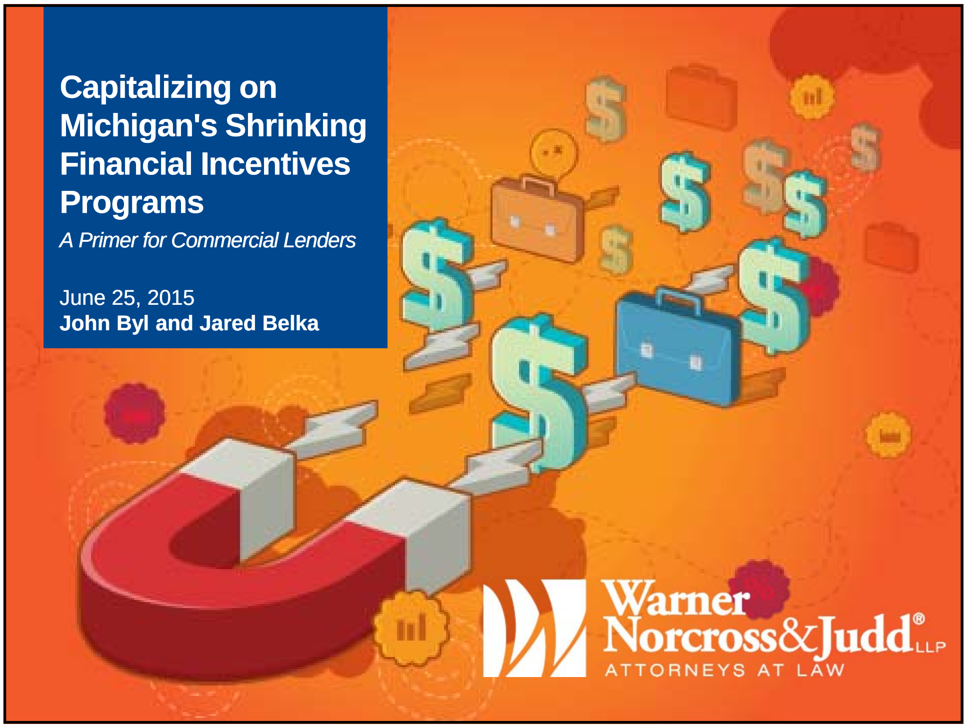
Capitalizing on Michigan's Shrinking Financial Incentives Programs
A Primer for Commercial Lenders
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Incentives Applicable to Capital Investment

Brownfield Incentives

- Tax Increment Financing (TIF)
  - Available for contaminated sites, sites with functionally obsolete building or blighted sites.
  - Provides for reimbursement of certain expenses, including: Environmental, demolition, public infrastructure, site preparation, multi-level and underground parking and urban stormwater management systems.
    - Public Infrastructure, site preparation, multi-level and underground parking and urban stormwater management system expenses are reimbursable only in "core communities".

Brownfield Incentives

- Tax Increment Financing (TIF) - *continued*
  - Reimbursement comes from increased property taxes above existing taxable value based on project.
  - Negotiate with local municipality and state (MEDC and MDEQ).
  - Consider TIF loans.

Community Revitalization Program (PA 251-253 of 2011)

- Replacement for Brownfield and State Historic Credits
- Program is administered by Michigan Strategic Fund (MSF) Board
- Key elements of CRP
  - Grants and/or loans up to 25% of eligible investment.
  - Eligible investment defined as it is under brownfield MBT credit: Construction, rehab, site improvements, demolition, equipment, and architecture and engineering relating to these expenses.

Community Revitalization Program (PA 251-253 of 2011)

- Eligibility = Property must meet 1 or more of the following:
  - Facility
  - Historic resource
  - Blighted property
  - Functionally obsolete
  - Adjacent and contiguous
- Grants
  - Maximum grant amount is $1.5 Million per project

Community Revitalization Program (PA 251-253 of 2011)

- Loans
  - Maximum loan amount is $10 Million per project.
  - Flexible terms.
    - below market interest rates.
    - possible forgivable terms (this could present tax issues).
  - Projects can receive both grants and loans, but total cannot exceed $10 Million per project.

Community Revitalization Program (PA 251-253 of 2011)

- CRP Criteria
  - Must be in downtown or traditional commercial center.
  - Importance of the project to the community/local support.
  - Applicant's financial need for the incentive (a pro forma will be required and will be scrutinized).
  - Extent of reuse of historic structures.
  - Mixed use projects are preferred.
  - Other factors.
- Funding in budget for next fiscal year is lower than past years.

Act 198 Industrial Facilities Tax (IFT) Abatement

- Must be industrial use or supportive of industrial use.
- Applicable to personal property (equipment), new construction and rehabilitation projects.
- Abatement is approximately 50% for up to twelve years on new construction. Freeze existing taxable value of building for rehabilitation.
- Negotiate with local municipality.
- Available anywhere in the state.

Act 328 Property Tax Abatement

- Available only in distressed, eligible communities and any project for which a MEGA jobs credit has been awarded.
- Applicable to industrial and certain commercial projects, including most office buildings.
- Applicable to personal property (furniture, fixtures and equipment).
- One hundred percent (100%) abatement of taxes for as many years as agreed to by local municipality.

