OFFICIAL PROCEEDINGS
CITY COUNCIL
BROWNFIELD REDEVELOPMENT AUTHORITY
CITY OF ESCANABA, MICHIGAN
Special Council Meeting
Thursday, October 24, 2013

Pursuit to a special meeting notice posted October 21, 2013, the meeting was called to order by the Honorable Mayor Leo J. Evans at 4:00 p.m. in the Council Chambers of City Hall located at 410 Ludington Street.

Present: Mayor Leo J. Evans, Council Members Walter A. "Pete" Baker, Patricia A. Baribeau, Ronald J. Beauchamp, and Marc D. Tall.
Absent: None

CEBRA: Chairman Randy Godlewski, Authority Members Patrick Connor, Joseph Kaplan, and Glenn Vande Water.
Absent: Matthew Sviland

Also Present: City Manager James V. O'Toole, Robert S. Richards City Clerk, City Attorney Ralph B.K. Peterson, City Assessor Daina Norden, Media and members of the public.

ADJUSTMENTS TO THE AGENDA

Beauchamp moved, Tall seconded, **CARRIED UNANIMOUSLY**, to approve the agenda as submitted.

CONFLICT OF INTEREST DECLARATION – None

NEW BUSINESS

Discussion/Action – MDEQ Brownfield Loan and Interlocal Loan Agreement – Fleet Maintenance, LLC – 1700 20th Avenue North.

City Administration discussed in detail with City Council and City of Escanaba Brownfield Redevelopment Authority the Fleet Maintenance Brownfield Plan history, site contamination, and the possibility and risks of guaranteeing a State MDEQ loan to clean up a property located at 1700 20th Avenue North. (See Attachment – A). City Controller Mike Dewar briefly reviewed further details and mechanics of the proposed Interlocal Agreement and CEBRA Reimbursement Agreement (See Attachment – B).

After discussion, CEBRA Member Connor moved, CEBRA Member Godlewski seconded, **CARRIED UNANIMOUSLY**, to recommend the Escanaba City Council enter into a Interlocal and a Brownfield Development and Reimbursement Agreement with Fleet Maintenance of Escanaba, Michigan.

Upon a recommendation by CEBRA, Baker moved, Baribeau seconded, to enter into a Interlocal and a Brownfield Development and Reimbursement Agreement with Fleet Maintenance of Escanaba, Michigan.

Upon a call of the roll, the vote was as follows:

Ayes: Baker, Baribeau, Beauchamp, Tall, Evans
Nays: None

MOTION CARRIED.

GENERAL PUBLIC COMMENT – None

COMMISSION/STAFF COMMENT AND ANNOUNCEMENTS – None

Hearing no further business or public comment, the meeting adjourned at 4:41 p.m.

Respectfully submitted,

Robert S. Richards, CMC
City Clerk

Approved: ______________________
Leo J. Evans, Mayor

MEMORANDUM October 21, 2013

TO: Jim O'Toole, Robert Richards, Daina Norden, Russ Hall

FROM: Michael Dewar

SUBJECT: Fleet Maintenance Brownfield Project

On October 24, 2013 the City Council will be meeting with the City of Escanaba Brownfield Redevelopment Authority to discuss the support of a possible loan guarantee between the State of Michigan MDEQ and Fleet Maintenance, LLC of Escanaba. The purpose of this memorandum is to highlight the steps that have been taken throughout the review process, summarize what has occurred to date and point out the risks associated with the request.

Key Dates

On April 10th, 2013, the City of Escanaba Brownfield Authority (CEBRA) approved an amended Brownfield Plan for Fleet Maintenance. The plan called for maximum reimbursement of $567,000 and maximum pay-out of twenty-two (22) years.

On May 2nd, 2013, the plan was adopted by the Escanaba City Council, with the same criteria.

On June 4th, 2013, the State, through the MDEQ, approved Fleet Maintenance's Act 381 Plan. This is significant because it allowed the project to reimburse costs using State taxing authority (school operating taxes); no prior CEBRA projects had attempted to receive this approval.

Purpose of the Brownfield Redevelopment Act and Past Practice

As you are aware, the general purpose behind brownfield legislation is to encourage the re-use of properties by providing the developer with reimbursement of the costs associated with bringing a property up to usable standards; simplistically, it is designed to eliminate the extra expense sometimes associated with development of re-use properties that wouldn't be incurred in developing "virgin" properties.

