

DOWNTOWN BAY CITY DEVELOPMENT AUTHORITY
TAX INCREMENT FINANCE PLAN • Development Area #5
BAY CITY, MICHIGAN

December 5, 1994
Amended April , 2004

Chapter 1 DOWNTOWN DEVELOPMENT PLAN

GOALS AND OBJECTIVES

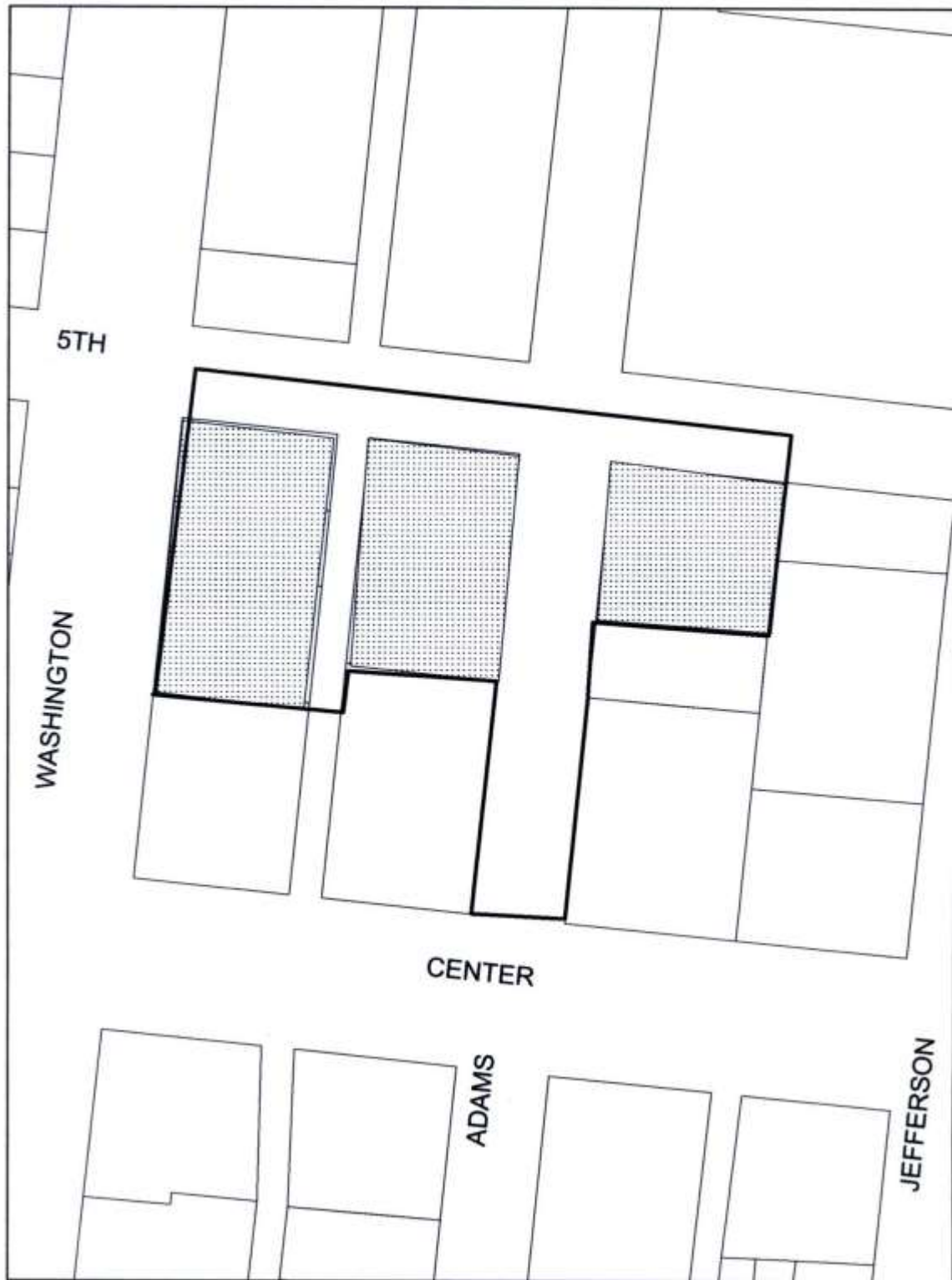
Based upon a review of past plans and studies and local discussion, the Downtown Development Authority has refined its immediate goals of the tax increment financing program. These goals are as follows:

