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## MEMORANDUM

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**DATE:** September 1, 2023

**TO:** All Interested Stakeholders and Partners

**FROM:** Tony Lentych, Chief Housing Investment Officer <sup>TJ</sup>

**SUBJECT:** Housing Tax Increment Financing – Housing Subsidy Calculation (corrected)

**MESSAGE:**

The recently adopted Public Act 90 of 2023 created a Housing Tax Increment Financing (TIF) program that will open up new opportunities for communities through Brownfield Redevelopment Authorities to create/finance attainable housing throughout the state of Michigan. We know that many communities, developers, and consultants are eagerly waiting the launch of this program.

A team within Michigan State Housing Development Authority (MSHDA) has been working diligently to establish program parameters and procedures that applicants will use when seeking MSHDA approval under the Housing TIF Program. To that end, MSHDA is required under the statute to determine whether the costs associated with individual eligible activities are reasonable. MSHDA has developed the attached **Potential Rent Loss (PRL)** and **Potential Development Loss (PDL) Calculations** plus a **Total Housing Subsidy (THS) Calculation** to establish the reasonableness of certain housing activities for which tax capture is being planned.

We are interested in gathering your feedback on this calculation methodology in order to ensure that this Housing TIF Program is meeting the need of developers and communities. Your initial review and feedback will help us craft the most appropriate process possible so please take this opportunity to respond to this information. All comments, questions, and general feedback can be sent to: [MSHDA-TIF@michigan.gov](mailto:MSHDA-TIF@michigan.gov).

Thank you.

Please continue track program updates on our Housing TIF webpage:

