

Office of the Auditor General
Performance Audit Report

Brownfield Redevelopment Financing Program
Department of Environment, Great Lakes, and Energy and
Michigan Strategic Fund, Department of Labor and Economic Opportunity

April 2021

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The auditor general may make investigations pertinent to the conduct of audits.

Article IV, Section 53 of the Michigan Constitution



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Office of the Auditor General

Report Summary

Performance Audit

Report Number:
186-0420-20

Brownfield Redevelopment Financing Program

Department of Environment, Great Lakes, and Energy (EGLE) and Michigan Strategic Fund (MSF), Department of Labor and Economic Opportunity

Released:
April 2021

The Brownfield Redevelopment Financing Act, Public Act 381 of 1996, as amended, authorizes municipalities to create brownfield redevelopment authorities to facilitate the implementation of brownfield plans and promote revitalization of eligible properties through the use of tax increment financing (TIF) for eligible activities. The Act prescribes the powers and duties of, and the related requirements and criteria for, the brownfield redevelopment authorities, EGLE, and MSF. This performance audit was required by Section 125.2666(6) of the *Michigan Compiled Laws*.

Audit Objective			Conclusion
Objective #1: To assess the effectiveness of the Brownfield Redevelopment Financing Program to increase the taxable value of eligible brownfield properties.			Effective
Findings Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
None reported.	Not applicable.		

Audit Objective			Conclusion
Objective #2: To assess the effectiveness of EGLE's and MSF's efforts to administer the Program.			Effective
Findings Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
None reported.	Not applicable.		
Observations Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
See <u>Observation #1</u> within Objective #3.	Not applicable for observations.		

Audit Objective			Conclusion
Objective #3: To assess EGLE's and MSF's compliance with statutory reporting requirements.			Complied
Findings Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
None reported.	Not applicable.		
Observations Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
Statutory amendments are needed to establish oversight and enhance annual reporting (<u>Observation #1</u>).	Not applicable for observations.		

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Doug A. Ringler, CPA, CIA
Auditor General

April 21, 2021

Ms. Liesl Eichler Clark, Director
Department of Environment, Great Lakes, and Energy
Constitution Hall
Lansing, Michigan
and
Ms. Susan R. Corbin, Acting Director
Department of Labor and Economic Opportunity
300 North Washington Square
Lansing, Michigan
and
Mr. Jeff Noel
President, Michigan Strategic Fund
Chair, Michigan Strategic Fund Board of Directors
300 North Washington Square
Lansing, Michigan

Dear Ms. Clark, Ms. Corbin, and Mr. Noel:

This is our performance audit report on the Brownfield Redevelopment Financing Program, Department of Environment, Great Lakes, and Energy and Michigan Strategic Fund, Department of Labor and Economic Opportunity. This performance audit was required by Section 125.2666(6) of the *Michigan Compiled Laws*.

We appreciate the courtesy and cooperation extended to us during this audit.

Sincerely,

Doug Ringler
Auditor General

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AUDIT OBJECTIVES, CONCLUSIONS, FINDINGS, AND OBSERVATIONS

INCREASING TAXABLE VALUE OF ELIGIBLE PROPERTIES

BACKGROUND

The goal* of the Brownfield Redevelopment Financing Program is to promote the revitalization, redevelopment, and reuse of eligible properties*. The expectation is that the redevelopment of an area will lead to additional investment, increased economic activity, and the general reputation of a location as a desirable place to live and work.

In accordance with the Brownfield Redevelopment Financing Act, Public Act 381 of 1996, as amended (Sections 125.2651 - 125.2670 of the *Michigan Compiled Laws*), as the values of redeveloped properties increase, brownfield redevelopment authorities* (BRAs) are allowed to capture incremental local tax* and school property tax revenues to pay for the costs of eligible activities* associated with the redevelopment of those properties.

As of August 5, 2020, the Michigan Strategic Fund's (MSF's) Salesforce database contained 700 brownfield projects that were reported by the BRAs at some time subsequent to calendar year 2013 as involving the capture of tax increment financing* (TIF) of taxes levied for school operating purposes* (school TIF), including 105 and 305 for which the project status was "project complete" or "construction complete," respectively.

AUDIT OBJECTIVE

To assess the effectiveness* of the Program to increase the taxable value of eligible brownfield properties.

CONCLUSION

Effective.

FACTORS IMPACTING CONCLUSION

- The total current taxable value of the 700 brownfield projects, as reported by BRAs, was \$1.4 billion (158%) higher than the total initial taxable value:
 - 84% of the projects reported higher current taxable values.
 - 16% of the projects reported lower or no change in the current taxable values.

* See glossary at end of report for definition.