1. To provide for the necessary improvements and operating of public parking in the parcel located at the southeast corner of Fifth and Adams Street;
2. To make all public facilities accessible by all segments of the population, including persons with disabilities;
3. To foster full redevelopment of the Knepp's Building at 810 Washington Avenue, and the LaPorte Building at 820 Washington Avenue, including the development of office and/or residential space in the upper stories;
4. To prioritize public improvements that spur private investment within the Development Area.

BOUNDARIES OF THE BAY CITY DOWNTOWN DEVELOPMENT AREA

Map of the Bay City Downtown Development District

The following map illustrates the boundaries of the Development Area #5 within the Downtown Development Authority.



Boundaries of the Downtown Development Area #5

Amended Legal Description of the Boundaries of Development Area

The following legal description of the Development Area complies with the requirements set forth in P.A. 197 of 1975.

Lots 1, 2, 10, 11 and 12, the north 48.33 feet of Lot 3, the north 25 feet of Lot 9, the north 175 feet of the alley, Block 54, and Lots 11 and 12 and the west one-half of the vacated alley adjacent thereto, Block 55, also the South 30 feet of Fifth Street from the West line of Lot 12, Block 54, to the center of the alley in Block 55, also Adams Street lying between Blocks 54 and 55, all being in the Plat of Lower Saginaw, Bay City, Michigan.

General Description of Boundaries and Size of the Development Area

The Development Area is comprised of four properties, commonly referred to as the Knepp's building, the LaPorte complex (formerly known as the Cunningham building) and the Bay City Times and Bay Area Renaissance parking lots at Fifth and Adams in Downtown Bay City.

