MEMORANDUM

TO: MAYOR AND CITY COUNCIL

FROM: VICTOR CARDENAS, CITY MANAGER

SUBJECT: TRANSFORMATIONAL BROWNFIELD PLAN

DATE: JULY 9, 2025

I've been asked to provide a primer on the Transformational Brownfield Plan (TBP) program, which has been proposed as a support mechanism for the planned development in the City West area being brought forward by Blair Bowman. I expect there will be more public discussions outside of City Council meetings that discuss City West as a TBP, so I wanted to ensure you have a good general overview of it early on.

Below are snippets from various documents that summarize the program. Additionally, through the power of AI, we have a podcast that also helps explain the program. The podcast can be found here. You'll find that the podcast refers to a project in Vicksburg, which is only one example of a community that has utilized this program.

In 2017, legislation was enacted to establish the TBP program in Michigan. The purpose of the legislation was to provide a new economic tool to motivate developers and businesses to renovate, rehabilitate, and more generally transform existing brownfields into local hubs of economic development and community revitalization. The program is directed at larger projects that not only provide modernized workspaces but also raise the amenity value of a place, helping to make Michigan more attractive for both current and prospective residents of the state. Under the program, developers with an approved TBP can capture a share of the incremental tax revenue generated by the project for a specified period, and not just the usual property taxes but various other kinds as well (e.g., certain income taxes).

What is a Brownfield?

A "brownfield" is typically defined as a property with either real or potential environmental contamination that restricts the property's future uses. However, under the TBP program, the term "brownfield" is significantly expanded to include blighted, functionally obsolete, historic, and transit-oriented properties, as well as undeveloped properties that have previously been identified as brownfield-eligible under the existing brownfield program.

What is a Transformational Brownfield Plan?

A TBP is defined as a brownfield plan that is expected to have a **transformational impact on local economic development and community revitalization**. This impact is assessed based on the extent of brownfield redevelopment and the resulting growth in population, commercial activity, and employment.

Key requirements and characteristics of a TBP include:

Mixed-Use Development: The plan must involve a mixed-use project combining residential, office, retail, or hotel uses. In municipalities with a population of less than 25,000, the Michigan Strategic Fund (MSF) may waive the mixed-use requirement if the project utilizes at least one of the listed uses.

Minimum Capital Investment: TBPs require a minimum level of capital investment that varies depending on the population of the community where the development is proposed. For example, communities with a population less than 25,000 require a minimum investment of $15,000,000, while those greater than or equal to 600,000 require $500,000,000.

Transforming Underutilized Property: The legislation focuses on converting vacant land and other abandoned property into productive space. This includes properties with real or potential environmental contamination, as well as blighted, functionally obsolete, historic, and transit-oriented properties.

Overall Positive Fiscal Impact: A TBP must demonstrate an overall positive fiscal impact on the state, meaning the total state revenue collected from the TBP is expected to exceed the amount of tax captured by the developer. This positive fiscal impact must be demonstrated as a net benefit—that is, the increased state tax revenues must exceed the cost of tax incentives.