ADMINISTERING THE PROGRAM

BACKGROUND

The Department of Environment, Great Lakes, and Energy (EGLE) and MSF each conduct outreach activities with local governments and BRAs to promote TIF and encourage the revitalization of eligible properties.

BRAs must submit a work plan*, a copy of the approved brownfield plan*, and other required information to obtain EGLE or MSF approval to capture school TIF. The work plan must meet specific criteria including identifying eligible properties and eligible activities.

EGLE approval is required for BRA work plans involving environmental activities. These activities include baseline environmental assessment* activities, due care activities*, and additional response activities*. For calendar years 2017 through 2019, EGLE approved 66 work plans (see Exhibit #1).

MSF approval is required for BRA work plans that do not involve environmental activities. The eligible activities include infrastructure improvements that directly benefit eligible property; demolition of structures not including response activities* under part 201 of the Natural Resources and Environmental Protection Act; lead or asbestos abatement; site preparation; relocation of public buildings or operations for economic development purposes; or acquisition of property by a land bank fast track authority if the acquisition is for economic development purposes. For calendar years 2017 through 2019, MSF approved 84 work plans, including 2 work plans related to transformational brownfield plans* (see Exhibit #1).

See Exhibit #2 for a flow chart of the Program processes, including the approval processes.

AUDIT OBJECTIVE

To assess the effectiveness of EGLE's and MSF's efforts to administer the Program.

CONCLUSION

Effective.

FACTORS IMPACTING CONCLUSION

- EGLE and MSF each have Web sites that promote brownfield redevelopment activities, including information about how to establish a BRA, work plan and TIF templates, and other Program resources.
- EGLE utilizes brownfield coordinators and MSF utilizes Community Assistance Teams* (CATs) to educate local governmental entities regarding TIF and other funding

* See glossary at end of report for definition.

options, match potential developers with brownfield redevelopment properties, assist BRAs with identifying potential eligible properties, and provide technical assistance to BRAs for developing work plans.

- Local governmental entities have established BRAs in all geographic sectors of the State, including all core communities* with populations greater than 2,100.
- EGLE and MSF provided guidance documents to assist BRAs with preparing and submitting work plans.
- For the 17 work plans that we tested, including 2 work plans related to transformational brownfield plans, EGLE's and MSF's processes ensured that the plans:
 - Were reviewed and approved in a timely manner.
 - Related to eligible properties (qualified as a facility*; were functionally obsolete property*, blighted property*, a historic resource, or transit-oriented property/development; or were within a targeted redevelopment area) and identified only eligible activities for school tax capture.
 - Included all required documentation.
- EGLE had a process to audit the accuracy of the information reported by the BRAs on a sample basis; however, EGLE's efforts to conduct audits were limited without legislative authorization (reported in Observation #1 within Objective #3).

* See glossary at end of report for definition.

COMPLIANCE WITH STATUTORY REPORTING REQUIREMENTS

BACKGROUND

The Brownfield Redevelopment Financing Act requires a BRA to report to EGLE and MSF the financial status of its activities for the prior calendar year, including local projects. The Act also requires EGLE and/or MSF to:

- Review submitted work plans and determine whether activities are allowable, estimated costs appear reasonable, and the project is beneficial to the community.
- Approve or disapprove the submitted work plans.
- Post all projects approved in the preceding quarter to their Web sites.
- Submit an annual legislative report on the status of brownfield redevelopment projects based on information submitted by the BRAs.

Although the Act contains reporting provisions, the data is self-reported by each BRA. EGLE has a process to validate a portion of the data; however, we noted several errors or omissions in the legislative report. The Act does not prescribe any penalties in the event that a BRA does not submit data to EGLE or MSF or submits data that may be incomplete or inaccurate. See Observation #1 related to limitations of the Act and related processes.

AUDIT OBJECTIVE

To assess EGLE's and MSF's compliance with statutory reporting requirements.

CONCLUSION

Complied.

FACTORS IMPACTING CONCLUSION

- EGLE and MSF's annual legislative reports for calendar years 2017 and 2018 contained all of the required reporting elements.
- MSF collected annual reporting information from 280 (99.3%) of the 282 BRAs for calendar year 2017 and from 286 (99.0%) of the 289 BRAs for calendar year 2018 and identified 2 of the 3 noncompliant BRAs in the calendar year 2018 annual report.
- MSF provided guidance documents to assist the BRAs with reporting requirements.
- EGLE posted required project information to its Web site for all of the 27 projects that it approved during the 4 quarters that we reviewed. MSF posted required project information

to its Web site for 57 (96.6%) of the 59 projects that it approved during the 7 quarters that we reviewed.

- EGLE had a process to audit the accuracy of the information reported by the BRAs on a sample basis; however, EGLE's efforts to conduct audits were limited without legislative authorization (Observation #1).

