



HOUSING TAX INCREMENT FINANCING PROGRAM

# Virtual Information Session No. 3

October 9, 2023 – 1:00 PM

Target Audience for Session : [Municipalities/BRAs](#)

# TODAY'S AGENDA

## SPEAKERS:

**Chad Benson**, Director of Rental Development, MSHDA

**Charlotte Johnson**, Staff Attorney, MSHDA

**Tony Lentych**, Chief Housing Investment Officer, MSHDA

1. **History & Background**
2. **Review of Housing TIF Program**
3. **Definitions & Calculations**
  - **Housing Subsidy**
  - **Sources & Uses Review**
4. **Discussion/Feedback**
5. **Next Steps**
  - **Anything else we need to review today?**

# Brief History & Background

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- **Public Act 90 of 2023** was approved in the legislature on June 28, 2023 and signed by the Governor on July 19, 2023
- **Section 13b(4)(b)** establishes that brownfield work plans and combined brownfield plans that involve the use of taxes levied for school operating purposes and that request reimbursement for housing development activities for affordable (under 120% AMI) and/or subsidized housing *must be reviewed by MSHDA*
- Work Team was assembled to draft the “**Housing TIF Program**” for presentation to the MSHDA Board of Directors

# Brief History & Background

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- Work Team included MEDC and MSHDA Staff and worked through the summer to finalize internal policy and procedures
- Significant work on explanations and definitions throughout the summer with outreach to the public on the calculation of “housing subsidy” in early September
- Designation of MSHDA’s **Missing Middle Program Team** as the **home** for the **Housing TIF Program**
- The Work Team also spent considerable time investigating a pilot “financial instrument” companion – will launch separately

# Brief History & Background

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- MSHDA Board of Directors adopted the overall program at their **September 29, 2023** Regular Meeting
- Internal staff training is underway and will continue throughout the fall
- External trainings and final “guidance” documents will be finalized in early October
- Anticipate receiving first Work Plans for approval in October...

Please remember this... Outreach for additional input/feedback through sessions like this is on-going – **WE WANT TO HEAR FROM YOU!**

# MSHDA Workplan Approval Flow Chart

## STEP ONE

Was the Workplan Submitted by the Local BRA?

No

Return to Submitting Party with Direction to have Local BRA Submit

Yes

GO ON TO NEXT STEP

## STEP TWO

Was the Required information Submitted with the Workplan?

No

Return to BRA with List of Missing Items

Yes

GO ON TO NEXT STEP

# MSHDA Workplan Approval Flow Chart

## STEP THREE

Does the Plan Meet Threshold Requirements?

No



Deny with Letter of Reasons for Denial

Yes



GO ON TO NEXT STEP

## STEP FOUR

Does the Plan Meet the Review Criteria?

No



Return to BRA with List of Missing Items

Yes



APPROVAL or  
CONDITIONAL  
APPROVAL

# Timeframe for MSHDA Review

MSHDA must provide one of the following written responses to the requesting BRA within sixty (60) days or, in the case of a transformational brownfield plan, within ninety (90) days:

- **Unconditional Approval** – Includes an enumeration of eligible activities and a maximum allowable capture amount
- **Conditional Approval** – Delineates specific necessary modifications to the combined brownfield plan, including, but not limited to, individual activities to be added to or deleted from the combined brownfield plan and revision of costs
- **Denial** – Will state with specificity the reason for the denial (may be subsequently resubmitted for review)



# Timeframe for MSHDA Review

**...Continued:**

If MSHDA fails to provide a **Written Response** within sixty (60) days or, in the case of a transformational brownfield plan, within ninety (90) days, the eligible activities are considered:

**Approved as Submitted**

**NOTE:** The **Approval** of a Combined Brownfield Plan by MSHDA is considered final

# What's in a "Housing" Workplan?

All applicable components are still required – this includes:

- A description of the costs of the plan intended to be paid for with the tax increment revenues
- A brief summary of the **Eligible Activities** that are proposed
- An estimate of the captured taxable value and tax increment revenues for each year of the plan from the **Eligible Property**
- The proposed beginning date and duration of capture of tax increment revenues for each **Eligible Property**
- The method by which the costs of the plan will be financed
- An estimate of the future tax revenues of all taxing jurisdictions in which the **Eligible Property** is located to be generated during the term of the plan

