

MEMORANDUM

Date: September 26, 2017

To: Michigan Strategic Fund Board

From: Dan Leonard, Senior Community Assistance Specialist
Rob Garza, Brownfield and MCRP Senior Program Specialist

Subject: County of Grand Traverse Brownfield Redevelopment Authority
Request for Approval of an Act 381 Work Plan
Park Place Redevelopment Area Project

Request

The proposed project will be undertaken by Regency Midwest Ventures LP, and will redevelop 4.7 acres of property located at 300 East State Street in the City of Traverse City. The project is located in a downtown and qualifies for an Act 381 work plan because it is a facility.

In order to alleviate Brownfield conditions and prepare the proposed project site for redevelopment, the County of Grand Traverse Brownfield Redevelopment Authority is seeking approval of local and school tax capture for MSF eligible activities in the amount of \$2,777,680.

Brownfield TIF reimbursement is needed due to the increased costs associated with removal of the existing “dome” conference space and pool areas. When the project was originally constructed, building materials were allowed that today are deemed hazardous. With the majority of both dome structures being built of asbestos and lead-containing materials, each will include increased demolition costs above and beyond what the project can support in debt from a traditional lender. The eligible activities will alleviate Brownfield conditions across the site and make it suitable for redevelopment, and protect human health and the environment. Without Brownfield tax increment reimbursement, the cost burden related to Brownfield conditions would make the project financially unfeasible.

The Applicant anticipates that the project will result in total capital investment in the amount of \$4,730,000, along with the creation of approximately 18 permanent full-time equivalent jobs with an average hourly wage of \$9.75.

Background

The project includes the creation of a new state-of-the-art conference center with seating for roughly 500 guests as well as improved accommodations for corporate and leisure guests through a new health/fitness center and spa facility. Furthermore, the project will create additional capacity for the existing restaurant by including outdoor seating on State Street with barrier free access to the property. All renovation efforts are necessary for the existing businesses to become more financially stable on an annual basis. Today, the property’s economic viability is seasonal in nature given the region’s heavy dependency on the tourism

market. With increased capacity in both restaurant and conference space, the hotel anticipates an overall 5-10% vacancy reduction on an annual basis. In addition, with the increase in downtown visitor rates, the project is anticipated to create roughly \$3 million in new economic activity within the community and add to the success of the city's broader downtown development strategy.

Lead, asbestos, mold abatement will be necessary prior to demolition activities in order to protect human health. Demolition activities will be necessary to complete demolition of the dome, select interior demolition and site concrete and utilities. Infrastructure improvements including streetscape improvements, an upgraded water main in the public right-of-way, and relocation of publicly serviced electric lines below street level are necessary to support the new development.

The property is currently owned by Regency Midwest Ventures, LP which owns and operates sixty-one (61) hospitality venues including both hotels and resort accommodations for both corporate and leisure guests throughout the Midwest United States. Neither Regency Midwest Ventures, LP, nor its principals have received prior financial incentives from the Michigan Strategic Fund (MSF).

Appendix A addresses the programmatic requirements and **Appendix B** includes a project map and renderings.

Recommendation

MEDC staff recommends approval of local and school tax capture for the Act 381 eligible activities totaling \$2,777,680. Utilizing the current state to local capture ratio, the amount of school tax capture for this project is estimated at \$1,343,564.

APPENDIX A – Programmatic Requirements & Screening Guidelines

Property Eligibility

The project is located within the boundaries of the City of Traverse City, which is a Qualified Local Governmental Unit, and has been determined to be a facility as verified by Michigan Department of Environmental Quality (DEQ) on July 28, 2017.

The property is the subject of a Brownfield Plan, duly approved by the City of Traverse City on February 21, 2017 and by the Grand Traverse County Board of Commissioners on March 15, 2017.

Key Statutory Criteria

Act 381 requires the following information to understand and explain the benefits of the project.

a) Overall Benefit to the Public:

This project's increased capacity to accommodate new patrons throughout the non-peak months of the tourism season will provide a great benefit to the community's downtown businesses and economy in general. Given the significant private investment in the property, the project will also generate a significant increase in taxable revenue for the community.

b) Jobs Created (Excluding Construction and other Indirect Jobs):

This project is expected to create approximately 18 new, full-time equivalent jobs in the hospitality industry and retain approximately 90 full-time equivalent jobs.

c) Area of High Unemployment:

The County of Grand Traverse unadjusted jobless rate was 3.4% in June 2017. This compares to the statewide seasonally adjusted average of 4% in June 2017.

d) Level and Extent of Contamination Alleviated:

The site has been determined to be a facility by DEQ and demolition activities will remove hazardous materials from the site. The Brownfield Plan has also identified environmental eligible activities in the event contamination is discovered after demolition of the buildings or during new construction.

e) Reuse of Functionally Obsolete Buildings and/or Redevelopment of Blighted Property:

The project is not qualifying as functionally obsolete or blighted.

f) Whether Project will Create a New Brownfield Property in the State:

No new Brownfields will be created by this project.

g) Whether the Project is Financially and Economically Sound:

From the materials received, the MEDC infers that the project is financially and economically sound.

h) Other Factors Considered:

The Traverse City DDA will incur roughly \$1.9 million in eligible activity costs related to the infrastructure needs of the project site. These costs are included in the request below.

Tax Capture Breakdown

There are 49.6208 non-homestead mills available for capture, with school millage equaling 24 mills (48.37%) and local millage equaling 25.6208 mills (51.63%). Tax increment capture will begin in 2018 and is estimated to continue for 30 years. The requested tax capture for MSF eligible activities breaks down as follows:

School tax capture	(48.37%)	\$	1,343,564
Local tax capture	(51.63%)	\$	<u>1,434,116</u>
TOTAL		\$	<u>2,777,680</u>

Cost of MSF Eligible Activities

Demolition	\$	431,080
Lead and Asbestos Abatement		376,600
Infrastructure Improvements		<u>1,940,000</u>
Sub-Total	\$	<u>2,747,680</u>
Brownfield/Work Plan Preparation	+	<u>30,000</u>
TOTAL	\$	<u>2,777,680</u>

APPENDIX B – Project Map and Renderings

