would be the City's new parking revenue from the ramp, which, excluding expenses, is estimated to come to \$64,000 per year. If those two sources are insufficient, the third source for paying back the bonds would be the developers themselves. Mullins said the City is not putting its faith and credit behind these bonds.

As ELI has reported yesterday [2], the developer to which the bonds would be sold would be a limited liability corporation (LLC) created by the Ballein Family and Harbor Bar Real Estate specifically for this project. What would happen if the revenue was insufficient to pay for the bond and this LLC consequently went bankrupt is unclear at this time, because the structure of the revenue bonds for this project has not yet been provided in written form. This will be part of a development agreement between the developer, City Council, and the BRA. Mullins said the draft development agreement will be available to the BRA for its April 27 meeting.

Mullins distributed to the BRA a revenue projections sheet [7] for this project that shows how the City's revenue from this project would double what the city currently obtains from this area. The current level comes to about \$564,000 per year. The increased revenues are largely from the projected 10% tax increment (estimated to be about \$42,600 per year), a \$75,000 annual payment from the developer for "land lease and air easement" on the six floors of rental units for

55 and older occupants that it will build on top of the parking structure, and \$388,000 the development would pay in water and sewer billings.

In response to a question from BRA member Doug Jester, Mullins promised to provide figures for how much of this water and sewer revenue would actually represent the cost of operating these services for the project.

The revenue projections address the statement made ^[8] by Bob Trezise of LEAP last week that he believes that this project would be one of the most lucrative deals for any municipality in the whole state of Michigan.

Mullins stated that these figures are still projections and that they could change. Indeed, she said that the TIF plan could come back to the BRA later in a revised form.

In response to a question from BRA Chair Peter Dewan, Mullins said that the staff has not yet calculated the financial impact to the City of having Parking Lot #1 land be unusable for parking for as much as two years while it is used for construction. That lot currently brings the City about \$527,000 annually.

Earlier this year, Convexity Properties requested a TIF of \$25 million for the Park District redevelopment proposal, with the understanding that this was the maximum that Council was likely to consider. (Both the Convexity and Center City proposals are for 12-story buildings downtown.) Convexity and the Council were not able to agree ^[9] on what should be included in that TIF plan, so Convexity has now reduced its project ^[10], including removing the previously-planned \$11.4 million, 600-space parking structure that was ultimately to be owned by the City.

The \$25 million TIF the Council approved for the Convexity project in January did not include any interest ^[11] on financing, as the plan approved by the BRA does for the Center City Project. The site plan and a TIF plan from Convexity is expected to come to Council this spring, possibly after the Center City proposals.

Related:

[Center City Design Morphs, with Developer Wanting Approval Soon](#) ^[2]

[Two Big Redevelopment Proposals, Treated Differently](#) ^[12]

[Ask ELi: How Are TIF Proposals Managed in East Lansing?](#) ^[13]

[Ask ELi: How Much TIF Is There?](#) ^[14]

[Ask ELi: How Much TIF Do Other Municipalities Nearby Have?](#) ^[15]

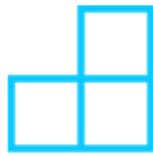
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