All CEBRA projects to date have been "owner financed"; the developer has fronted the financing for brownfield components of the project; they will be repaid for these expenditures over time, as the improvements create extra tax revenue.

Current Position Overview and Risks

Fleet Maintenance is not in a position to front the funds required to bring the property up to usable standards. Borrowing the funds to clean-up the property is also problematic, in that the change in the value of the land, before and after the clean-up, does not increase enough to "secure" a lender's loan balance. The State understood that this would be a common occurrence and they have set up a program through the MDEQ where they will provide clean-up financing, paid back to them by future TIF payments. Additionally, they require a "full faith and credit" pledge from the local unit of government which is supporting the request.

One of the rules in the loan program is that they will not lend funds to parties which are considered responsible for the environmental impairments. In this specific case, the MDEQ has opined that the City is a responsible party, due to the ash that has been found there. Despite the City's attempts to have the MDEQ reconsider this assessment, they have been intransigent on this position.

Because Delta County is also eligible to apply through this program, the State has encouraged Fleet Maintenance to use this avenue for access to the loan. Preliminary discussions with the County indicated that they would be receptive to the process, as long as the City would be responsible for the "full faith and credit" pledge.

Based on the original Brownfield plan, the City has determined that the TIF funds generated by the project will support a loan that doesn't exceed $450,000 (see attached "Fleet Maintenance TIF Cash flows" work paper); even at this level, the developer will be required to make annual "supplemental" payments against the loan. Based on discussions with Fleet Maintenance, they believe that $450,000 will be sufficient to bring the property into compliance with State requirements and that they are in a position to make the supplemental payments.

In order to move the loan process forward, action will be required of both the Escanaba City Council and CEBRA in regard to the attached documents.

From the County's perspective, they are merely acting as a loan conduit; they will have no risk in the project.

From CEBRA's perspective, the amended plan, as approved, is not being changed. The only substantive change that will occur with the approval of the attached documents is that instead of paying TIF collections forward to the developer, they will be forwarded to the County, in order to pay off the MDEQ loan.

From the developer's standpoint, he will be pledging all TIF revenue receipts to the County until such time as the loan is paid off. If there are any shortages between the TIF revenues and the loan payments, he will be required to make up the difference. If he has any eligible reimbursements due to him beyond the $450,000 which is being borrowed, he would receive TIF reimbursement, but only after the MDEQ loan is paid off and only for up to twenty-two (22) years.

From the City Council's perspective, approval of the attached documents will mean that they are providing an irrevocable pledge to the County that if there are any shortfalls in revenue (TIF revenues and Fleet Maintenance's pledge) available to repay the MDEQ loan, the City will make up the difference.

There are a variety of risks that would be assumed with the approval of these documents. Projecting the possibility and the magnitude of the risks isn't possible, but understanding those risks is important.

One risk that exists is if the project fails to generate the TIF funds that are projected. This would occur if the final project does not carry the taxable value that is included in the projections. With smaller taxable value, you will have less TIF funds to repay the loan. Under this circumstance, the developer is required to make up the difference. In theory, this would be doable, in that Fleet Maintenance's projections include payment of taxes and smaller "make whole" loan payments. If the taxes are less than the projections, Fleet Maintenance should be in a position to exchange the "tax bill savings" for larger "make whole" loan payments.

Another risk exists if the business fails. Under this scenario, it seems reasonable to believe that the lien holder would continue to pay the property taxes; if they didn't, they would lose their collateral (the building). Assuming that's the case, the TIF funds would still be in place to assist in the MDEQ loan repayment, but the City would be required to make up any differences. Because the TIF plan is in place for longer (22 years) than the loan repayment (15 years), the City could eventually recapture their advances, as long as the taxes continued to be paid and they remained fairly level.

Another risk that exists is a scenario where the project is never completed. If expenditures are made from the MDEQ loan, but the building is never built, the project will generate no TIF funds, but the City will be responsible for the repayment of the loan. This situation could occur if (1) the developer walks away from the project, for whatever reason or (2) if the costs of the clean-up increase dramatically, for any reason, and the developer is unable to complete the project because they lack the funds to do so.

While these scenarios are considered unlikely, they do represent possible risks to the City.

