Q & A's and Clarifications

Regarding the Downtown Public Infrastructure Project Located Adjacent to Cadillac Lofts

Project:	Public infrastructure improvements located in Downtown Cadillac off of Mitchell, Cass, Chapin & Shelby Streets, generally surrounding the Cadillac Lofts Development. New public sidewalks, public parking and public roads constitute the main components of the public infrastructure improvements
For Reference:	MCC is Michigan Community Capital (Developer) MEDC is the Michigan Economic Development Corporation CDBG is Community Development Block Grant, a Federal grant program facilitated by the MEDC Development is Cadillac Lofts

Questions & Answers

Q1: Has MCC offered to give up their developer fee in exchange for an amendment to the Brownfield plan?

A1: MCC is not taking a developer fee. In addition, this amendment brings no additional dollars to the private development.

Q2: Is the City paying MCC their profits through tax dollars?

A2: No, and the recent Brownfield amendment only addresses public infrastructure.

Q3: Most commercial, residential development projects are only able to get financing for 12-15 years from the big banks – Does this Amendment extend the Plan beyond 20-years?

A3: The amendment adds reimbursement to improve public infrastructure, which is often financed over 20 or more years.

Q4: How much profit is MCC taking out of the money?

A4: MCC currently projects an annual return of approximately 2% (See attached Developer Return Analysis). MCC has currently invested approximately $5.2 million of equity into the site.

Q5: Cadillac has other projects downtown that are watching us, would the City consider providing a similar program for them?

A5: Yes. This program provides the opportunity for the City to capture tax increment revenues generated by the private investment to do public infrastructure projects that otherwise would have to be funded from other sources, such as the City's Capital Improvement Fund.

Q6: Did the City lose a CDBG and has MCC provided a report of searching out other financing to make up the difference?

A6: No, the City did not lose a CDBG and MCC has not provided a report regarding other financing. The City received a CDBG that provided nearly three quarters of a million of funds to get the site prepped. The City intends to apply for a second CDBG but first needs to be certified before applying for a new grant, and the timing for completing a portion of the public infrastructure improvements in conjunction with the completion of the first building doesn't provide enough time to wait to see if the City can get certified along with whether or not a second CDBG will be awarded. That stated, the City is still pursuing getting certified in order to be eligible to apply for a second CDBG for additional public infrastructure that will correlated from a timing perspective to the completion of the second building.

Q7: Does the City lose the opportunity of getting a new CDBG by amending the Brownfield Plan and utilizing it as a source of funding?

A7: No, the City would not lose the opportunity of getting additional CDBG funding. For large developments, especially those with a focus on workforce housing, it is not unusual for there to be layers of different public funding incentives in place or in development. Additionally, the next CDBG application round will not be open until the fall of 2020, and if a grant is awarded, funding would be received sometime during winter/spring of 2021. If the first phase of supporting public infrastructure is not in place, it would put an additional burden on the future residents, commercial tenants and patrons of the Development, all of whom would utilize the public infrastructure. Additionally, the improvements add on-street parking capacity for the City, to which would benefit the surrounding businesses and downtown in general.

Q8: Has the City prepared a list of capital expenditures that may be put on hold until we determine the extent of the effect of COVID-19 due to reduced taxes, revenue sharing from the State, loss or reductions of other tax revenue on the City?

A8: Yes. Please see the City's COVID-19 Financial Response Plan.

Q9: Has the City prepared a list of the possible revenues that may be reduced i.e. sales tax, revenue sharing etcetera? Other Cities, such as Petoskey, have recently had to do furloughs, see article: https://www.petoskeynews.com/featured-pnr/emmet-county-to-furlough-up-to-75-employees/article_3a2ddfcc-083d-5968-84c7-4d2086c677dc.html Does the City know what to look for, and what data have we reviewed?

A9: Yes. Please see the City's COVID-19 Financial Response Plan.

Q10: What is the effect on the City of borrowing funds to put in the public infrastructure around the Lofts Development, and the effect of the tax recapture if tax revenues do substantially decrease? Will any projects be sacrificed or taken off the schedule because of this project?