OBSERVATION #1

Statutory amendments needed to establish oversight and enhance annual reporting.

The Brownfield Redevelopment Financing Act promotes revitalization, redevelopment, and reuse of select properties through the use of TIF. From January 2017 through December 2019, BRAs reported capturing \$59.3 million and \$108.3 million (\$19.8 million and \$36.1 million per year, on average) of school and local TIF, respectively.

Statutory amendments are needed to establish Program oversight responsibilities and enhance the usefulness of the brownfield redevelopment project information reported by the nearly 300 BRAs and included in the annual legislative report. Subsequent to our audit period, legislative changes were enacted which address some of the concerns noted below.

Our review of the Act and EGLE and MSF's work plan submittal, approval, and reporting processes disclosed:

- a. The Act requires each BRA to submit an annual financial report on the status of its activities for each calendar year. The Act also requires EGLE and MSF to collect and compile the reports into an annual report for the Legislature. However, the Act does not:
 - (1) Identify a specific State entity responsible for oversight of the Program. The Act requires that EGLE and/or MSF approve BRA work plans that involve capture of school TIF; however, it does not:
 - (a) Provide EGLE or MSF with an enforcement mechanism to effectively monitor a BRA's compliance with the approved work plans or the amount of TIF captured.
 - (b) Provide EGLE or MSF with the authority to audit a BRA's project costs to ensure that it captures TIF funding for only eligible activities.
 - (c) Prescribe any penalties against BRAs who do not submit, or submit incomplete or inaccurate, financial reports to EGLE or MSF.

The importance of providing EGLE, MSF, or another State entity with oversight authority is significant because BRAs are otherwise not required to provide documentation to validate the data reported in Salesforce and included in the annual legislative reports. We noted that EGLE, in conjunction with MSF, implemented a process to review and validate key project information reported by BRAs, including initial taxable values, current taxable values, tax increment revenues*

* See glossary at end of report for definition.

captured, expenditures, square footage data, and construction draw information. However, EGLE was not always successful in obtaining the necessary supporting documentation from the BRAs. We noted that for 2 of the 15 projects that EGLE selected for review for calendar year 2018, the BRAs did not respond to EGLE's requests for documentation necessary to verify the project's information.

Our review of data reported in Salesforce by BRAs for calendar years 2013 through 2018 noted inconsistencies and discrepancies which raise concerns with the accuracy of the self-reported data including:

- For at least 44 projects, BRAs reported in Salesforce that the projects involved school TIF, and in subsequent years, they reported them as "local only" TIF projects.
- For 10 projects that we reviewed, the initial taxable value amounts identified in the work plans for 5 projects and the current taxable value amounts that we obtained from the respective local tax assessor offices for 4 projects did not match the data reported in Salesforce by the BRAs. Although 4 of the 9 individual discrepancies exceeded 10% of the respective values, the combined discrepancies were not significant to the combined respective values for the 10 projects.
- 9 projects (including 6 local only projects) for which the BRAs reported in Salesforce that the tax capture was complete, yet reported the project status as other than "project complete" (1 as "under construction" and 8 as "construction complete").

(2) Require BRAs to report:

- (a) Cumulative approved and captured TIF amounts by project and source.
- (b) Cumulative total expenditure amounts by project.
- (c) Amendments to projects that may impact approved local TIF amounts.
- (d) Terminated projects.

Beginning with the calendar year 2018 reporting cycle, MSF requested that BRAs report total approved TIF amounts for all projects approved during calendar year 2017 or later and updated Salesforce to calculate cumulative captured TIF amounts for all reported projects. Also, subsequent to our audit period, Public Act 259 of 2020 was enacted, effective December 29, 2020, to require reporting of the information noted in parts a.(2)(a) and a.(2)(c).

- b. BRAs did not always report school and local brownfield redevelopment project information beginning in the year of project approval or the status and other required information for all of their approved projects. We identified that:
- (1) 51 (68.9%) of the 74 projects that were approved during calendar years 2017 and 2018 to capture school TIF were not included in the annual report in the year that they were approved.
 - (2) 21 (43.8%) of the 48 projects that were approved in 2017 were also not included in the 2018 annual report.
 - (3) 5 projects (including 3 local only projects) had a project status other than "project complete" (1 was "under construction," 3 were "construction complete," and 1 was "construction not started") in Salesforce, and the BRAs had subsequently not reported project data for 2 to 5 years. Also, the BRAs had previously reported tax capture amounts for these projects and had not reported that tax capture was complete when last reported.

EGLE and MSF do not include projects in the annual report to the Legislature unless the BRAs reported project information in Salesforce for the year. Exhibit #3 includes 33 BRAs that had not reported information for 73 of the 150 projects that were approved during calendar years 2017 through 2019.

