October 22, 2020

Memorandum

Brownfield Redevelopment Authority of the City of East Lansing (the "Authority")

Request for Proposals
For Direct Purchase or Private Placement of (the "RFP"):

$14,650,000* Limited Obligation Tax Increment Revenue Refunding Bonds, Series 2020A (Tax-Exempt)

$14,660,000* Limited Obligation Tax Increment Revenue Refunding Bonds, Series 2020B (Taxable)

To: Potential Proposer or Purchaser

From: **Brownfield Redevelopment Authority of the City of East Lansing**

Thomas J. Fehrenbach
Director, Department of Planning, Building, & Development
City of East Lansing

RE: Requests for further information regard the Authority's RFP

Below is a list of questions and requests for further information that were asked in response to the Authority's RFP. Each question is shown in bold followed immediately by its respective answer from the Authority.

Thank you for your time and consideration in fielding a response to the Authority's RFP.

Q: **What is the source of and basis for the Schedule of Projected Tax Increment Revenues available for Debt Service? Has the BRA engaged, or would it be willing to engage an independent third-party economic consultant to perform a revenue study/analysis for the City Center Brownfield Plan No. 24 to provide additional comfort to potential investors? Is historical taxable value information for East Lansing's DDA available that can be shared to support the growth projections inherent in these revenue projections?**

A: The Brownfield Redevelopment Authority ("BRA") Plan #24's 2020 Taxable Value, Base Taxable Value and Captured Value are from the Ingham County Equalization report "DDA Report – Current Year" dated June 16, 2020. The 2020 captured summer millages are taken from the taxing jurisdictions 2020 L4029s. The captured winter millages are estimates based on taxing jurisdictions 2019 L4029s, 2020 Headlee rollback information and approved millage elections in 2020. The assumed future taxable value growth of 1.50% is based on the estimate as shown in the "Table 2. Tax Increment Revenue Estimates" of BRA Plan #24. In the table

***** Preliminary, subject to change.***

below is a ten (10) year history of the East Lansing Downtown Development Authority Taxable Value.

Year	Taxable Value	Annual Change (%)
2011	$70,092,080	
2012	68,489,230	-2.29%
2013	68,726,400	0.35%
2014	72,907,710	6.08%
2015	73,767,810	1.18%
2016	74,093,678	0.44%
2017	77,541,381	4.65%
2018	83,208,342	7.31%
2019	94,928,662	14.09%
2020	133,932,526	41.09%

A Proposer can engage an independent third-party economic consultant at its own cost

Q: Is there a provision within the current or contemplated documents/agreements that would mitigate risk from the concentrated ownership interest in the properties within the Brownfield Plan No. 24? Alternatively, is there flexibility to allow for terms to address reassessment risk associated with the concentration of control of the development? (i.e. a Developer covenant to not appeal property tax assessment)

A: Per Tax Counsel, Miller, Canfield, Paddock, Stone PLC, a property owner covenant to not appeal its taxable value would eliminate the ability to issue tax-exempt debt.

Q: How will the "aggregate yield" on the 2020 Bonds be calculated for the purpose of determining that it does not exceed the 5.0% limitation provision within the Interest Rate section of the RFP? Additionally, what is the rationale for including 5.0% interest rate cap and in the event a market rate for the 2020 Bonds exceed this threshold can the BRA waive or increase this requirement?

A: The aggregate yield will be calculated using the industry standard True Interest Cost ("TIC") calculation which incorporates the upfront purchaser costs and ongoing debt service for both the tax-exempt and taxable refunding bonds. These cash flows will be discounted to the dated date of the refunding bonds by the combined proceeds of the refunding bonds. The maximum interest rate stated in the Act 381 plan was 5% and the coupon on the outstanding Series 2017 Bonds is 5%. The BRA holds the right to waive any requirement of the RFP.

Q: Does the BRA or the City of East Lansing anticipate that either the requested change to the allowable use or alternatively, the maintenance of the requirement for senior living in Newman Lofts would impact the projected taxable value of that property?

A: "In Michigan, property is valued at its highest and best use for property tax purposes. Put simply, highest and best use is the reasonably probable and legal use that results in the greatest profitability. So if the legal (i.e., permitted) use of the senior housing parcel is altered, it could definitely have an effect on the parcel's value. Obviously, a change to allow a less restrictive use would likely have a positive effect on the parcel's market value (although taxable value increases would be capped at the lesser of rate of inflation or 5%); continuation of the restrictive use could result in a taxable value decrease." - David Lee, City Assessor, City of East Lansing

Q: In the Fees and Expenses section, it states the various roles for which the Authority will pay the associated fees and expenses from bond proceeds, including the "Consultant." What is the functional role of the Consultant and how does it relate to the City's proposed refunding bonds?

A: In the resolution authorizing the Limited Obligation Tax Increment Revenue Refunding Bonds, paragraph 1, the BRA authorized an amount not to exceed $140,000 "for expenses incidental to the financing that are not to be paid to advisors to the Authority (including the placement agent and Trustee). The Consultant's fee would compensate Robert W. Baird & Co. Incorporated, who is engaged by the Developer and bondholder of the 2017 Limited Obligation Tax Increment Bonds, falls under the $140,000 cap.

Q: Given that a Proposer to the RFP as a placement agent is required to make a firm commitment and identify the ultimate Purchaser as part of its proposal within 2 weeks under the prescribed schedule without a final structure, documents, etc. how would the BRA anticipate facilitating additional due diligence, structuring, and negotiation of terms?

A: The BRA is willing to provide additional information required for reasonable due diligence, however the information within the RFP and period for submission of questions by bidders was meant to serve as the main source of due diligence for a potential purchaser. Given a form of the Indenture for the Series 2020 A & B Bonds has been provided in the RFP, the BRA expects any exceptions required by the Purchaser would be identified in the Proposer's or Purchaser's proposal. Additionally, the BRA is requesting that any representations, warranties or covenants required by the Placement Agent or Purchaser be specifically stated in the submitted proposal. In doing so, it will reduce the time required for negotiations after the proposal due date and closing.

Q: Market convention may necessitate the 2020 Limited Obligation Tax Increment Revenue Refunding Bonds incorporate a Debt Service Reserve (DSR) given the security is comprised solely of the Tax Increment Revenue from Brownfield Plan No. 24. It appears the 2017 Indenture contemplates a DSR Requirement for the Proposed Refunding Bonds but exempts the 2017 Bonds from the DSR Requirement. Can you confirm that is the case and whether a DSR was funded for the 2017 Bonds that could be transferred to this issue?

A: A Debt Service Reserve Fund was not funded for the Series 2017 Bonds. The BRA is willing to consider the funding of a Debt Service Reserve Fund on the Series 2020 A & B Bonds to the extent it is a requirement of an acceptable bid or proposal.

Q: In Exhibit A, number 2 under the Required Information requests interest rates by maturity and the "methodology of terminating the proposed interest rate(s)." Is the word "terminating" intended to be "determining"?

A: Correct.

Q: In the event projected revenue is insufficient to cover a full refunding of the 2017 Bonds, would the developer/2017 bondholder consider holding a subordinate note that would accrue until the refunding bonds are fully retired?

A: Any proposal properly submitted that provides adequate detail, description and financial analysis would have to be reviewed by the bondholder of the 2017 Bonds, not the Developer.