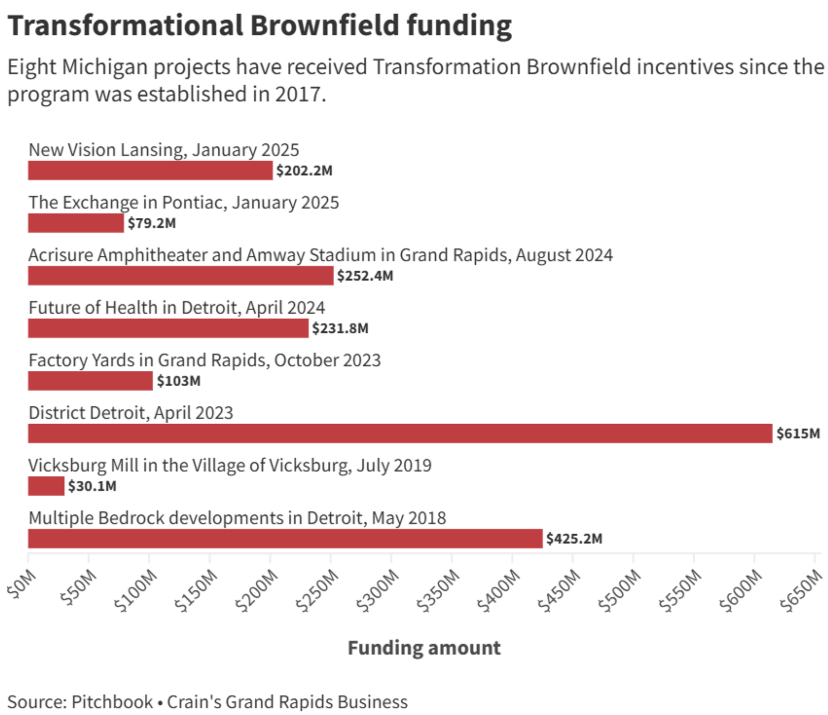
The defining or distinctive feature of a TBP under Act 381 is that it captures from so many revenue from so many different sources beyond just *ad valorem* property taxes. It allows, for example, for a construction period sales and use tax exemption, as well as five sources of tax revenues associated with a project, including:

(1) Construction Period Tax Capture;
(2) Property Tax Capture;
(3) Income Tax Capture;
(4) Withholding Tax Capture;
(5) Sales and Use Tax Capture.

These tax increment revenues can be used in financing a wide array of eligible activities, including "any demolition, construction, restoration, alteration, renovation, or improvement of buildings or site improvements on eligible property, including infrastructure improvements that directly benefit eligible property"—nearly everything, in other words, necessary to complete most projects. Income Tax Capture, Withholding Tax Capture, and

Sales and Use Tax Capture are limited to up to 20 years. The capture of incremental property tax revenue is limited to the cost of approved, eligible activities for up to 30 years, as currently allowed by Act 381.

There have been eight Michigan projects that have received funding since it's inception:



More Detail on the Various Tax Incentives for Developers

As noted, a developer with an approved TBP can capture shares of specific incremental tax revenues that are generated by the project up to the amount specified by the TBP or for a defined number of years, whichever comes first. "Incremental tax revenue" is the projected tax revenue generated by the site(s) of the proposed TBP minus the amount of tax revenue generated by the site(s) at the time that the TBP is adopted (i.e., before the project breaks ground).

Before the TBP program was established, developers and localities could capture incremental property tax revenues, generally under the **Brownfield Redevelopment Financing Act** of 1996 (PA 381), for up to 30 years. That still exists and remains one type of tax revenue that can be captured under an approved TBP. However, under Public Acts 46, 48, and 49 of 2017, the TBP program also allows developers to capture

- **Construction Period Income Tax Revenues**: 100 percent of the amount of state income tax levied and imposed in a calendar year upon wages paid to individuals physically present and working within the eligible property for the construction, renovation, or other improvement of eligible property that is an eligible activity within a transformational brownfield plan.

- **Construction Period Sales and Use Tax Exemptions**: Sales and use tax exemptions for the purchase or acquisition of tangible personal property that will be affixed and made a structural part of the real property or infrastructure improvements included within the plan.

- **Income Tax Revenues**: 50 percent of the incremental income tax from individuals domiciled within the eligible property.

- **Withholding Tax Revenues**: 50 percent of the incremental income tax withheld from individuals employed within the eligible property.

The captured revenues can be used to finance all of the TBP eligible activities noted above, as well as activities typically associated with brownfield development, such as lead, asbestos, or mold abatement.