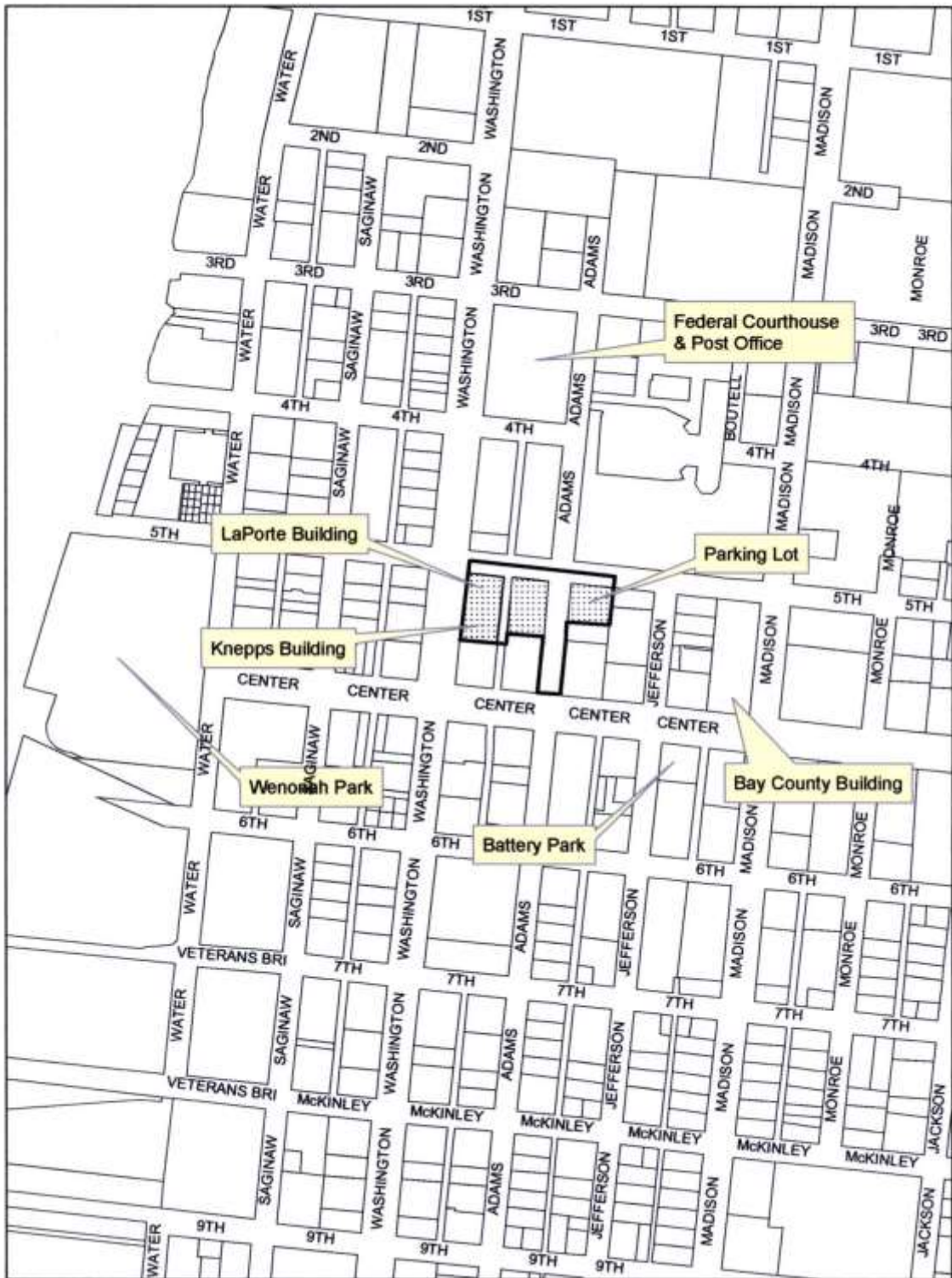
Although the Knepp's building has functioned as one business in recent years, the physical property is actually made up of three buildings with shared walls. Each floor is approximately 12,500 square feet with three public floors, one basement, and one utility and storage floor. Combined, there is between 37,500 and 50,000 square feet of potentially lease-able space. The buildings are built to the property lines.

The LaPorte building includes four floors and a basement. Approximately 20,000 square feet of potentially lease-able space exists. The first floor had been occupied by Cunningham's New American Café and Ingersoll Optical in the past. It was substantially renovated during the 1990s and was made into office space for Mortgage America, which has since closed its doors. The building is largely vacant with the exception of the Elks Club Lodge, currently occupying space in the upper level .

The Bay City Times and Bay Area Renaissance parking lots are 10,000 square feet (east) and 14,833 square feet (west), respectively, with 25 and 50 parking spaces.

In all, there is approximately 1.548 acres or 67,433 square feet within the boundaries of the development area.

Location and Extent of Existing Public Facilities



Existing Improvements to be Demolished, Repaired or Altered

The Bay City Times and Bay Area Renaissance parking lots total 24,833 square feet. The east lot (10,000 SF) is currently leased to the DDA and is utilized as a free 3-hour customer parking lot. The west lot (14,833 SF) has been swapped with the owner of the Shearer Building (Bay Area Renaissance) for an adjacent parking lot to accommodate the residents within that building. The lots have been improved in accordance with City of Bay City specifications for parking lot operation.

The former Knepp's building was constructed as three separate buildings at the turn of the century and merged into one storefront sometime after. The last significant exterior improvements to the building was the placement of the tile facade sometime in the 1940's or 50's. These properties are located in the Downtown Bay City Historic District.

Most of the basement, first, second and third floors were used for retail sales space. The balance of the basement, second, third and fourth floors were used for general warehousing. Offices were located on the mezzanine. An elevator servicing the basement through fourth floors and the restrooms, located on the second floor, are not handicap accessible under current guidelines.