# What's in a "Housing" Workplan?

## ...Continued:

- A legal description of the **Eligible Property**, a map showing the location and dimensions of each **Eligible Property**, a statement of the characteristics that qualify the property as **Eligible Property**, and a statement of whether personal property is included as part of the **Eligible Property**
- Estimates of the number of persons residing on each **Eligible Property** to which the plan applies and the number of families and individuals to be displaced
- A plan for establishing priority and strategy for the relocation of persons displaced by implementation of the plan
- Provision for the costs of relocating persons displaced
- Other material that the BRA / Governing Body considers relevant to the brownfield plan

# What's in a "Housing" Workplan?

## Housing Property Definition:

### Eligible Property:

Housing property for which eligible activities are identified under a brownfield plan, including personal property located on the property, to the extent included in the brownfield plan

### Housing Property:

- A property on which one (1) or more units of residential housing are proposed to be constructed, rehabilitated, or otherwise designed to be used as a dwelling; or
- One or more units of residential housing proposed to be constructed or rehabilitated and located in a mixed-use project

# What's in a “Housing” Workplan?

**For all Eligible Properties, Eligible Activities include the following:**

- Reasonable costs of Environmental Insurance
- Reasonable costs incurred to develop and prepare brownfield plans, combined brownfield plans, or work plans for the eligible property, including legal and consulting fees that are not in the ordinary course of acquiring and developing real estate
- Reasonable costs of brownfield plan and work plan implementation, including, but not limited to, tracking and reporting of data and plan compliance, including costs to implement, monitor, and maintain compliance with the income and price monitoring responsibilities associated with housing development activities, and the reasonable costs incurred to estimate and determine actual costs incurred
- Demolition or site improvements that are not a Response Activity
- Lead, asbestos, or mold abatement

# What's in a “Housing” Workplan?

For all Eligible Properties, Eligible Activities include the following:

Except as otherwise provided the repayment of principal of and interest on any obligation issued by an authority to pay the costs of eligible activities attributable to an eligible property.

For housing property located in a community that has identified a specific housing need:

- The Activities described as Eligible for all Properties
- Infrastructure Improvements that are necessary for housing property and support Housing Development Activities
- Site Preparation that is not a Response Activity and that supports Housing Development Activities
- **Housing Development Activities**

# What's in a "Housing" Workplan?

## Housing Development Activities include:

- Reimbursement for the **Qualified Rehabilitation** of rental units
- **Infrastructure** available for public use and safety improvements necessary for a housing project and that are not part of a Response Activity
- Costs of **Demolition & Renovation** of existing buildings and site preparation, to the extent necessary to accommodate an income qualified purchaser household or income qualified renting household
- **Temporary Household Relocation** costs for an income qualified household
- **Acquisition Costs** for blighted or obsolete rental units, to the extent the acquisition would promote rehabilitation or adaptive reuse of the blighted or obsolete rental unit to accommodate an income qualified purchaser household or income qualified renting household
- Reimbursement to fill a **Financing Gap** associated with the development of housing units for income qualified households

# What's in a "Housing" Workplan?

## BRA Submittal Process:

Work plans under Section 13b(4) (work plans) or combined brownfield plans pursuant to Section 15(20) (combined brownfield plans) that are required to be submitted by the local BRA to MSHDA must include, at a minimum, the following:

- A written letter from the submitting BRA **requesting formal approval** and indicating that the required financial review, notices, and formal hearing have been completed per the Brownfield Act must accompany each submittal to MSHDA
- For each required submission item under MCL 125.2665(10) provide a separate tab labeled according to subsection VIII(d)(1)-(8) of the Program Statement



# The MSHDA Review Process

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## The “Need” for Housing:

Does the “Housing Work Plan” align with **Local & Statewide Housing Needs** as demonstrated through the following —

- **Local Housing Needs Assessment** (current within three years)
- Detailed Third-Party **Market Study** for the Area
- Alignment with the **Michigan Statewide Housing Plan**
- Alignment with an adopted **Regional Housing Plan**

# The MSHDA Review Process

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## Property Information:

- Current and future Ownership of the **Eligible Property**
- Historical and current use of each **Eligible Property**
- Summary of the proposed development or redevelopment and all future use

