The Finances of Avondale Square
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The Avondale Square project was intended to redevelop a block of Virginia Ave., near Marble Elementary School, from what were mostly student rental houses to single family homes. When originally conceived, c. 2005, during the housing bubble, there was a lack of homes in East Lansing for young families. The plan was for 16 single-family detached homes and 14 townhouses. According to the 2009 brownfield plans: "Construction is anticipated to begin in late summer or early fall of 2007 and will continue until estimated completion in 2009."

There have been several kinds of direct city expenditures that have gone into the project that need to be accounted for to understand the total cost. This does not include other costs such as lost tax revenue while waiting for the project to come online, administration, maintenance, etc.

For the Avondale Square project, the city bought approximately 25 properties from private owners for approximately $3,670,000 between June 2006 and August 2009, with most existing houses on those properties demolished. (Three existing higher quality properties on the street were left intact.) The city also built new infrastructure: roads, water and sewer, sidewalks, alleys, etc. According to the 2006 brownfield plan, the cost of demolition, site preparation, and infrastructure was supposed to be $800,000, plus interest.

To finance the project, the city obtained a HUD Section 108 loan for $1.5 million, issued Bond Anticipation Notes for $2.5 million, and used various additional city funds (including property exchange). Bond Anticipation Notes (BANs), which were also used for City Center II Evergreen properties, are temporary bond financing for 3 years and pay interest only, with principal due at the end.

HUD Loan and Other CDBG Funds

The project was originally planned with the expectation that the city would obtain a grant from HUD. Instead, HUD only offered a Section 108 Loan for $1,500,000, for which the city pledged repayment from annual Community Development Block Grant funds for the next 20 years ($75,000 principal plus interest, each year). The total principal plus interest, with the loan retired in August 2026, will be $2,300,539. This is by far the largest single item in the CDBG budget, which also pays for neighborhood improvements, child abuse prevention, domestic violence shelter, etc. As the Federal government has reduced CDBG funding, the percentage going toward the Section 108 Loan has increased, and it is unclear how repayment will be done if CDBG funding is completely eliminated, as proposed under the Trump budget.

As a condition for the HUD loan, twelve of the planned 30 homes were reserved for income-qualified households, defined as 80% median family income for East Lansing-Lansing MSA. For the first several years, most of the houses built were not income qualified, but eventually 10 income qualified homes were built, and HUD agreed to the reduction, since the total number of new homes was reduced from 30 to 26.

In addition to repaying the Section 8 loan, the FY 2009 and FY 2010 budgets, show $255,106 of other CDBG funds spent on the Avondale Square project, for a total of CDBG expenditures of $2,555,639.

Miscellaneous Expenditures

During FY 2009-2010, $230,000 was transferred from the General Fund to the Capital Improvements fund, of which $207,595 went for debt service on the BANs, so only $22,405 is accounted for here. The FY 2010-2011 budget also shows transfers of $200,000 for facility improvement and $9,554 from the parks and recreation fund for EECBH lighting. Also in FY 2010-2011, the city received an $11,250 federal LED grant for the project, for which it had to provide matching funds. Instead of buying one of the houses, the city exchanged it for another city owned property valued at $100,000.

So, total identified miscellaneous expenditure was $343,209.

Total Costs Not Expected to Self-Finance

All of these costs were undertaken as direct subsidy for the project, at a total cost of: $2,898,854

Section 108 HUD Loan	$2,300,539
Other CDBG Funds	$255,106
Miscellaneous	$343,209
Total	$2,898,854

Debt Service on Bond Anticipation Notes and Permanent Bonds for Avondale Square

On June 30, 2007, $2,500,000 in Bond Anticipation Notes were issued for Avondale Square, which were paid off at the time of refinancing on June 30, 2010. One payment of $207,595 was listed in the FY 2009 budget, plus $200,000 at the time of refinancing, for a total of $407,595.

In April 2010, the city issued permanent Avondale Square bonds for $2,365,000, which replaced the 2007 BANs. Total debt service on the 2010 Avondale Square bonds, including commission and interest, through April 4, 2035 will be $4,720,523.

Combined total debt service on BANs and Bonds will be $5,128,118

Sources of Revenue: Lot Sales

The city never intended to pay for the HUD loan, except with CDBG money. The bonds, however, were supposed to be paid for by selling lots for new home construction and through tax increment financing.