Although some BRAs have reported annual data prior to beginning tax capture, EGLE, MSF, and a significant number of BRAs have interpreted the legislative language of "submit annually. . . a financial report on the status of the activities of the authority for each calendar year." to require annual reporting for a project only after tax capture activity begins. Also, although MSF monitors to identify whether BRAs report annually, MSF did not determine whether BRAs reported the status of, and all required information for, all of their projects.

Subsequent to our audit period, Public Act 259 of 2020 was enacted, effective December 29, 2020. We believe this legislation addresses the concerns noted in part b.; however, EGLE and MSF indicated that they will continue to interpret the statute to require reporting only after tax capture activity begins.

- c. In the annual report, EGLE and MSF are not required to and did not identify:
- (1) Approved TIF amounts.
 - (2) Excess TIF amounts captured.
 - (3) Impact of project amendments on approved local TIF amounts.

We reviewed 25 of the 100 oldest brownfield redevelopment projects identified in EGLE and MSF's annual report for calendar year 2018. We identified:

- 1 project for which \$276,367 of school TIF was inappropriately captured, representing 86.8% of the total amount approved for capture under the work plan and the Act. Upon further examination, we determined that the BRA had self-identified the error and the BRA asserted to us that the over capture was fully repaid in 2014.
- 1 project for which \$48,800 of school TIF and 8 projects (5 BRAs) for which \$1,577,452 in local TIF were captured in excess of the amounts approved by EGLE and/or MSF in the work plans. These excess funds captured represented 18.7% and 85.7%, respectively, of the TIF capture amounts approved under the work plans.

TIF captured in excess of the approved work/brownfield plan amounts does not necessarily represent inappropriate capture. Within certain parameters, Section 125.2658 of the *Michigan Compiled Laws* allows BRAs to capture and deposit excess TIF into their local brownfield revolving fund. Upon further examination of the 1 project with excess school capture, we determined that the \$48,800 of excess school capture and \$248,754 of the excess local capture noted above were allowable. We did not pursue the remaining \$1,328,698 of excess local capture. Also, as indicated in part a.(2)(c) of this observation, BRAs are not required to report the impact of project amendments on approved local TIF amounts. Therefore, amendments may exist that could reduce some of the excess local TIF amounts captured.

Subsequent to our audit period, Public Act 259 of 2020 was enacted, effective December 29, 2020, to require reporting of the information noted in part c. However, the excess capture calculation may still not be reliable because, although EGLE and MSF require BRAs to report tax capture amounts in total for amounts captured prior to calendar year 2013, they indicated that they do not intend to require BRAs to report tax capture amounts, by source, for amounts captured prior to calendar year 2013.

Although the revised reporting requirements included in Public Act 259 of 2020 should alleviate some of the concerns identified in this observation, additional legislative changes are needed to enable the State to fully monitor the Program and assist those charged with governance in evaluating the strategic direction of the Program. These include:

- Identifying a specific State entity responsible for oversight of the Program.
- Providing the responsible entity with an enforcement mechanism, including the ability to audit and assess penalties.
- Requiring BRAs to report cumulative total expenditure amounts, by project.
- Requiring BRAs to report terminated projects.

We did not report this as a finding because EGLE and MSF were not required to perform the oversight and reporting addressed in this observation during our audit period.

SUPPLEMENTAL INFORMATION

UNAUDITED
Exhibit #1

BROWNFIELD REDEVELOPMENT FINANCING PROGRAM
Department of Environment, Great Lakes, and Energy and
Michigan Strategic Fund, Department of Labor and Economic Opportunity

Work Plans Approved and TIF Authorized
by County and Brownfield Redevelopment Authority
January 2017 Through December 2019

