

Housing TIF FAQ's

The City of East Grand Rapids is exploring whether to create a Brownfield Redevelopment Authority (BRA). The City Commission held a public hearing and passed a resolution to create the BRA at its January 2, 2025 meeting. City Commission members and citizens have been highly engaged in conversations about the BRA. This document includes questions asked during the first informational presentation to the City Commission and at the January public hearing.

The information in this document is accurate at the time of writing, but guidance is updated frequently as this program evolves at the state level. The City of East Grand Rapids will strive to keep this information current.

Background

Since 1996, the Brownfield Redevelopment Financing Act, 1996 PA 381, as amended (Act 381), has helped communities and developers reuse blighted, contaminated, tax reverted, historic, and other distressed property. Act 381 uses a development tool called Tax Increment Financing, or TIF, that lets communities reimburse property owners, developers, and local units of government for certain “eligible activities” using the developer’s own property taxes. Traditionally, eligible activities have included costs for building public infrastructure, cleaning up environmental contamination, or demolishing a blighted building for a new development, to name a few. In 2023, after years of watching housing become less and less affordable for our middle-income residents, Michigan’s legislature amended Act 381 so TIF could also be used to increase our housing supply for middle income people.

How does Tax Increment Financing (TIF) work?

The “tax increment” part of TIF is the difference between pre-development property taxes and after-development property taxes on the property where the TIF is used. For example, a former retail building on Main Street has been vacant for years and become blighted. Its property taxes are \$5,000 per year. The owner sells the blighted retail building to a developer who will build a two-story building with new retail and commercial space on the first floor and apartments on the second floor. The property taxes increase to \$50,000 per year, an increase of \$45,000. The \$45,000 in increased taxes is the *tax increment*.

If the developer received approval of a brownfield TIF plan from the City of East Grand Rapids BRA and City Commission, the developer would be reimbursed for their eligible activities (described below) for a certain number of years, up to the amount approved by the BRA and City Commission. The City of East Grand Rapids still collects the \$5,000 in original tax revenues for the duration of the brownfield plan, and when the brownfield plan is done, the local government retains the entire \$50,000.

A brownfield plan is a document in a format prescribed by the State of Michigan that must be approved by a BRA and the East Grand Rapids City Commission. A brownfield plan may be followed by an Act 381 work plan, which is approved by the State of Michigan. The Act 381 work plan is required if the state’s share of property taxes will be used to reimburse the developer, as well as local property taxes.

What is an eligible property?

A project proposed for TIF must meet two criteria: the property must be an “eligible property,” and the developer must incur costs for “eligible activities.” An eligible property is any property that is:

- Blighted
- Functionally obsolete

- Contaminated
- Historic
- A transit-oriented development or transit-oriented property
- Tax reverted and owned by a land bank authority
- Adjacent or contiguous to a property that is qualified by one of the previous listed criteria and that will increase the value of the new development (excluding housing)
- Developed with housing

Housing projects where TIF will be used must include at least one unit of housing for a household earning up to 120% of the county's Area Median Income (AMI). AMI by county, family size, and housing size [can be found here](#).

Question: Can the BRA consider the city AMI instead of the county AMI (or have more discretion about AMI beyond Michigan State Housing Development Authority (MSHDA) standards)? Kent County's AMI is significantly different than the city's.

Response: Act 381 refers to AMI as defined by the United States Housing Act of 1937, Section 8. The US Department of Housing and Urban Development [publishes AMI](#) for all counties and several metro areas, including the Grand Rapids-Wyoming metro area. The City of East Grand Rapids or its BRA can determine whether developers should use the Kent County AMI (100% AMI is \$70,500), or the Grand Rapids-Wyoming metro area AMI (100% AMI is \$100,700). AMI in the City of East Grand Rapids is significantly higher than the metro area AMI at over \$160,000.

Question: The amended Act describes "eligible properties" and expands these to include "housing properties." Does the Brownfield Plan itself the document how the property is an eligible property? Or is supplemental documentation necessary to allow the TIF capture to start / revenues to be collected?