[MSHDA Housing Tax Increment Financing \(TIF\) Program \(michigan.gov\)](https://www.michigan.gov/msghda/0,4570,7-323_17017_17018_17019_17020_17021_17022_17023_17024_17025_17026_17027_17028_17029_17030_17031_17032_17033_17034_17035_17036_17037_17038_17039_17040_17041_17042_17043_17044_17045_17046_17047_17048_17049_17050_17051_17052_17053_17054_17055_17056_17057_17058_17059_17060_17061_17062_17063_17064_17065_17066_17067_17068_17069_17070_17071_17072_17073_17074_17075_17076_17077_17078_17079_17080_17081_17082_17083_17084_17085_17086_17087_17088_17089_17090_17091_17092_17093_17094_17095_17096_17097_17098_17099_17100_17101_17102_17103_17104_17105_17106_17107_17108_17109_17110_17111_17112_17113_17114_17115_17116_17117_17118_17119_17120_17121_17122_17123_17124_17125_17126_17127_17128_17129_17130_17131_17132_17133_17134_17135_17136_17137_17138_17139_17140_17141_17142_17143_17144_17145_17146_17147_17148_17149_17150_17151_17152_17153_17154_17155_17156_17157_17158_17159_17160_17161_17162_17163_17164_17165_17166_17167_17168_17169_17170_17171_17172_17173_17174_17175_17176_17177_17178_17179_17180_17181_17182_17183_17184_17185_17186_17187_17188_17189_17190_17191_17192_17193_17194_17195_17196_17197_17198_17199_17200_17201_17202_17203_17204_17205_17206_17207_17208_17209_17210_17211_17212_17213_17214_17215_17216_17217_17218_17219_17220_17221_17222_17223_17224_17225_17226_17227_17228_17229_17230_17231_17232_17233_17234_17235_17236_17237_17238_17239_17240_17241_17242_17243_17244_17245_17246_17247_17248_17249_17250_17251_17252_17253_17254_17255_17256_17257_17258_17259_17260_17261_17262_17263_17264_17265_17266_17267_17268_17269_17270_17271_17272_17273_17274_17275_17276_17277_17278_17279_17280_17281_17282_17283_17284_17285_17286_17287_17288_17289_17290_17291_17292_17293_17294_17295_17296_17297_17298_17299_17300_17301_17302_17303_17304_17305_17306_17307_17308_17309_17310_17311_17312_17313_17314_17315_17316_17317_17318_17319_17320_17321_17322_17323_17324_17325_17326_17327_17328_17329_17330_17331_17332_17333_17334_17335_17336_17337_17338_17339_17340_17341_17342_17343_17344_17345_17346_17347_17348_17349_17350_17351_17352_17353_17354_17355_17356_17357_17358_17359_17360_17361_17362_17363_17364_17365_17366_17367_17368_17369_17370_17371_17372_17373_17374_17375_17376_17377_17378_17379_17380_17381_17382_17383_17384_17385_17386_17387_17388_17389_17390_17391_17392_17393_17394_17395_17396_17397_17398_17399_17400_17401_17402_17403_17404_17405_17406_17407_17408_17409_17410_17411_17412_17413_17414_17415_17416_17417_17418_17419_17420_17421_17422_17423_17424_17425_17426_17427_17428_17429_17430_17431_17432_17433_17434_17435_17436_17437_17438_17439_17440_17441_17442_17443_17444_17445_17446_17447_17448_17449_17450_17451_17452_17453_17454_17455_17456_17457_17458_17459_17460_17461_17462_17463_17464_17465_17466_17467_17468_17469_17470_17471_17472_17473_17474_17475_17476_17477_17478_17479_17480_17481_17482_17483_17484_17485_17486_17487_17488_17489_17490_17491_17492_17493_17494_17495_17496_17497_17498_17499_17500_17501_17502_17503_17504_17505_17506_17507_17508_17509_17510_17511_17512_17513_17514_17515_17516_17517_17518_17519_17520_17521_17522_17523_17524_17525_17526_17527_17528_17529_17530_17531_17532_17533_17534_17535_17536_17537_17538_17539_17540_17541_17542_17543_17544_17545_17546_17547_17548_17549_17550_17551_17552_17553_17554_17555_17556_17557_17558_17559_17560_17561_17562_17563_17564_17565_17566_17567_17568_17569_17570_17571_17572_17573_17574_17575_17576_17577_17578_17579_17580_17581_17582_17583_17584_17585_17586_17587_17588_17589_17590_17591_17592_17593_17594_17595_17596_17597_17598_17599_17600_17601_17602_17603_17604_17605_17606_17607_17608_17609_17610_17611_17612_17613_17614_17615_17616_17617_17618_17619_17620_17621_17622_17623_17624_17625_17626_17627_17628_17629_17630_17631_17632_17633_17634_17635_17636_17637_17638_17639_17640_17641_17642_17643_17644_17645_17646_17647_17648_17649_17650_17651_17652_17653_17654_17655_17656_17657_17658_17659_17660_17661_17662_17663_17664_17665_17666_17667_17668_17669_17670_17671_17672_17673_17674_17675_17676_17677_17678_17679_17680_17681_17682_17683_17684_17685_17686_17687_17688_17689_17690_17691_17692_17693_17694_17695_17696_17697_17698_17699_17700_17701_17702_17703_17704_17705_17706_17707_17708_17709_17710_17711_17712_17713_17714_17715_17716_17717_17718_17719_17720_17721_17722_17723_17724_17725_17726_17727_17728_17729_17730_17731_17732_17733_17734_17735_17736_17737_17738_17739_17740_17741_17742_17743_17744_17745_17746_17747_17748_17749_17750_17751_17752_17753_17754_17755_17756_17757_17758_17759_17760_17761_17762_17763_17764_17765_17766_17767_17768_17769_17770_17771_17772_17773_17774_17775_17776_17777_17778_17779_17780_17781_17782_17783_17784_17785_17786_17787_17788_17789_17790_17791_17792_17793_17794_17795_17796_17797_17798_17799_17800_17801_17802_17803_17804_17805_17806_17807_17808_17809_17810_17811_17812_17813_17814_17815_17816_17817_17818_17819_17820_17821_17822_17823_17824_17825_17826_17827_17828_17829_17830_17831_17832_17833_17834_17835_17836_17837_17838_17839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**ATTACHMENTS:** Formulas & Examples

**SCHEDULE A**

**Potential Rent Loss (PRL) Gap Cap / Potential Development Loss (PDL) Gap Cap  
&  
Total Housing Subsidy (THS) Calculations**

## **Potential Rent Loss (PRL) Gap Cap & Total Housing Subsidy (THS) Calculations**

For Multi-Family 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:

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

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

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

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

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

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.

### **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 years of TIF Capture requested, both of which will be submitted by the development team for each project, the following calculation will be made:

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

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.

**Step 4: Add all Potential Rent Loss (PRL) Gap Cap calculations to establish the Total Housing Subsidy.**

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

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

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

- A. 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.

- B. 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.

For Single-Family 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.

# MULTI-FAMILY EXAMPLE

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

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 20 one-bedroom apartments with 60% AMI target rents and 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.