A10: Nothing because the borrowing of funds is for public infrastructure that is eligible for repayment from road fund dollars if needed. Conservative budgeting in road funds will enable repayment even if the reimbursement period is extended because of slower value growth. All projects scheduled in the recently approved 6-year Capital Improvement Program remain in the plan in the same year as originally scheduled.

Q11: Does the City have a current bond outstanding in relation to roads, and if so, how much is still owed?

A11: Yes; $2.3 million, and debt service for new issue is built into budget projections.

Q12: How much equity does each investor have in the Lofts Development?

A12: MCC is the only investor in the project, and they currently have approximately $5.2 million invested as equity.

Q13: What specifically are the City's liabilities in relation to the project if it does fail, in year 5 for example?

A13: No additional liability, and this would be the same as any project that pays taxes to the City. Plus, the MEDC's Revitalization Program Grant to MCC and the approval of their Public Act 381 Workplan are contingent upon completion of the project. Once completed, there is no liability from the State's perspective regarding asking for monies back or taking ownership of the property in any way. As noted above, even in bankruptcy, the asset would likely be purchased at a discount and continue to operate, with tax value based on income.

Q14: Is City money going to be spent on the parking lot and Shelby Street?

A14: All private parking lots will be funded with private funds. Shelby Street is being deeded to the City at no cost and is part of the upcoming public infrastructure activities. Construction activities on Shelby Street would not commence until it is back with the City, later this spring/summer. The City's costs for making the public infrastructure improvements will all be reimbursed back because the Brownfield Plan was amended to provide the revenue from MCC (captured taxes from the Development)

Q15: Is there anything in writing as to why we the City lost or were unable to receive the block grant from the State or any other responsible entity, and were any deadlines missed by the City that resulted in us not being approved for the grant before the COVID-19 Pandemic?

A15: The CDBG grant was not lost, the MEDC and federal policies changed to provide CDBG infrastructure grants only to certified low/moderate income communities. The City is in the process of trying to get certified in order to be eligible to apply, something that was not required for the first CDBG that was granted.

According to the MEDC, for the majority of CDBG funded projects, applications for future allocations are open on a year-round basis and can be applied for at any time. However, with a shift in MEDC administration and funding from the Federal Government, there was a decision made in the fall of 2019 where infrastructure requests in general would be made on an annual basis through competitive funding rounds available to only those communities who fall financially upon the MEDC's low/moderate income list. The City of Cadillac is not currently found on said list; therefore, they are not eligible to apply at this time. That stated, the City has applied and was authorized by the MEDC to move forward as of the spring of 2020 with a localized income survey to identify/confirm that they are in fact eligible for future CDBG infrastructure rounds via the MEDC. The survey has been now pushed back given the lack of support and capacity from the potential 3rd party responsible for conducting the "certification survey" due to COVID-19 and the closure of higher education institutions across the State.

Clarifications

1. The City is not loaning, granting or getting involved in the Cadillac Lofts business, nor is the City in any way a landlord or managing any of their property.

2. The City's pending construction and improvements of City-owned public property that surrounds the Cadillac Lofts site is financially no different than any other public street, parking or sidewalk project we may do, but for the important fact that the City will get itself reimbursed for this one.

3. The money to pay for the public infrastructure will be from the same source of funds that the City intends to use to pay for other public street infrastructure, which is from bonds that are being issued for the City's upcoming road projects. This project actually provides outside revenues to help repay the bond.

4. This project is not taking away from any other public project because its cost is getting reimbursed, similar to a reimbursable type grant.

5. The money to reimburse the City is coming from the Developer (captured taxes).

6. A tax increment portion of the taxes paid by the Developer is captured by the Brownfield Authority in a special account (Brownfield Fund) that is then used to reimburse the City for its costs of doing work on the public property that surround the Cadillac Lofts site.

7. Because the City is also getting money from the Developer that otherwise would have been paid to the State of Michigan, that will go towards reimbursing the City for its costs.

8. Because the Cadillac Lofts is located in the City's Downtown Development Authority, if the Brownfield did not exist, the money from the Developer would then go to the DDA, except State taxes would not be captured. That is the benefit of using the Brownfield because it also gets the money from the State of Michigan.