# The MSHDA Review Process

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## Ownership & Development Team:

- Financial Capacity and Experience
  - *Are all members in Good Standing?*
  - *Does the Team have experience developing the type of proposed project?*
- Program Capacity to Monitor for Price & Income
  - *Can be contracted with a third party*

# The MSHDA Review Process

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## Development/Reimbursement Agreement:

- On-going, if required, **Price and Income Certification/Monitoring** for residential units
- Details of all Ownership Interests
- All monetary considerations, fees, revenue, cost sharing, charges, and other financial arrangements

# The MSHDA Review Process

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## Eligible Activities:

- Review of **Purchase Agreement** and **Development Cost Budget** (Sources/Uses) for inclusion of all Eligible Activities
- Review for Reasonableness based upon the **Project Rent Loss (PRL) Gap Cap** and **Total Housing Subsidy (THS)** for rental developments
- Review for Reasonableness based upon the **Potential Development Loss (PDL) Gap Cap** and **Total Housing Subsidy (THS)** for “for sale” developments

# The MSHDA Review Process

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## PRL & PDL Calculations:

**Worksheets** that are submitted by the BRA will be reviewed for **Accuracy** and **Reasonableness**

- **FOR SALE** — Potential Development Loss (PDL) & Total Housing Subsidy (THS)
- **RENTAL** — Potential Rent Loss (PRL) & Total Housing Subsidy (THS)

# The MSHDA Review Process

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## FOR-SALE DEVELOPMENT:

Any physical development activity that is “purchased” by an end user, such as:

- **Single-Family House(s)**
- **Condominiums (in all forms, whether stand alone or in a common physical structure)**
- **Duplexes, Triplexes, etc.**
- **Row Houses**

## RENTAL DEVELOPMENT:

Any physical development activity that is “rented” by an end user, such as:

- **Single Multi-Family Building**
- **Multi-Family Apartment Communities (Several Buildings)**
- **Scattered-Site Single-Family Homes**

**NOTE:** The end use matters more than the physical structure itself

# Rental Development Calculation

## Potential Rent Loss (PRL) & Total Housing Subsidy (THS)

For Rental Developments, MSHDA will undertake the following steps to calculate the Potential Rent Loss (PRL) Gap Cap and the Total Housing Subsidy (THS) for every application received. The PRL Gap Cap and the THS will be utilized to establish the reasonableness of certain housing activities for which tax capture is being planned.

### Step 1: Establish the Control Rent (CR) for the project

Utilizing the appropriate Fair Market Rent (FMR) for each county and for the appropriate rate for each bedroom size as published by the U.S. Department of Housing & Urban Development (HUD), the following calculation will be made:

$$(FMR/40) \times 100 = \text{Control Rent (CR)}$$

**Note:** This formula corrects for HUD publishing FMR as 40% of area rents.



# Rental Development Calculation

## Potential Rent Loss (PRL) & Total Housing Subsidy (THS)

**Step 2: Determine the difference between the Control Rent (CR) and targeted Project Rent (PR)**

Utilizing the Project Rent (PR) targeted by the development team for each project, the following calculation will be made:

$$\text{Control Rent (CR)} - \text{Project Rent (PR)} = \text{Potential Rent Loss (PRL)}$$

**Note:** There may be multiple PRLs calculated for each project due to the fact the rents vary by bedroom size and most projects have a mix of bedroom sizes.

# Rental Development Calculation

## Potential Rent Loss (PRL) & Total Housing Subsidy (THS)

### Step 3: Determine the PRL Gap Cap

Utilizing the number of total units in a project that will have the appropriate income targets and the number of years of TIF Capture requested, both of which will be submitted by the development team for each project, the following calculation will be made:

$$\text{Potential Rent Loss (PRL)} \times 12 \text{ months} \times \text{No. of Units} \times \text{No. of Years} = \text{PRL Gap Cap}$$

**Note:** There may be multiple PRL Gap Caps calculated for each project due to the fact the rents vary by bedroom size and most projects have a mix of bedroom sizes.