There is street level access from Washington Avenue and the alley to the immediate east of the building. The present owner plans to eventually convert the upper levels to condominiums, while retaining the retail space on the first floor.

The LaPorte building, built prior to the turn of the century, has been significantly improved on all levels. Handicap accessible restrooms now exist on the all floors; and the elevator services all floors. The building was significantly renovated in the 1990s to accommodate Mortgage America, prior to its demise. It consists largely of office space.

Location, Extent and Character and Cost of Proposed Improvements

It is anticipated that the Knepp's development will result in 7,500 square feet of retail space and that upper story development could result in as many as 12 residential spaces. Private improvements to the Knepp's building are estimated at \$2,000,000.

Table 1: Public Improvements

Improvement or Special Project	Purpose	Year	Estimated Cost
Relocation of Overhead Utilities	Improved public visibility and safety	2004	\$ 25,200
Sidewalk Reconstruction & Streetscape improvements within Development Area	Handicap Accessibility, Improved public access, visibility & safety	2005	\$ 150,000
Total Investment			\$ 175,200

Construction Phases and Completion Schedule

Tax increment revenue can be used for funding barrier free design requirements of the state construction code promulgated under the State Construction Act of 1972. PA 221 of 1985 amends the DDA Act to expand the definition of *public facility*. The now states that *public facility* includes an improvement to a facility “used by the public” that is made to comply with barrier free design requirements of the State Construction Code. The language in the DDA amendment refers to section 125.1351 and section 125.1501 to 125.1531 of the Michigan Compiled Laws. It is further stated that a *public facility* includes an improvement to a facility used by the public as those terms are defined in Section 1 of Act No. 1 of the DDA Act (PA 197 of 1975) defines facility used by the public as a:

Building, structure or improved area utilized for purposes of education, employment, housing other than a privately owned 1 or 2 family dwelling, transportation or recreation and for the purchase, rental or acquisition of goods or services.

Proposed improvements to the development area include:

1. Relocation of utilities underground Spring 2004
2. Sidewalks, curbing & lighting replacement Summer 2005

Open Space

Battery Park, a public park, is located about two blocks from the development area. Wenonah Park, a public park and entertainment facility is located approximately three blocks from the development area.

Property Transactions between the DDA and the City of Bay City

No portions of the development area will be sold, donated, exchanged or leased using TIF proceeds between the City of Bay City and the Bay City Downtown Development Authority except through amending this plan.

Zoning, Street and Utility Changes

No changes are anticipated involving zoning, streets or utilities.

A Statement of the Ability of the Authority to Arrange Financing

The DDA may borrow money on an installment sales basis for funding public facilities as defined in PA 197 of 1975 as amended by PA 221 of 1985 and PA 280 of 1994. In addition, according to Section 7(g) of PA 197, the DDA may:

acquire by purchase or otherwise, on terms and conditions and in a manner the authority deems proper or own, convey, or otherwise dispose of, or lease as lessor or lessee, land and other property, real or personal, or rights or interests therein, which the authority determines is reasonably necessary to achieve the purposes of this act, and to grant or acquire licenses, easements, and options with respect, thereto.

In addition, according to Section 7(f) of P.A. 197 of 1975 as amended, the DDA may

make or enter into contracts necessary or incidental to the exercise of its power and the performance of its duties.

There will be sufficient tax increment revenue for parking operations and for barrier free improvements if the upper floors are fully renovated. The DDA will only finance barrier free improvements if the upper floors are redeveloped and it is demonstrated that there will be sufficient tax increment revenue for paying for these improvements during the term of the development / tax increment financing plan.

Methods of Finance and Development Agreements

The DDA may use different repayment techniques for Public Improvements. That is, public improvements may be financed by the developer with annual debt

service payments made by the DDA using Captured Annual Increments. Also, public improvements may be financed by the DDA using a variety of (but not limited to) financing sources including conventional lending, foundations and grants and other public sources including revolving loan funds. The DDA maintains the right to borrow money from other sources in anticipation of captured increments.