Work Plans Related to Non-Transformational Brownfield Plans

County	Brownfield Redevelopment Authority	EGLE		MSF	
		Number	TIF*	Number	TIF*
Allegan	City of Holland	2	\$ 517,635		\$
Bay	City of Bay City			1	1,561,866
Berrien	City of Niles	1	4,744,420		
Calhoun	City of Battle Creek			1	2,426,600
Cass	City of Niles			1	34,800,264
Charlevoix	County of Charlevoix	1	188,475		
Cheboygan	City of Cheboygan			1	320,128
Genesee	City of Flint			1	2,281,166
Grand Traverse	County of Grand Traverse	1	68,600	2	3,219,393
Gratiot	County of Gratiot			1	12,200,000
Ingham	City of East Lansing	2	416,984	2	54,836,786
Ingham	City of Lansing	3	1,755,891	7	11,393,041
Jackson	City of Jackson			1	757,679
Jackson	County of Jackson	1	160,075		
Kalamazoo	City of Kalamazoo	4	951,522	6	13,142,706
Kalamazoo	County of Kalamazoo	3	1,066,858	3	28,501,719
Kent	Charter Township of Grand Rapids	2	1,314,365		
Kent	City of Grand Rapids	5	1,845,903	13	64,294,714
Kent	City of Kentwood	1	3,815,978		
Leelanau	County of Leelanau	1	1,198,300		
Lenawee	City of Tecumseh	1	27,419,046	1	1,447,584
Macomb	City of Sterling Heights	1	4,797,200		
Marquette	City of Marquette	2	786,001	1	271,608
Muskegon	City of Muskegon	3	1,018,260	1	329,732
Oakland	City of Birmingham	2	911,758		
Oakland	City of Farmington Hills	1	416,416		
Oakland	City of Ferndale	1	220,510	2	26,911,156
Oakland	City of Hazel Park	1	12,722,495	1	21,436,910
Oakland	City of Rochester	1	1,349,787		

This exhibit continued on next page.

BROWNFIELD REDEVELOPMENT FINANCING PROGRAM
Department of Environment, Great Lakes, and Energy and
Michigan Strategic Fund, Department of Labor and Economic Opportunity

Work Plans Approved and TIF Authorized
by County and Brownfield Redevelopment Authority
January 2017 Through December 2019

County	Brownfield Redevelopment Authority	EGLE		MSF	
		Number	TIF*	Number	TIF*
Oakland	City of Rochester Hills	1	\$ 9,584,996		\$
Oakland	City of Troy	1	2,761,220		
Oakland	County of Oakland	4	13,341,203	7	36,918,851
Oakland	Township of Waterford			1	12,864,514
Oakland	Village of Milford	1	601,114		
Ottawa	City of Holland			3	24,819,512
Saginaw	City of Saginaw	1	41,602		
Saginaw	County of Saginaw	1	105,920		
Shiawassee	County of Shiawassee			1	988,500
St. Clair	County of St. Clair	2	690,759		
Van Buren	County of Van Buren	1	201,675		
Washtenaw	County of Washtenaw	6	16,160,546	3	10,470,559
Wayne	City of Detroit	7	5,233,605	17	248,645,137
Wayne	City of Wayne	1	135,720		
Wayne	City of Wyandotte			1	3,808,045
Wexford	City of Cadillac			3	1,128,580
	Subtotal	66	\$ 116,544,839	82	619,776,750

Work Plans Related to Transformational Brownfield Plans

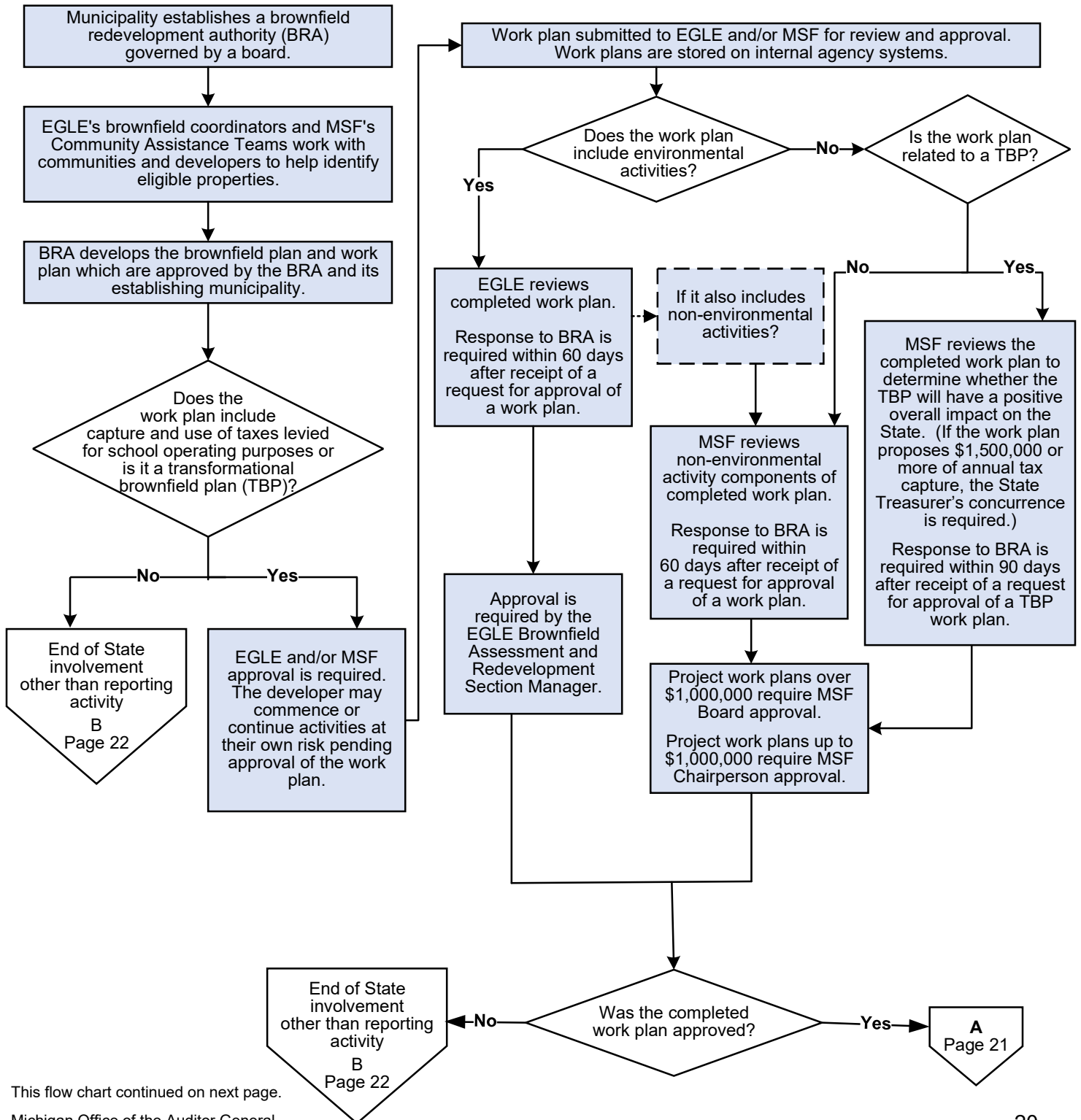
County	Brownfield Redevelopment Authority	EGLE		MSF	
		Number	TIF*	Number	TIF*
Kalamazoo	County of Kalamazoo			1	30,074,426
Wayne	City of Detroit			1	618,019,167
	Subtotal	0	0	2	648,093,593
	Total	66	\$ 116,544,839	84	\$ 1,267,870,343