Response: The brownfield plan must document how the property meets the statutory requirement for an "eligible property." For example, if the property is eligible because it's blighted, the determination must be made by East Grand Rapids' Zoning and Planning Office. A plan for property that is eligible as housing must include verification of appropriate zoning, but most documentation comes after construction. It must be developed as housing and the agreed number of housing units rented or sold to households earning up to 120% AMI, or the developer won't be reimbursed for eligible activities.

What is an eligible activity?

Once a property has been determined to be eligible, the next step is to identify the project's eligible activities. Act 381 defines eligible activities as:

- Public infrastructure improvements and site preparation if the property is located in a ["Core Community"](#) or owned by a land bank (East Grand Rapids is not a Core Community)
- Public and private infrastructure improvements and site preparation for housing projects
- Building and site demolition
- Environmental due diligence and due care costs, solid waste removal, environmental insurance
- Lead, asbestos, mold, and hazardous materials abatement
- Relocation of public buildings or services for economic development
- Housing development costs, which may include any of the costs above, plus renovation or rehabilitation of an existing building; acquisition of blighted or obsolete housing for rehabilitation; or a financing gap between a developer's cost to construct and ability to rent or sell units at a cost affordable to households earning up to 120% of AMI

- Interest on a loan used to pay for eligible activities, except a financing gap

Question: How can the BRA or City of East Grand Rapids ensure that the developer is only reimbursed for their actual eligible activities or the amount they really need to make the project feasible?

Response: Copies of invoices and evidence of payment must be submitted to the BRA for hard costs that can be documented (such as infrastructure, site preparation, demolition, or environmental investigations).

The financing gap can't be supported with invoices. A developer must be able to demonstrate their financing gap by showing construction costs and anticipated revenues from rents or home sales. Once a brownfield plan (and, if applicable, an Act 381 work plan) are approved, the BRA and the developer will enter into a development and reimbursement agreement, which includes mandatory annual reporting to document how many housing units have been rented or sold that calendar year to families making up to 120% of AMI. For rental projects, the developer is obligated to keep rents at or below MSHDA-mandated rents for the period of time specified in the development agreement. To show the gap on for-sale projects, the developer must document their construction cost per home and subtract the sale price of the home. In either rental or for-sale homes, if the developer does not provide documentation for the promised number of for-sale units, the developer risks losing the TIF incentive.

Brownfield plans are performance-based. They reimburse only eligible activities on eligible property. If the property isn't developed as specified in the brownfield plan or the developer doesn't incur and document eligible activities, they don't get reimbursed.

Who qualifies for housing built with help from a brownfield plan?

Act 381 limits the housing TIF incentive to homes for people earning up to 120% of AMI. AMI changes based on the household size and housing unit size. As indicated above, Kent County's AMI is much different than the Grand Rapids-Wyoming AMI or East Grand Rapids' AMI.

Question: Does a two-person household have to be 2 adults?

Response: A household can be any combination of adults and children, including people who are not related (for example, roommates constitute a household).

Question: Whose income counts toward AMI? What if one of the household members is a high school student with a summer or after-school job?

Response: [AMI includes](#) income of persons over age 18 living in the home, with some exceptions. Full time students, live-in caregivers, and some others are excluded.

Question: What if the tenant's or buyer's income increases above 120% AMI? Do they need to move out?

Response: No, the tenant or buyer will not lose their home if their income increases. Income is only verified at the time of move in or purchase of a residence subsidized by housing TIF.

Question: Does rent need to include utilities? Or in the case of a home for sale, does the payment need to include all costs associated with the home (insurance, taxes, utilities)?

Response: MSHDA rent maximums are based on 30% of AMI including utility costs. If rent does not include utilities, the rent amount needs to be adjusted to account for utilities. For example, if the MSHDA rent limit for 120% AMI is \$1,850 per month, the \$1,850 can be rent that includes utilities, or \$1,750 a month for rent and \$100 a month for estimated utilities.