The developer shall finance all interior public improvements approved as barrier free improvements in a development agreement with the DDA. The cost of internal public improvements may be repaid by the DDA to the developer concurrently with the developer's overall mortgage financing. The term of repayment of these improvements shall be sufficiently long to assure that TIF revenue will be available to pay for the identified public parking development in the development area. DDA participation is only available through a signed development agreement between the DDA and the developer. Upon completion of an improved property, the developer shall document the cost of all internal public improvements to the DDA.

In order to finance the internal public improvements, the private developer and the DDA must show in the development agreement that the property improvement is of a magnitude to create sufficient tax increment revenues to pay for those public interior improvements. Public improvements may be expanded, altered or deleted as the needs of the private property improvements are refined.

The development agreement shall specify the nature, cost and timing of improvements to be made by the developer and the DDA. It shall include at least the following components:

- A written description of all phases of the project, including a summary of new commercial, office or residential space to be developed;
- A cost summary of the project, including the cost of needed interior public improvements;
- A description and cost summary of needed exterior public improvements;
- The anticipated Assessed Value of the improved property as determined by the DDA with input from the City Assessor and Finance Director;
- A projected debt retirement schedule reflecting the DDA payment to the financing sources;
- Evidence that project financing is or will likely be available for the property improvement.

Designation of Party to Whom a Portion of the Development is to be Conveyed

Improvements that may be made in order to comply with the barrier free design requirements of the State Construction Code (promulgated under the State Construction Code Act of 1972, Act No. 230 of the Public Acts of 1972, being sections 125.1501 to 125.1531 of the Michigan Compile Laws) will remain as the property of private property owners.

Procedures for Leasing, Purchasing and Conveying Property

The public improvements to the private property will be bid and purchased by the developer of the property. The finished improvements will be in compliance with the State Construction Code. Public improvements made within the public right-of-way will be bid in accordance with City of Bay City policy and procedures; and will remain in public ownership.

Number of Persons Within the Development Area

There are currently no residents within Development Area #5.

Relocation

There will no relocation of persons or businesses as a result of this development plan.

Compliance with Act No. 227 of 1972

The DDA intends to fully comply.

AMENDING DEVELOPMENT PLAN

This Development Plan may be amended from time to time as needed in order to reflect new projects and to assure timely payment of public improvements. The following conditions shall govern the amendment process:

1. The plan may be amended through the same process as its adoption; including two public hearing notices, the first being not less than 20 days prior to the hearing;
2. If, at any time, due to substantially depreciating property in the Development area, tax increments are projected to be insufficient to pay for Internal and External Public Improvements, the DDA may amend the Development plan to exclude those properties, providing that internal public improvements are not being financed within those properties;

3. Although Development Area has in the past been characterized by depreciating property values, the proposed program is projected to reverse the decline;
4. Additional public improvements may be completed without amending the Development Plan to reflect new private property improvements in the development area, providing that a development agreement is executed with the City and the additional project does not delay or diminish identified as internal and external public projects. For example, an internal public improvement may become a project, providing that a Development Agreement is executed in accordance with this plan.

CHAPTER 2 TAX INCREMENT FINANCING PLAN

Introduction

This tax increment financing plan is established to make possible the financing of the public improvements necessary for the development of Downtown Bay City in accordance with Development Plan #15 and as authorized in section 1.11.4 of Chapter 1, Development Plan. Chapter One, the Development Plan is hereby incorporated by reference as part of the Tax Increment Financing Plan (adopted 12-18-89).

Tax Increment Financing (TIF) Procedure

The TIF procedure as outlined in the Act requires the adoption by the City, by resolution, of a development plan and a tax increment financing plan. Following the adoption of the resolution, the municipal and county treasurers are required by law to transmit to the Downtown Development Authority (DDA) that portion of the tax levy of all taxing bodies paid each year on the "capture assessed value" of all property located in the development area. The amounts so transmitted are hereinafter referred to as *tax increment revenue*. The captured assessed value is defined as the amount in any year by which the current taxable value in the development area (including the taxable value that appears on the tax roll under Act 198 of the Public Acts of 1974 or Act 255 of the Public Acts of 1978) exceeds the Initial Assessed Value of all real and personal property in the development area.