* Includes school and local TIF amounts.

Source: The OAG prepared this exhibit based on data obtained from EGLE and MSF.

BROWNFIELD REDEVELOPMENT FINANCING PROGRAM
Department of Environment, Great Lakes, and Energy (EGLE) and
Michigan Strategic Fund (MSF), Department of Labor and Economic Opportunity

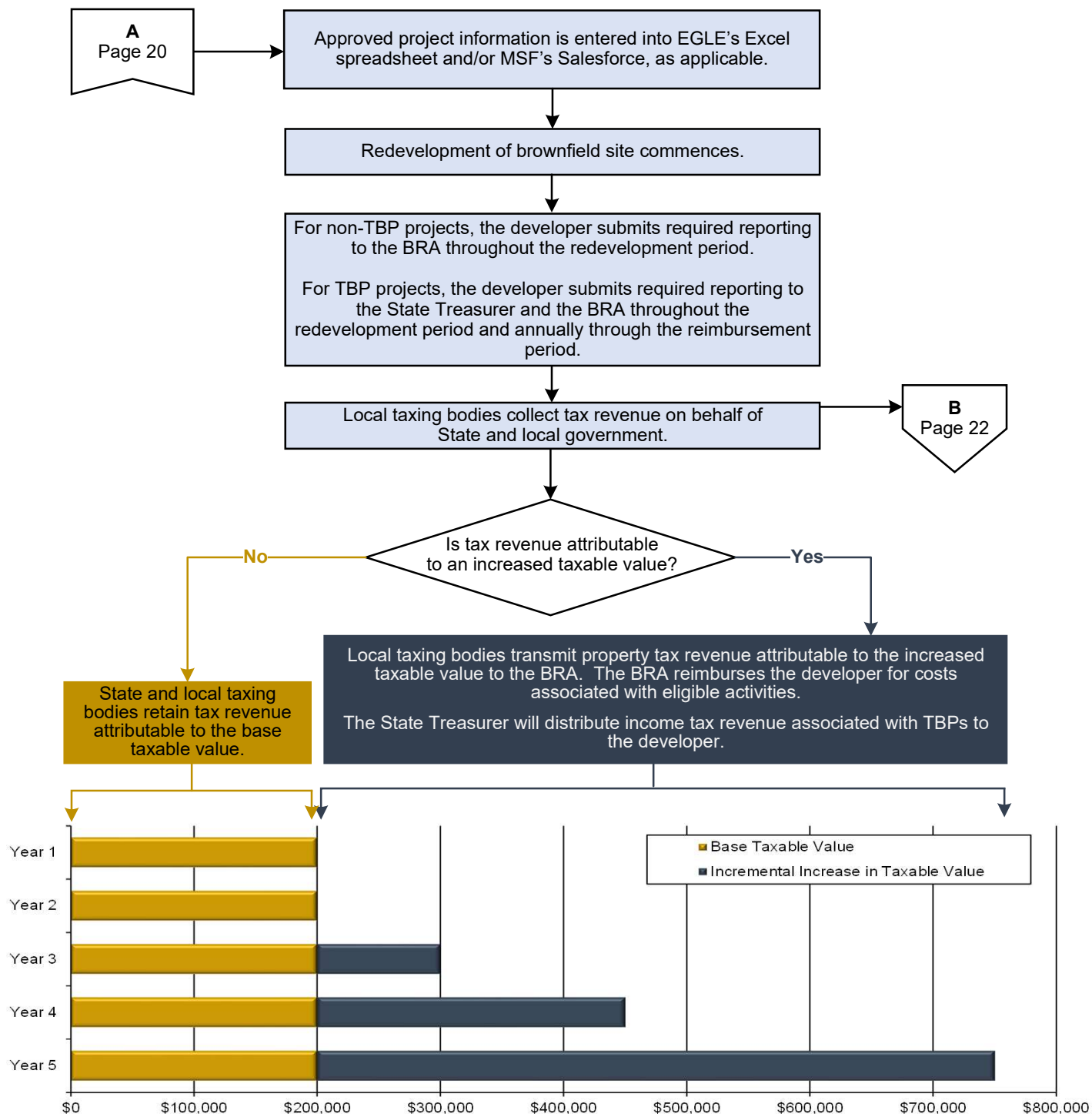
Flow Chart of the Brownfield Redevelopment Financing Program Processes