MSHDA does not establish home price maximums. A buyer's combined expenses for mortgage, taxes, and insurance should be no more than 30% of their income, but each buyer's down payment, insurance costs, local

taxes, and other costs will vary. Developers of homes for sale need to work closely with realtors and lenders to verify that each buyer qualifies.

Why do we need to provide this incentive for housing?

A lot of factors have created the perfect storm for housing in Michigan and across the country.

- The housing crash in 2008-2009 reduced construction of new homes in Michigan from 54,721 housing permits in 2004 to fewer than 10,000 a year from 2009 to 2011, to 21,732 in 2021.
- With new home construction greatly reduced, many of our skilled construction workers left Michigan for other states.
- Our housing stock is aging: 61% of homes in Michigan were built before 1980.
- Between 2014 and 2023, one new housing unit was built for every six new jobs created in the United States. In Michigan, that ratio was one new housing unit for every 14 new jobs. Job opportunities are growing in Michigan, but housing supply is not.
- The cost of construction materials and wages for skilled construction labor have increased over the last few years.
- Builders make more money building larger, more expensive houses, so construction of homes for middle income residents has lagged.

Construction of new homes for households at 80% to 120% of AMI has decreased because the dollars don't work. A modest home costs more to build than a developer can sell it for. If a developer or builder can't make enough money to cover their costs, they don't build those homes.

Question: Act 381 says that a brownfield plan must show that the community has a "housing need." How does a developer demonstrate a housing need?

Response: Housing need may be demonstrated with:

- A housing needs assessment ([here's a 2022 needs assessment for Kent County](#), and here is a [statewide housing needs assessment](#))
- The city's [master plan](#)
- A housing plan adopted by the City of East Grand Rapids

Question: If TIF subsidizes construction costs, how long will rents or home prices stay low? Can the duration of rent / home cost reduction be extended? How can resale of homes be controlled to prevent flipping?

Response: The term for rent controls is negotiable between the BRA and the developer. MSHDA says only that the term must be "reasonable," and they rely on the community to decide what's reasonable. Depending on the eligible activities and the developer's need, rents could be controlled for the duration of the TIF, or for less time – it just needs to be reasonable. The development and reimbursement agreement will control the duration of rent controls. When the term specified in the development and reimbursement ends, the developer is no longer obligated to offer rents at MSHDA rates or to verify tenant incomes. The City of East Grand Rapids could provide a different incentive to keep rents at a reduced rate, but the brownfield plan is limited to no more than 30 years or the duration of eligible activity reimbursement.

Homes built with TIF assistance must be sold to a household earning up to 120% of AMI, but once a house is sold, controlling resale becomes challenging. The city or BRA could put a deed restriction on a home so that it must be resold to another household that meets the income qualification, and/or it could require a portion of the home's increased value to be paid to the BRA upon sale and the revenue passed on to the next buyer in the form of a

reduced sale price. Once homes are sold, implementation or enforcement of deed restrictions would become the BRA's or city's responsibility.

Question: Who verifies that a tenant or buyer's income does not exceed 120% of AMI? How often are incomes verified?

Response: The owner of a rental property must verify household incomes at the time of rental to a new tenant. Once a tenant has moved in, their income does not need to be verified again. If their income goes up, they are not required to leave their home.

If TIF is used on homes for sale, developers will need to work with the buyer's lender and realtor to ensure that the buyer meets income qualifications at the time of purchase.

Question: TIF includes state and local taxes. If only local taxes are captured, does the project still have to comply with the 120% AMI requirements?

Response: Most housing eligible activities require housing units to be restricted to families earning up to 120% of AMI whether it uses state taxes or only local taxes. There are exceptions under Act 381, and the BRA and the city can determine whether they are willing to support using local taxes for residential development that is not income limited.

Although the statute does not require all housing development costs to serve income limited residents, MSHDA is unlikely to approve state TIF for a project that doesn't have a reasonable number of units reserved for families earning up to 120%.

Question: What percent of TIF projects are homes for sale vs. for rent?