# Rental Development Calculation

## Potential Rent Loss (PRL) & Total Housing Subsidy (THS)

**Step 4: Add all Potential Rent Loss Gap Cap calculations to establish Total Housing Subsidy**

After calculating PRL Gap Cap for each bedroom type in the proposed development project, the following calculation will be made:

$$\begin{aligned} &\text{PRL Gap Cap 1-Bedroom} + \text{PRL Gap Cap 2-Bedroom} + \text{PRL Gap Cap 3-Bedroom...} \\ &= \text{Total Housing Subsidy (THS)} \end{aligned}$$

# Rental Development Calculation

## Potential Rent Loss (PRL) & Total Housing Subsidy (THS)

**Step 5: Review of Total Housing Subsidy (THS) for reasonableness among all other activities allowed under Public Act 90 of 2023**

- **MSHDA will deduct the THS from the total Housing Tax Increment Financing (HTIF) request and will review for overall reasonableness**

**Note:** THS should not exceed the total HTIF request as this may indicate instability in the overall project pro forma. Conversely, an insignificant overall THS may indicate a project that is not targeting appropriate income levels. Reasonableness will be determined based on this review in conjunction with any narrative information that is submitted by the development team.

- **The utilization of the remainder of the HTIF request will also be reviewed for reasonableness under the guidance established under Public Act 90 of 2023**

# Rental Development Calculation

## **EXAMPLE:**

A developer has received approval from the Oceana County Brownfield Redevelopment Authority (BRA) to utilize the tax capture allowed under Public Act 90 of 2023 for a 40-unit multi-family workforce housing project which contains twenty (20) one-bedroom apartments with 60% AMI target rents and twenty (20) two-bedroom apartments with 80% AMI target rents.

The BRA has approved a \$2,225,000 Housing TIF tax capture that is collected over 25 years (this amount is just an estimate).

# Housing TIF Financing Gap Cap Calculation - Multifamily Rental

Oceana County WFH Project: 40 Total Units/Leases (20 1-Bedroom @ 60% AMI / 20 2-Bedroom @ 80% AMI)

FORMULA	Location	Type	FMR/MR Rent	Control Rent - Proj. Rent	= PRL	x No. of Units	x No. of Months	x No. of Years	= PRL GAP CAP	Per Unit
FMR	Oceana Co.	1 Bedroom	\$ 635.00	\$ 1,587.50 - \$ 852.00	= \$ 735.50	20	12	25	\$ 4,413,000.00	\$ 220,650.00
FMR	Oceana Co.	2 Bedroom	\$ 836.00	\$ 2,090.00 - \$ 1,364.00	= \$ 726.00	20	12	25	\$ 4,356,000.00	\$ 217,800.00
<b>TOTAL Housing Subsidy</b>						40			\$ 8,769,000.00	\$ 219,225.00
<b>Approved BRA TIF Request</b>						40			\$ 2,225,000.00	\$ 55,625.00
<b>Other Housing Activities Allowed Under Public Act 90 of 2023:</b>									\$ (6,544,000.00)	\$ (163,600.00)
Developer may utilize the remainder (if any) of the TIF capture for the following HOUSING RELATED items: <ol style="list-style-type: none"> <li>1. Site Preparation/Demolition</li> <li>2. Infrastructure Development</li> <li>3. Relocations Expenses</li> <li>4. Plus Other Housing TIF Related Expenses</li> </ol>										

# Rental Development

## SOURCES & USES

Initial review of the simple Sources and Uses during the Work Plan review will be much different than during a more comprehensive “underwriting” review of the project

<b><u>SOURCES</u></b>	Loan	\$ 8,750,000.00
	Grant	\$ 2,250,000.00
	BRA/Housing TIF	\$ 2,225,000.00
	Owner/Equity	\$ 775,000.00
	<b>TOTAL</b>	<b>\$ 14,000,000.00</b>
<b><u>USES</u></b>	Land Acquisition	\$ 500,000.00
	Land Preparation	\$ 750,000.00
	<u>Hard Costs:</u>	
	1. General Construction Costs	\$ 9,725,000.00
	2. Other Eligible Housing Activities	\$ -
	3. Total Housing Subsidy/GAP	\$ 2,225,000.00
	Soft Costs	\$ 400,000.00
	Financing Costs	\$ 400,000.00
	<b>TOTAL</b>	<b>\$ 14,000,000.00</b>