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City of Escanaba Brownfield Redevelopment Authority (CEBRA)

Fleet Maintenance TIF Cashflows

Year	Real TV	PP TV	Annual Taxes	Incremental TV	Brownfield Capture	Annual Admin	Potential Brownfield Capture	Beginning MDEQ Loan	MDEQ Payment	Ending MDEQ Loan	Annual (Shortage) / Overage	Net Brownfield Capture	Cumulative (Shortage) / Overage
1	$500,000	$20,000	$30,479	$491,655	$26,217.21	($100.00)	$26,117.21	$450,000.00	($26,117.21)	$423,882.79		$26,117.21	$0.00
2	510,000	19,600	31,051	501,655	26,750.45	(100.00)	26,650.45	423,882.79	(26,650.45)	397,232.34		26,650.45	0.00
3	520,200	19,208	31,635	511,855	27,294.36	(100.00)	27,194.36	397,232.34	(27,194.36)	370,037.98		27,194.36	0.00
4	530,604	18,824	32,231	522,259	27,849.15	(100.00)	27,749.15	370,037.98	(27,749.15)	342,288.83		27,749.15	0.00
5	541,216	18,447	32,840	532,871	28,415.03	(100.00)	28,315.03	342,288.83	(28,315.03)	313,973.80		28,315.03	0.00
6	552,040	18,078	33,462	543,695	28,992.23	(100.00)	28,892.23	313,973.80	(34,045.49)	284,637.92	($5,153.26)	28,892.23	(5,153.26)
7	563,081	17,717	34,098	554,736	29,580.98	(100.00)	29,480.98	284,637.92	(34,045.49)	254,861.99	(4,564.51)	29,480.98	(9,717.77)
8	574,343	17,363	34,746	565,998	30,181.49	(100.00)	30,081.49	254,861.99	(34,045.49)	224,639.43	(3,964.00)	30,081.49	(13,681.77)
9	585,830	17,015	35,409	577,485	30,794.02	(100.00)	30,694.02	224,639.43	(34,045.49)	193,963.53	(3,351.47)	30,694.02	(17,033.24)
10	597,546	16,675	36,085	589,201	31,418.80	(100.00)	31,318.80	193,963.53	(34,045.49)	162,827.50	(2,726.69)	31,318.80	(19,759.93)
11	609,497	16,341	36,775	601,152	32,056.08	(100.00)	31,956.08	162,827.50	(34,045.49)	131,224.42	(2,089.41)	31,956.08	(21,849.35)
12	621,687	16,015	37,480	613,342	32,706.10	(100.00)	32,606.10	131,224.42	(34,045.49)	99,147.29	(1,439.39)	32,606.10	(23,288.74)
13	634,121	15,694	38,199	625,776	33,369.12	(100.00)	33,269.12	99,147.29	(34,045.49)	66,589.01	(776.37)	33,269.12	(24,065.11)
14	646,803	15,380	38,934	638,458	34,045.41	(100.00)	33,945.41	66,589.01	(34,045.49)	33,542.36	(100.08)	33,945.41	(24,165.19)
15	659,739	15,073	39,683	651,394	34,735.21	(100.00)	34,635.21	33,542.36	(34,045.49)	(0.00)	589.72	31,729.57	(26,481.11)
16	672,934	14,771	40,449	664,589	35,438.82	(100.00)	35,338.82				35,338.82	0.00	(26,481.11)
17	686,393	14,476	41,230	678,048	36,156.49	(100.00)	36,056.49				36,056.49	0.00	(26,481.11)
18	700,121	14,186	42,027	691,776	36,888.52	(100.00)	36,788.52				36,788.52	0.00	(26,481.11)
19	714,123	13,903	42,841	705,778	37,635.19	(100.00)	37,535.19				37,535.19	0.00	(26,481.11)
20	728,406	13,625	43,671	720,061	38,396.80	(100.00)	38,296.80				38,296.80	0.00	(26,481.11)
21	742,974	13,352	44,519	734,629	39,173.63	(100.00)	39,073.63				39,073.63	0.00	(26,481.11)
22	757,833	13,085	45,385	749,488	39,966.01	(100.00)	39,866.01				39,866.01	0.00	(26,481.11)
									($476,481.11)			$450,000.00	

MDEQ Loan payments Required for Years 6-15 = Year 6 Beginning Balance + Interest Amortized over 10 Years

Annual Payment = $34,045.49