Response: Overwhelmingly more rentals. The incentive can be more challenging to use with homes for sale, especially for small development projects, since state taxes on a principal residence are significantly lower than taxes on a rental. This means there's less tax to TIF and the project may not generate enough taxes to be feasible.

Question: Is there a minimum number of housing units required?

Response: Act 381 requires at least one housing unit priced for a household earning up to 120% AMI for most eligible activities. While building one housing unit may meet Act 381 requirements, the project's finances may not work with a small number of housing units, and as described above, MSHDA, a BRA, or the city may not consider one housing unit "reasonable" for their approval of TIF for eligible activities.

What is the process for brownfield plan approval and implementation?

Question: How does a Brownfield Plan get approved?

Response: It depends on the BRA's procedures, which in East Grand Rapids have not yet been created. The process typically begins with a conversation between a developer and a local official, such as the city manager, to determine local support for the project. The developer may be invited or approved to apply for TIF, depending on the BRA's policies. The developer or their consultant creates brownfield plan using a template provided by the State of Michigan. The plan must be consistent with Act 381. The brownfield plan is reviewed and may be recommended for approval by the BRA, and approved by the East Grand Rapids City Commission.

Question: How many years is TIF captured under a brownfield plan?

Response: Until the developer and other parties are fully reimbursed for their eligible activities, and/or for a set duration agreed to by the developer and BRA, whichever comes first. The duration and TIF amount are recorded in

the development and reimbursement agreement. Under Act 381, a brownfield plan can capture taxes for no longer than 30 years, but can be in place for 35 years if capture is delayed for up to 5 years.

Question: Can a local taxing jurisdiction opt out of TIF?

Response: Generally, no. TIF is made up of all ad valorem property taxes and specific taxes attributable to those ad valorem property taxes with limited exceptions. Debt millages and special assessments cannot be captured under a brownfield plan. If other financing authorities such as a downtown development authority, a tax increment financing authority, a corridor improvement authority, or local development finance authority exist within the project area, an interlocal or pass-through agreement should establish which financing authority will capture those taxes or whether TIF revenues will be shared.

Question: How is the future taxable value (post-development) determined?

Response: Generally, local tax assessors estimate a future taxable value and provide it to the developer / their consultant for a brownfield plan. When a local assessor is unable to provide an estimate, 40-50% of the construction cost can be used to estimate the future taxable value of a property.

Question: TIF is collected for the duration of a brownfield plan which can be as long as 30 years. How does the developer pay for the project up front?

Response: Development costs are up to the developer to finance. They can use bank loans, grants, equity, or other public or private sources. Some BRAs and the State of Michigan provide grants or loans for eligible activities, or the local government may share costs for public infrastructure. Whoever pays for eligible activities is reimbursed for their costs over time from the tax increment collected through the paid property taxes. Interest on loans for eligible activities is itself an eligible activity that may be approved by a BRA.

Question: How can a plan estimate what taxes or property values will be 10 or 20 years from now? Are brownfield plans really reliable?

Response: Tax rates change over time and property values may increase or decrease. Projects may not be built according to original plans or completed on time. Construction costs change. Developers, assessors, and BRAs are all using the best information available to them to determine building costs and tax revenues, but ultimately all the numbers in a brownfield plan estimates. Reimbursements are made on documented costs and actual tax increment revenues received.

Question: What's a Local Brownfield Revolving Fund (LBRF)?

Response: The East Grand Rapids BRA may choose to create an LBRF to issue grants or loans to help a developer pay for eligible activities. The LBRF is funded with local and state TIF revenues (when applicable) from a project after the developer's eligible activities costs are reimbursed. The revenues placed into the LBRF can then be loaned out or given as grants to other developers to help pay for eligible activities at an eligible property. TIF can be captured for the LBRF for up to five years, and the plan is still limited to no more than 30 years of total capture.

Other resources:

- MSHDA's housing TIF website includes more information about housing TIF and two FAQs. It is [located here](#).
- Non-housing TIF information can be found on the Michigan Economic Development Corporation's [website](#) and Michigan Department of Environment, Great Lakes, and Energy's [website](#).