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BROWNFIELD REDEVELOPMENT FINANCING PROGRAM
Department of Environment, Great Lakes, and Energy (EGLE) and
Michigan Strategic Fund (MSF), Department of Labor and Economic Opportunity

Flow Chart of the Brownfield Redevelopment Financing Program Processes
(Continued)

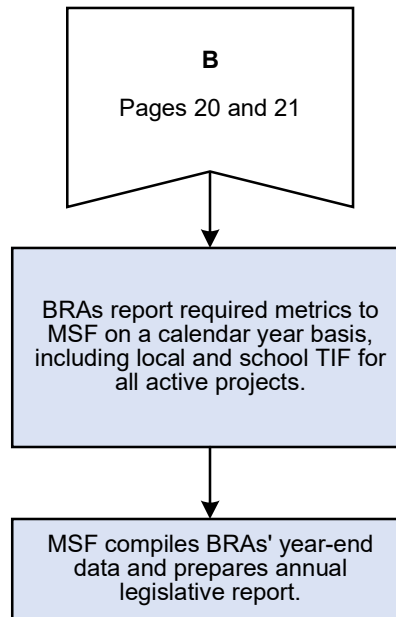


The above bar graph is for illustrative purposes only.

This flow chart continued on next page.

BROWNFIELD REDEVELOPMENT FINANCING PROGRAM
Department of Environment, Great Lakes, and Energy (EGLE) and
Michigan Strategic Fund (MSF), Department of Labor and Economic Opportunity