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

Monthly FMR for a one-bedroom apartment in Oceana County is \$635 and for a two-bedroom apartment it is \$836.

$$\mathbf{1\ Bedroom\ Control\ Rent = ((\$635/40) \times 100) = \underline{\$1,587.50}}$$

$$\mathbf{2\ Bedroom\ Control\ Rent = ((\$836/40) \times 100) = \underline{\$2090.00}}$$

### **Step 2: Establish the Potential Rent Loss (PRL) for the project.**

Project Rents are established for the development and are subtracted from the Control Rents

$$\mathbf{1\ Bedroom\ PRL = (\$1,587.50 - \$852.00) = \underline{\$735.50}}$$

$$\mathbf{2\ Bedroom\ PRL = (\$2090.00 - \$1,364.00) = \underline{\$726.00}}$$

### **Step 3: Determine the PRL Gap Cap.**

PRLs are multiplied by the number of units and the number of years of approved TIF Tax capture.

$$\mathbf{1\ Bedroom\ PRL\ GAP\ CAP = (\$735.50 \times 12 \times 20 \times 25) = \underline{\$4,413,000.00}}$$

$$\mathbf{2\ Bedroom\ PRL\ GAP\ CAP = (\$726.00 \times 12 \times 20 \times 25) = \underline{\$4,356,000.00}}$$

### **Step 4: Add all Potential Rent Loss (PRL) Gap Cap calculations to establish the Total Housing Subsidy.**

All bedroom PRL GAP CAP amounts are totaled to determine the Total Housing Subsidy (THS).

$$\mathbf{THS = (\$4,413,000.00 + \$4,356,000.00) = \underline{\$8,769,000.00}}$$

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

The Oceana County BRA approved a Housing TIF Capture of \$2,225,000.00 and this amount will be reviewed for reasonable and appropriate expenditures including the THS under the guidance established under Public Act 90 of 2023.

$$(\$2,225,000.00 - \$8,769,000.00) = \underline{\underline{\$(6,544,000.00)}}$$

**AN ILLUSTRATION IS ATTACHED.**

# SINGLE-FAMILY EXAMPLE

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

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 eight 100% AMI target prices and 2 three-bedroom homes with 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.

### **Step 1: Establish the Affordable Mortgage for the project.**

Establishes the affordable mortgage in Lake County is based on the three-bedroom Area Median Income (AMI) at targeted incomes for a family of four and assumes a 15% downpayment. This includes the costs of principal + interest, insurance, taxes, PMI. The calculation uses a 7.53% interest rate (current market average). These mortgages provide a monthly payment that below 30% of household income.

3 Bedroom House @ 100 AMI = **\$249,000.00**

3 Bedroom House @ 120 AMI = **\$293,500.00**

### **Step 2: Establish the Potential Development Loss (PDL) for the project.**

The Affordable Mortgage is subtracted from the actual Development Cost which is collected from information provided by the applicant/developer.

3 Bedroom House @ 100 AMI = \$390,000.00 - \$249,000.00 = **\$141,000.00**

3 Bedroom House @ 120 AMI = \$390,000.00 - \$293,500.00 = **\$96,500.00**

### **Step 3: Determine the PRL Gap Cap.**

PDLs are multiplied by the number of units.

3 Bedroom House @ 100 AMI = \$141,000.00 x 2 = **\$282,000.00**

3 Bedroom House @ 120 AMI = \$96,500.00 x 8 = **\$772,000.00**

**Step 4: Add all Potential Development Loss (PDL) Gap Cap calculations to establish the Total Housing Subsidy.**

All target income PDL GAP CAP amounts are totaled to determine the Total Housing Subsidy (THS).

$$\text{THS} = (\$282,000.00 + \$772,000.00) = \underline{\underline{\$1,054,000.00}}$$

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

The Lake County BRA approved a Housing TIF Capture of \$1,450,000.00 and this amount will be reviewed for reasonable and appropriate expenditures including the THS under the guidance established under Public Act 90 of 2023.

$$(\$1,054,000.00 - \$1,450,000.00) = \underline{\underline{\$396,000.00}}$$

**AN ILLUSTRATION IS ATTACHED.**



## 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>										

# 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>	10	\$ 1,054,000.00
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<p align="center"><b>Other Housing Activities Allowed Under Public Act 90 of 2023:</b></p> <p>Developer may utilize the remainder of the TIF capture for the following HOUSING RELATED items:</p> <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>	\$ 396,000.00
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<b>Approved BRA TIF Request</b>	10	\$ 1,450,000.00
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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.