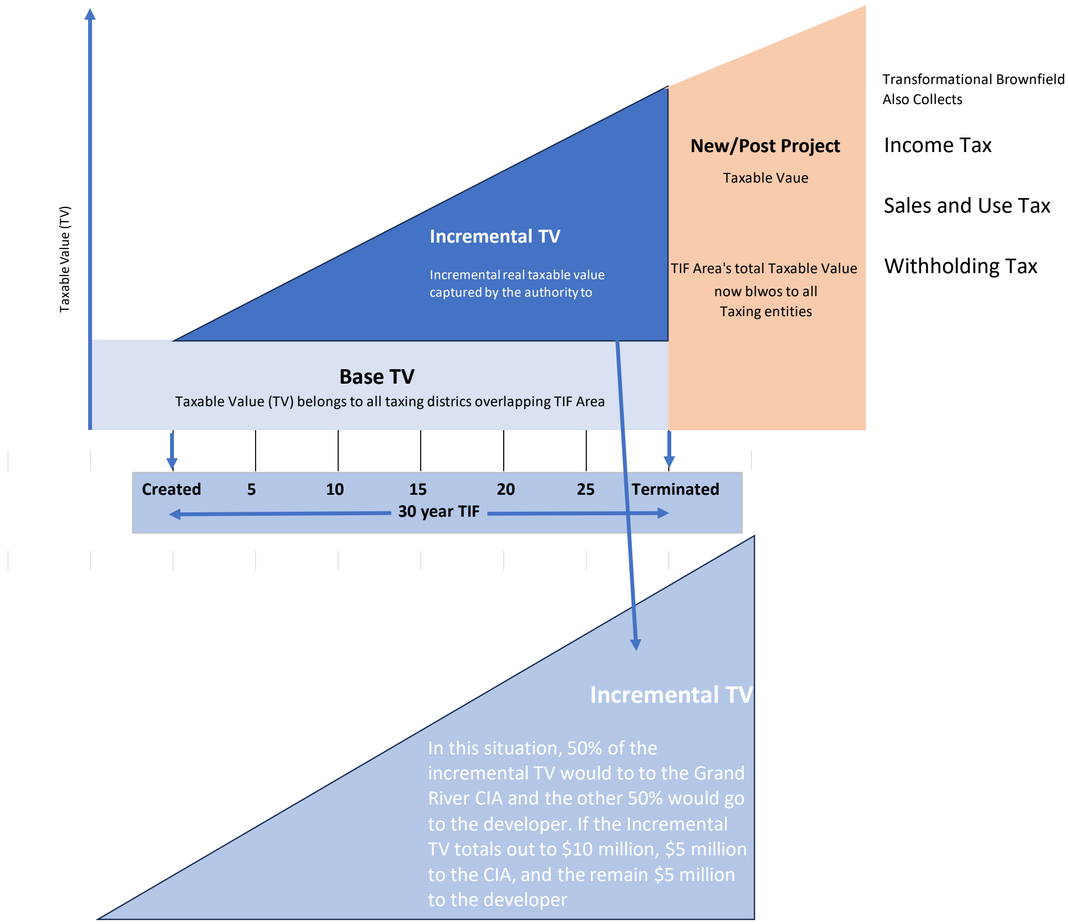
There are some limits to revenue capture by the developer.

- First, the tax revenue available for capture will be limited to the amount necessary to make the project economically viable. In other words, the project would not be able to proceed as planned without the tax capture.

- Additionally, while property tax can be captured for up to 30 years, construction, income, and withholding tax revenues can only be captured for up to 20 years.

- The legislation sets other limits on total revenue captures across all TBPs over the life of the program. Income and withholding tax capture revenue is limited to a total of $800 million across all projects, while construction period captures are limited to a total of $200 million.

- Furthermore, the program sets an annual limit of $40 million on non-construction income and withholding captures across all approved projects.



City's Role in the Approval Process?

A lot of the dollars at stake in a TBP are not local (City) tax dollars. However, because the process does affect local property taxes (millages), and impacts local zoning and land use approvals, it requires local government "buy in" along with that of other taxing jurisdictions and state entities. We are still evaluating those local approval rules with our consultants, as well as the developer's environmental, financing, and legal consultants. It does appear that it requires fairly early on in the process a resolution stating the City's support for the project would be required. The exact contents of that document and other documents will be required. We will update Council as more information on what exactly is expected of the City Council is determined. The City does retain its full land use approval (i.e., zoning/site plan approval) authority under the program.