The current taxable value, as finally equalized in May of 2003 is \$591,501 for real property and \$12,600 for personal property, for a total of \$604,101.

The essence of the tax increment financing procedure is as follows:

1. The public makes an investment in public improvements, and also potentially in facilities to be leased or sold to or from private owners, including the possible acquisition of options, leases, subleases and other interests in real estate as permitted by the act, for the purpose of stimulating private investment in a specific area (the development area.) The investment may be made in response to a declining business climate and tax base which the public wishes to protect and develop (adopted 12-18-89.)
2. Bonds may be issued to finance the improvements. This is not mandatory, as tax increments received may be used in any manner the authority desires, provided those uses are described in this plan. Should increments be sufficient to warrant the selling of bonds (tax

increment bonds) these bonds are retired in a manner prescribed by the authority.

3. Taxes generated from subsequent growth in the tax base of the development district are retained and utilized by the authority. This tax base is called the “captured value.” Specifically, it is the difference between the Taxable Value (TV) of the development area at any point in time and the State Equalized Value (SEV) of the area in existence at the time of the adoption of the Downtown Development Plan.
4. The taxes that are potentially available to the authority include all of the taxes normally levied by the eligible taxing jurisdictions as identified in PA 281 of 1994. The plan may provide for the use of part or all of the captured value. If the DDA chooses it may enter into agreements with each of the eligible taxing units to share a portion of the captured value of the district. Should the Authority find it necessary to use all of the captured value, it shall be clearly stated in this plan.
5. When the specified development/financing plan is accomplished, the captured value is released and the taxing units receive all the taxes levied on it from that point on.
6. Since only the growth in tax base (the captured value) in the development area is used to finance the development plan, the taxing units continue to receive their full tax levy on the District tax base in existence at the adoption of the development plan. In addition, any taxes generated by the captured assessed value beyond the amount required by the development plan are returned each year to the taxing units.

The justification of the tax increment financing procedure is based on the expectation that all or a portion of the “captured value” is created, following implementation of a downtown development plan, would not have occurred without the stimulation of the public investment involved in the plan implementation; and therefore, the short-term investment made by the taxing units in foregoing part of the initial growth in tax revenues is repaid by the long-term benefit of substantially greater taxes realized from a stronger commercial base.

The Amount of Bonded Indebtedness to be Incurred

Not applicable.

The Duration of the Program & Intent to Use TIF Revenues

It was the original intent of this development program to complete a series of public improvements within thirty (30) years following the adoption of the plan on

December 19, 1994. However, this amendment to the Tax Increment Financing Development plan will enable the DDA and the City of Bay City to sunset this plan seventeen (17) years sooner than anticipated due to a change in use of all properties from office use to individual residential condominiums.

The amendment of this plan allows for sunsetting in 2008, rather than 2025.

Total Tax Increment Revenue

The SEV of the development area has increased from \$103,850 to \$604,101 since its inception. This results in an annual captured increment of approximately \$16,390. Using a conservative 3% appreciation in value, and dependent upon the revised taxable value as finally determined after improvements, income over the next four years should yield \$70,630. This amount, coupled with the fund balance of \$108,000, allows this Development Plan to end in four years, or 2008, rather than 2025, as originally planned.

Tax Increment Income		
2003	Fund Balance	\$ 108,000.00
2004	Captured Increment	\$ 16,882.60
2005	Captured Increment	\$ 17,389.08
2006	Captured Increment	\$ 17,910.75
2007	Captured Increment	\$ 18,448.07
TOTAL Projected Income		\$ 178,631.00

Impact of TIF on Other Taxing Jurisdictions

Tax Increment Financing Issues

Tax increment financing is a potentially valuable tool for financing public improvements and encouraging increased private investment in Bay City. The financing for public improvements comes from the increase in property tax revenues generated by new private development. Since the increase in property taxes is captured by the DDA, that increase in property taxes is directed away from the other taxing jurisdictions levying a millage in the Downtown area.