9. The total amount of money identified in the Brownfield Plan that the Cadillac Lofts Developer would be paying overtime to the City to use to get reimbursed for its public construction projects around the Lofts site is slightly over one million dollars.

10. The funds identified in the Brownfield Plan are paid to the City by the Developer. The City can only use these funds for public infrastructure projects that surround the development site. Any future grants for public infrastructure for this project would be used first and reduce the need for Brownfield capture and reimbursement.

11. This project is taking a key downtown property that had a vacant building for 10 years with few prospects into a substantial redevelopment with a focus on workforce housing and increased retail. The economics of these projects are not attractive and require public-private partnership to work. The infrastructure improvements are similar to those that would be part of any major development and, in this case, we are able to secure source of funding other than the City General Fund.

DEVELOPER INVESTMENT RETURNS

Fill in all blue shaded input cells

Development Name: Cadillac Lofts
City/Township/Village: Cadillac
County: Wexford
Construction Type: New Construction
Property Type: Rental Housing/Office/Retail
Date: February 20, 2019

This worksheet utilized to calculate a rough estimate of anticipated developer return. In additon, a proposed sales date and other owner cash investments in the project following construction completion can be entered on this worksheet.

Property Sales Assumptions	
Capitalization Rate	8.00%
Year of Sale	21
Sale Expenses (% of sale price)	5.0%

Developer Return Analysis

Year	Cash Investment	Cash flow	Sale Proceeds	Net Cash Investment	Land/Building Investment	Net Developer Investment	Cash on Cash Return	Return on Owner Equity
0	$5,215,215	$0	$0	($5,215,215)	$0	($5,215,215)	0.0%	0.0%
1		$86,421	$0	$86,421	$0	$86,421	1.7%	1.7%
2		$50,759	$0	$50,759	$0	$50,759	1.0%	1.0%
3		$61,614	$0	$61,614	$0	$61,614	1.2%	1.2%
4		$95,520	$0	$95,520	$0	$95,520	1.8%	1.8%
5		$92,340	$0	$92,340	$0	$92,340	1.8%	1.8%
6		$97,351	$0	$97,351	$0	$97,351	1.9%	1.9%
7		$102,588	$0	$102,588	$0	$102,588	2.0%	2.0%
8		$107,866	$0	$107,866	$0	$107,866	2.1%	2.1%
9		$113,184	$0	$113,184	$0	$113,184	2.2%	2.2%
10		$118,539	$0	$118,539	$0	$118,539	2.3%	2.3%
11		$123,688	$0	$123,688	$0	$123,688	2.4%	2.4%
12		$68,506	$0	$68,506	$0	$68,506	1.3%	1.3%
13		$120,558	$0	$120,558	$0	$120,558	2.3%	2.3%
14		$125,832	$0	$125,832	$0	$125,832	2.4%	2.4%
15		$131,136	$0	$131,136	$0	$131,136	2.5%	2.5%
16		$93,424	$0	$93,424	$0	$93,424	1.8%	1.8%
17		$98,146	$0	$98,146	$0	$98,146	1.9%	1.9%
18		$102,881	$0	$102,881	$0	$102,881	2.0%	2.0%
19		$96,342	$0	$96,342	$0	$96,342	1.8%	1.8%
20		$84,425	$0	$84,425	$0	$84,425	1.6%	1.6%
	$5,215,215	$1,971,118	$0	$1,971,118	$0	$1,971,118	1.89%	1.89%
			IRR =	-7.72%	IRR =	-7.72%		

Calculation of Sales Proceeds

Net Operating Income (year before sale)	$337,873
Capitalization Rate	8.00%
Real Estate Value	$4,223,415
Less: Sale Expenses	$211,171
Net Sale Proceeds	**$4,012,244**
Less: Outstanding Debt	
Huntington	$990,872
0	$0
xxx	$0
xxx	$0
xxx	$0
MSF/MCRP Loan	$0
Other Obligations	
Proceeds Available for Distributions	$3,021,372