# For-Sale Development Calculation

## Potential Development Loss (PDL) & Total Housing Subsidy (THS)

- For For-Sale projects, MSHDA will undertake similar steps to calculate the Potential Development Loss (PDL) Gap Cap and the Total Housing Subsidy (THS) for every application received
- The PDL Gap Cap and the THS will be utilized to establish the reasonableness of certain housing activities for which tax capture is being planned
- Calculations assume an Area Median Income (AMI) targeted for 1 person per bedroom for 1- and 2-bedrooms homes and 1.5 persons per bedroom for 3+ bedroom homes and assumes a 15% downpayment
- Monthly housing payments including the costs of principal + interest, insurance, taxes, PMI at no more than 30% of the household gross annual income
- The calculation uses the current market average interest rate and developer provided projected insurance, taxes, and PMI costs



# For-Sale Development Calculation

## **EXAMPLE:**

A developer has received approval from the Lake County Brownfield Redevelopment Authority (BRA) to utilize the tax capture allowed under Public Act 90 of 2023 for a 10-unit single-family “for sale” workforce housing project which contains 10 three-bedroom homes with two (2) 100% AMI target prices and eight (8) 120% AMI target prices. The developer reports that the cost to build all ten houses is \$300 per square foot with each house being 1300 square feet in total.

The BRA has approved a \$1,450,000 Housing TIF tax capture that is collected over 28 years (this amount is just an estimate).

# Housing TIF Financing Gap Cap Calculation - For Sale Homeownership

**Rural For-Sale Project:** 10 Single-Family Homes (For-Sale Home Ownership Units with 2 @ 100% AMI & 8 @120% AMI)

FORMULA	Location	Type	Affordable Mortgage*	Development Cost** - Affordable Mortgage	= PDL	x No. of Units	x PDL GAP CAP
Income	Lake Co.	For Sale (100%)	\$ 249,000.00	\$ 390,000.00 - \$ 249,000.00	= \$ 141,000.00	2	\$ 282,000.00
Income	Lake Co.	For Sale (120%)	\$ 293,500.00	\$ 390,000.00 - \$ 293,500.00	= \$ 96,500.00	8	\$ 772,000.00

<b>TOTAL Housing Subsidy</b>	<b>10</b>	<b>\$ 1,054,000.00</b>
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<b>Other Housing Activities Allowed Under Public Act 90 of 2023:</b>	<b>\$ 396,000.00</b>
Developer may utilize the remainder of the TIF capture for the following HOUSING RELATED items:	
<ol style="list-style-type: none"> <li>1. Site Preparation/Demolition</li> <li>2. Infrastructure Development</li> <li>3. Relocations Expenses</li> <li>4. Plus Other Housing TIF Related Expenses</li> </ol>	

<b>Approved BRA TIF Request</b>	<b>10</b>	<b>\$ 1,450,000.00</b>
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**PDL** = Potential Development Loss

**Affordable Mortgage** =  
\* Mortgage Limit assumes a 15% down payment plus all other normal monthly fees associated with home ownership for a family of four.

**Development Cost** =  
\*\* \$300 per sq. ft. building costs (for a 3 bedroom home) - information provided through application. This includes 10% developer fee/profit.

# Discussion Items

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## Total Housing Subsidy (THS) Calculations

- Expected to be utilized in **Sources & Uses** presentations
- Other Ideas or thoughts on this item as a test for reasonableness?

## Definitions

- What needs clarification?
- Planning to finalize “Infrastructure” definition with Program Parameter Document

## **Program Parameter Document(s)**

- **GOAL:** Finalized within the next 10 business days

# Next Steps

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- ❑ Continue collecting **Feedback** from the various constituencies
- ❑ Publication of “**Frequently Asked Questions**” document in mid-October
- ❑ Publication of **Workplan Guidance** in Mid-October
- ❑ Regular “**Updates**” to our program’s website
- ❑ Additional “**Technical Assistance**” Outreach
- ❑ Releasing PILOT “**TIF GAP Lending Program Guidance**” soon

# QUESTIONS?

Please send your **Comments & Questions** to:

[mshda-tif@michigan.gov](mailto:mshda-tif@michigan.gov)

For more **Information & Updates**, please visit:

[MSHDA Housing Tax Increment Financing \(TIF\) Program \(michigan.gov\)](https://michigan.gov/mshda-tif)

**THANK YOU FOR YOUR TIME TODAY!**