Neighborhood Enterprises Zone (NEZ)

- Available only in core communities.
- Applicable to residential development (new construction and rehabilitation of existing structures).
- Abatement is approximately 50% for new construction and nearly 100% for rehab of existing facilities (freeze taxable value of existing building).

Obsolete Property Rehabilitation Act (OPRA)

- Available only in core communities.
- Applicable to rehab of existing structure for commercial use.
- Abatement is approximately 75% for first six years, if agreed to by both municipality and state, and 50% for an additional six years.

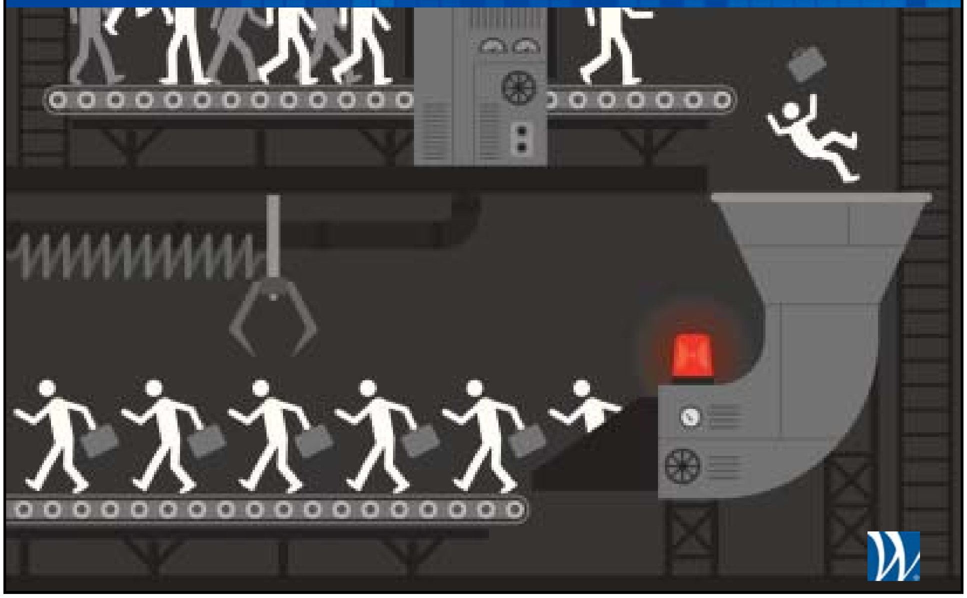
Federal Historic Preservation Tax Credit

- Twenty percent (20%) tax credit
  - Project must involve a "certified historic structure:"
    - Building that is listed individually in the National Register of Historic Places; or
    - Building that is located in a "registered historic district."
  - Project must be a "certified rehabilitation," which means a rehabilitation of a certified historic structure that is approved by the National Park Service.
  - Amount of the credit is 20% of the amount spent in a certified rehabilitation of a certified historic structure.

Federal Historic Preservation Tax Credit

- Ten percent (10%) Tax Credit
  - Structure must be a non-historic building that was placed in service before 1936.
  - At least 50% of the building's walls existing at the time the rehabilitation began must remain in place as external walls at the work's conclusion.
  - Amount of the credit is 10% of the amount spent to rehabilitate a non-historic building built before 1936.

Incentives Applicable to Creation of Jobs: Business Development Program



Michigan Business Development Program (PA 250 of 2011) *Replacement for MEGA Job Credits*

- Approved businesses that create qualifying new jobs could be eligible for up to $10 Million in grants, loans, or other economic assistance from the MSF.
  - Must create at least 50 jobs or 25 jobs if in a rural area or for high tech jobs.
  - Retail projects will not qualify (MSF policy).
  - This program not available for retention of jobs.
  - Performance based.
- MSF Board has approved guidelines for the program.

Other Financial Incentives

New Markets Tax Credit (NMTC)

- Project must be in eligible census tract (generally low income communities).
- Federal income tax credit equal to 39% of the NMTC allocation, spread over seven years.
- Generally, a tax credit investor will pay about 72% of the calculated tax credit amount at the time of closing the NMTC transaction.
- The key is obtaining an allocation from a community development entity (CDE).
- Must maintain debt on the project for at least seven years.

New Markets Tax Credit (NMTC)

- On a $10 million NMTC allocation, the project will receive $3.9 million in federal income tax credits, which will generally be funded at $2.8 million by the tax credit investor.
  - Net amount to the project would typically be slightly less than $2 million because of all of the professional fees and fees charged by the CDE.
- NMTC projects are very complicated and take several months.

New Markets Tax Credit (NMTC)

- Most projects are eligible except certain “sin” businesses (golf courses, country clubs, etc.) and note that gross rent from residential units must be less than 80% of the total gross rent from the project.
- Because of the debt requirement for seven years, residential condominium projects usually do not work.

Community Development Block Grants (CDBG)

- Available for public infrastructure, which can be construed creatively, and certain other expenses, such as acquisition cost.
- Generally associated with the private capital investment and job creation.
- Negotiate with MEDC.

MDEQ Grants and Loans

- Available only at contaminated sites.
- Grant and loan are obtained through local municipality, which can receive only one grant and loan per year.
- A project can obtain a maximum of $1 million in grant and $1 million in loan.
- Proceeds are generally used for cleanup activity and demolition.
- There must be private investment and job creation.

Questions & Answers

Thank you!

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