MEMORANDUM

TO: Board Members, Grand Rapids Economic Development Authority

FROM: Rebecca Kurtz and Jessica Cook, Ehlers

DATE: September 5, 2023

SUBJECT: TIF and Tax Abatement for the L&M Supply Project

SE 7th Ave Distribution LLC (the "Developer") has applied to the City of Grand Rapids (the "City") and the Grand Rapids EDA ("GREDA") to receive $2,178,210 of tax increment financing assistance and $2,073,572 of City tax abatement assistance (together, the "Assistance") for the construction of an approximately 210,000 square foot state of the art distribution center. The Developer will be leasing the facility to L&M Supply, Inc., a related company. The total amount of assistance requested from the City and GREDA is $4,251,782 over 29 years.

The project will be located on four parcels near the 2800 block of Airport Road. Per the County Assessor, the completed project will have an estimated market value of approximately $18 million. The project is anticipated to retain 81 jobs and create 35-50 new jobs in the City.

The proposed project is a distribution facility that meets the qualifications of an economic development TIF District. An economic development TIF district provides up to nine years of tax increment assistance. In addition, it is proposed that the City consider tax abatement assistance to begin after completion of the TIF district. The City may provide up to 20 years of tax abatement, provided the School District or County do not participate in the abatement. The Developer is in discussions with the County regarding their participation in the tax abatement, and it is anticipated that the School District will not participate in tax abatement.

Developer's Request

Ehlers evaluated the need for Assistance by analyzing the Developer's sources and uses budget and cash flow projection. Based on our review, we have affirmed the Developer's request is justified. The Developer has agreed to move forward with the project at this level of assistance.

The following table depicts the Developer's proposed sources and uses for the project. The sources include the tax increment financing and City tax abatement assistance with a combined present value of $4,251,782. In addition, it assumes County tax abatement of $1,401,135 along with funding from the Department of Employment and Economic Development and the Iron Range Resources and Rehabilitation. The sources and uses budget excludes the City's and GRPUC's utility improvements.

L&M GREENFIELD DISTRIBUTION FACITY SOURCES AND USES OF FUNDS		
SOURCES OF FUNDS		
Bank Mortgage	$	27,672,205
Bank Equipment	$	13,602,003
TIF City of GR	$	2,178,120
Tax Abatement City of GR	$	2,073,572
Tax Abatement Itasca County	$	1,401,135
IRRR Funding	$	2,500,000
DEED MIF	$	1,000,000
DEED JEP	$	2,000,000
Equity	$	3,000,000
TOTAL SOURCES OF FUNDS	$	55,427,035
USES OF FUNDS		
Land	$	424,852
Building	$	33,141,825
Site Improvements	$	4,758,355
Phase 1 Equipment	$	4,961,535
Phase 2 Equipment	$	9,990,468
Furniture/Fixtures	$	500,000
Computer Hardware & Equipment	$	1,000,000
Computer Software	$	650,000
Development Financing		
TOTAL USES OF FUNDS	$	55,427,035

Project Analysis and Return on Investment

Based on our review, we have identified the project's key metrics:

1. Total Development Cost (the "TDC") – The estimated TDC, excluding equipment, is $40.2 million or $191 per square foot.

2. First Mortgage – The Mortgage is about 50% of the project costs and the bank loan for equipment is approximately an additional 25% of the project.

3. TIF and City Abatement – The proposed $4,251,782 of Assistance represents approximately 7.7% of the total project cost. Depending on the project type, Assistance for commercial projects is commonly in the range of 10% of the total project cost.

4. The proposed lease rate is $8.00 triple net, which is commensurate with the market.

5. The rents are insufficient to pay for the principal and interest on the first mortgage. The project is anticipated to have a deficit of over $400,000 per year, demonstrating a financial gap. The proposed Assistance, on an annual basis, is less than $400,000 per year.

We conclude that Assistance in the amount of $4,251,782 plus interest can be justified for this project. The proposed development will not reasonably be expected to occur solely through private investment within the reasonably near future.

Form of GREDA and City Assistance

Assistance would be provided through issuance of a PAYGO Note in an amount up to $4,251,782. Payments on the Note would be made from 90% of the tax increment, followed by the tax abatement. Payments would be first applied to interest, at the rate of 6.5%, and then to reductions in principal. The term of the Note would run from August 1, 2026, through February 1, 2055. In the initial 9 years, the Note would be paid from tax increment. The balance of the Note would be paid with City's abatement of the increase in taxes over the current tax capacity of 11,726. The first abatement payment would be August 1, 2035, and end with the shorter of the full payment of the Note or February 1, 2055.

The estimated present value of the Assistance generated by the project total $3,344,116, which is less than the amount requested. However, if the actual assessed value ends up being higher than $18 million or if the value increases over time, the TIF and tax abatement generated will also increase. The Developer has requested and justified $4,251,782 in assistance. It is proposed that the Note be in the amount of the requested assistance, which would allow the Developer to receive the benefit of higher assessed values. Under no circumstances are the City or GREDA obligated to pay the Developer more than 90% of the TIF and the tax abatement.

Should you have any questions, please do not hesitate to contact Rebecca Kurtz at 651-697-8516 or Jessica Cook at 651-697-8546.