The following table specifies the millage rate as levied in 1994, 1994 State Equalized Value and size of the development area's SEV as a percentage of SEV against which each taxing jurisdiction levies its millage.

Table 3: Comparison of Taxing Jurisdictions & Allowable Captured Tax Increment

Taxing Jurisdiction	Millage Levied per Taxing Jurisdiction	Millage Allowable for Capture C	Development Area: Base SEV 1994 A	Development Area: TV Estimated After Improvement B	Captured Value (B - A)	Captured Tax Increment (One Year) (C(B - A))
Bay City Schools	24.0000	0	\$ 103,850	\$ 604,101	\$ 500,251	\$ -
Bay City Schools: Debt	1.5000	0	\$ 103,850	\$ 604,101	\$ 500,251	\$ -
ISD (Intermediate School District)	4.9656	0	\$ 103,850	\$ 604,101	\$ 500,251	\$ -
Bay County	9.7626	9.7626	\$ 103,850	\$ 604,101	\$ 500,251	\$ 4,883.75
City of Bay City	20.9600	20.9600	\$ 103,850	\$ 604,101	\$ 500,251	\$ 10,485.26
City of Bay City: Debt	2.2400	0	\$ 103,850	\$ 604,101	\$ 500,251	\$ -
Delta College	2.0427	2.0427	\$ 103,850	\$ 604,101	\$ 500,251	\$ 1,021.86
Total Millage	65.4709	32.7653	\$ 103,850	\$ 604,101	\$ 500,251	\$ 16,390.87

Impact Upon Bay City Schools & Intermediate School District

As a result of Proposal "A" of 1994 and the amendments to the original DDA legislation, PA 195 of 1975, through PA 281 of 1994, there will be no impact upon the Bay City Schools or Intermediate School Districts.

Impact Upon the City of Bay City

Assuming the above discussed investment levels and zero growth rate in Downtown property tax values, the impact upon the city budget will be extremely minimal. An annual tax increment of \$10,480 will mean that less than one fifth of 1% (approximately (.17%) of the SEV of the City will be captured by the DDA. This is minimized further given that no tax base increase would be possible without the private investment enabled by the tax increment financing mechanism.

Impact Upon Bay County

The County Government levies on a tax base of 1.758 billion dollars. The capture of assessed value of this development area is less than one tenth of 1% (approximately .03%) of Bay County's total SEV. The impact upon the County is negligible. This is minimized further given that no tax base increase would be possible without the private investment enabled by the tax increment financing mechanism.

Impact Upon Delta College

Delta College currently levies 2.5427 (2003) mills against a property tax base of nearly \$10.23 billion dollars. The portion of the tax increment directed away from Delta College will be minimal (less than one hundredth of one percent – approximately .008%).

Appendix A

Comparison of Development Area SEV to Taxing Jurisdiction SEV			
Taxing Jurisdiction	Total Tax Base SEV A	Development Area SEV After Estimated Improvements B	Ratio of Development Area to Taxing Jurisdiction (B / A)
City of Bay City	\$ 367,050,150	\$ 603,850	0.1645%
Bay County	\$ 1,757,958,800	\$ 603,850	0.0343%
Delta College	\$ 7,287,466,039	\$ 603,850	0.0083%

Real & Personal Property Taxes As Equalized in May, 1994			
Property	Real	Personal	Total
Knepp's	\$ -	\$ -	\$ -
LaPorte's	\$ 48,400	\$ -	\$ 48,400
New American Café	\$ -	\$ 1,500	\$ 1,500
Ingersoll Optical	\$ -	\$ 8,400	\$ 8,400
Bay City Times (West)	\$ 26,200	\$ -	\$ 26,200
Bay City Times (East)	\$ 19,350	\$ -	\$ 19,350
Total	\$ 93,950	\$ 9,900	\$ 103,850

Appendix B

Public Hearing Notice

Appendix C

Resolution and Ordinance