One of the sources is lot sales. Here is a list taken from city budgets:

FY 2008-2009	$157,800
FY 2009-2010	$41,950
FY 2010-2011	$84,584
FY 2011-2012	$100,150
FY 2012-2013	$85,000

FY 2013-2014	$65,050
FY 2014-2015	$129,415
FY 2015-2016	$146,344
FY 2016-2017	$86,900
Total lot sales	$897,193

2010 Revised Brownfield Plan

The other source is tax increment financing, which is taxes on the increased taxable value on the houses compared to what the properties were valued before redevelopment (baseline taxable value). For this brownfield project, only local taxes not school taxes are "captured." Taxing jurisdictions whose taxes are being captured are: City of East Lansing, Ingham County, Ingham County ISD, CATA/Spectran, and LCC. The total mils available for capture have increased since the project started from ~41 mils to ~45 mils. About half are East Lansing city taxes.

The baseline taxable value in the 2006 brownfield plan was $1,231,100. In 2010, a revised brownfield plan was approved, in which the baseline taxable value was reduced to $611,090. This means taxing jurisdictions will receive only about half the taxes they would have under the original plan. But, the lower value does allow for more tax increment to pay for the bonds.

Sources of Revenue: TIF

The 2010 brownfield plan, based on revised lower baseline taxable value, anticipated cumulative TIF through FY 2017-2018 of $546,749.

Actual TIF through FY 2017-2018 Preliminary budget has been:

FY 2010-2011	$12,877
FY 2011-2012	$15,302
FY 2012-2013	$19,615
FY 2013-2014	$19,914
FY 2014-2015	$56,705
FY 2015-2016	$46,739
FY 2016-2017	$66,645
FY 2017-2018	$84,925
Total	$322,722

With the last houses nearing completion, there has been a new projection of TIF through the end of debt service on the 2010 bonds (and beyond):

FY 2018-2019	$93,000
FY 2019-2020	$93,900
FY 2020-2021	$94,800
FY 2021-2022	$95,700

FY 2022-2023	$96,700
FY 2023-2024	$97,700
FY 2024-2025	$98,700
FY 2025-2026	$99,700
FY 2026-2027	$100,700
FY 2027-2028	$101,700
FY 2028-2029	$102,700
FY 2029-2030	$103,700
FY 2030-2031	$104,700
FY 2031-2032	$105,700
FY 2032-2033	$106,800
FY 2033--2034	$107,900
FY 2034-2035	$109,000
Total Projected FY 2019-FY 2035	$1,710,200

Total Actual Plus Projected TIF from FY 2010-2011 through FY 2034-2035 is: $2,032,922.

This is the period of debt service on the 2010 bonds.

The 2010 brownfield plan anticipated TIF through FY 2035 as $2,880,012, so the current projection falls $807,090 short.

Total Lot Sales Plus TIF to Cover Debt Service on 2007 BANs plus 2010 Avondale Bonds:

Lot Sales	$897,193
TIF	$2,032,922
Total	$2,930,115

Total debt service (principal plus interest) is: $5,128,118

Deficit in financing for debt service from lot sales plus TIF is $2,198,003

If the 2010 TIF plan had used the original baseline value, the deficit would have been approximately an additional $26,600 per year, or approximately $666,000 over 25 years.

Total Cost

Combining the debt service deficit (using 2010 baseline value) and HUD Loan and miscellaneous costs, total cost comes to $5,096,857.

For each of the 26 new houses constructed, the average cost is: $196,033.

Future Financial Concerns

The HUD Section 108 loan continues through FY 2026-27. The payment is $75,000 per year plus interest on the remaining principal, so total debt service will gradually be reduced from approximately $118,000 to $75,000 per year, taken from CDBG funds.

As long as CDBG funds are available, the impact on the city's finances is that this loan repayment means less funding for other uses. This was a decision made more than a decade ago, that city officials preferred to spend a large portion of CDBG funds intended for capital improvements on one big project, instead of many smaller ones.

If CDBG funding is severely cut or eliminated, the city would be forced to repay the loan from general revenue.

Up until the current fiscal year (FY 2016-2017), lot sales have been used to offset debt service on the BANs/Bonds. Lot sales have been completed, so from now until the bonds are retired, the only source of revenue is TIF, with the shortfall coming from general city funds. According to the latest projections, deficits are expected to be:

FY 2016-2017	$38,015
FY 2017-2018	$108,700
FY 2018-2019	$102,030
FY 2019-2020	$97,305
FY 2020-2021	$97,580
FY 2021-2022	$97,600
FY 2022-2023	$97,265
FY 2023-2024	$96,675
FY 2024-2025	$94,738
FY 2025-2026	$92,488
FY 2026-2027	$89,925
FY 2027-2028	$92,050
FY 2028-2029	$88,550
FY 2029-2030	$89,738
FY 2030-2031	$85,300
FY 2031-2032	$85,550
FY 2032-2033	$85,075
FY 2033-2034	$83,975
FY 2034-2035	$82,250
Total Deficit on 2010 Bond FY 2017-FY 2035	$1,734,609

This total of $1,734,609, of which nearly $1.7 million will come from the upcoming and future budget, will directly or indirectly involve subsidies from the city's general fund.