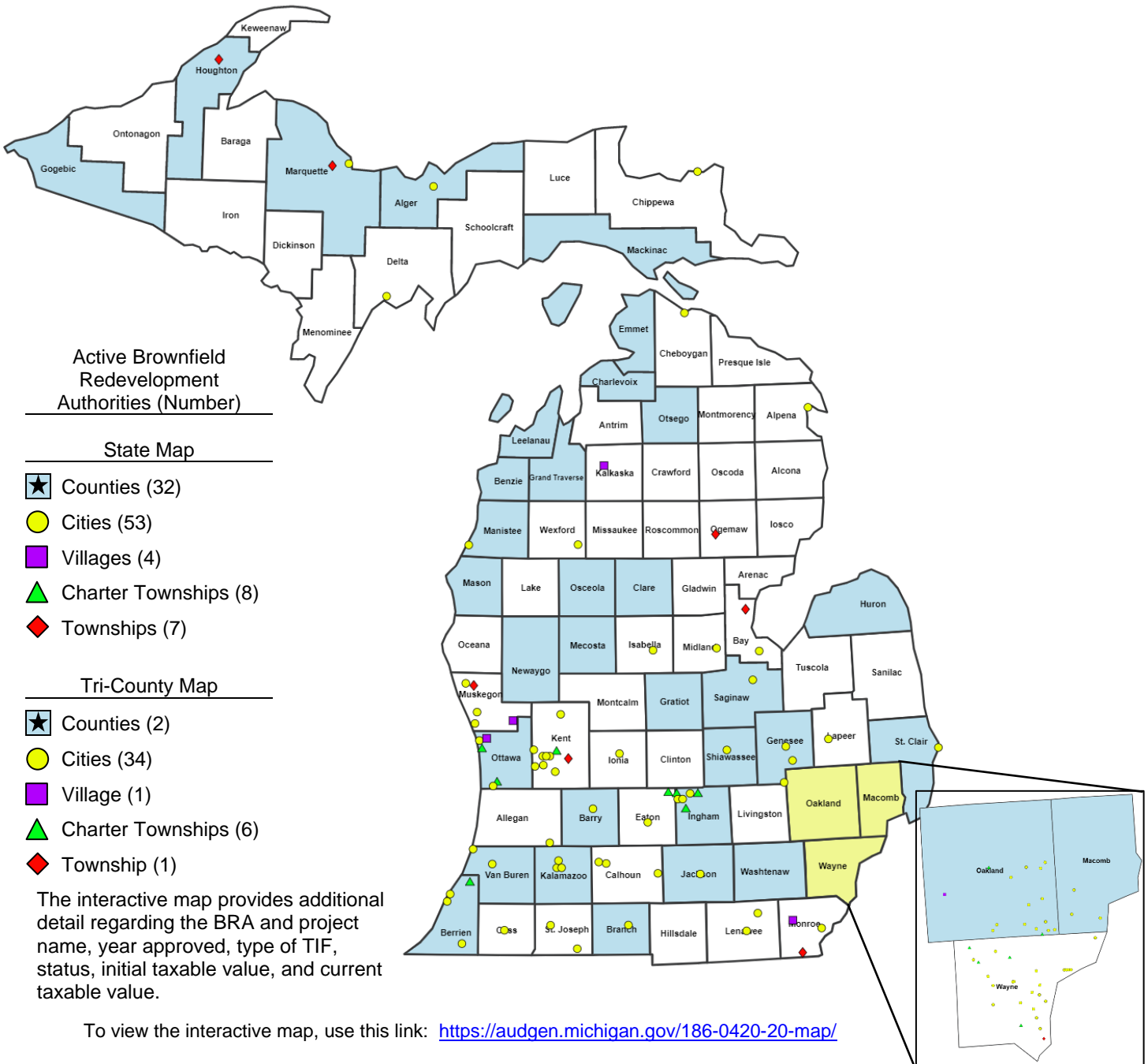
Flow Chart of the Brownfield Redevelopment Financing Program Processes
(Continued)



Source: The OAG prepared this flow chart of the processes as explained by EGLE and MSF.

BROWNFIELD REDEVELOPMENT FINANCING PROGRAM
 Department of Environment, Great Lakes, and Energy and
 Michigan Strategic Fund, Department of Labor and Economic Opportunity

Map of Active Brownfield Redevelopment Authority Projects
As of October 28, 2020



Source: The OAG prepared this exhibit from data reported by BRAs to MSF's Salesforce and listings of projects approved by EGLE and MSF during calendar years 2017 through 2019.

PROGRAM DESCRIPTION

The Brownfield Redevelopment Financing Act, Public Act 381 of 1996, as amended (Sections 125.2651 - 125.2670 of the *Michigan Compiled Laws*), authorizes municipalities to create BRAs to facilitate the implementation of brownfield plans and promote revitalization, redevelopment, and reuse of eligible brownfield properties through the use of TIF for eligible activities. The Act prescribes the powers and duties of, and the related requirements and criteria for, BRAs, EGLE, and MSF.

Each BRA is required to have a governing board. Together, the BRA and the board are responsible for implementing a brownfield plan that identifies eligible properties where eligible activities will be conducted.

Public Act 46 of 2017, effective July 24, 2017, amended the Act to expand the Program to allow for brownfield plans that will have a transformational impact on local economic development and community revitalization based on the extent of brownfield redevelopment and estimated growth in population, commercial activity, and employment that will result from the plan. A transformational brownfield plan must be for a mixed-use development project integrating a combination of retail, office, residential, or hotel uses and must include a minimum level of capital investment depending on the population of the municipality in which the development is proposed.

Eligible activities related to a transformational brownfield plan include any demolition, construction, restoration, alteration, renovation, or improvement of buildings or site improvements on eligible property, including infrastructure improvements that directly benefit the eligible property.

As of April 30, 2020, there were 289 BRAs Statewide. As of October 28, 2020, there were 830 active brownfield redevelopment projects for which BRAs had reported information to Salesforce or that MSF and EGLE approved during calendar years 2017 through 2019, including 541 projects that were approved to capture school TIF (see Exhibit #3).

AUDIT SCOPE, METHODOLOGY, AND OTHER INFORMATION

AUDIT SCOPE

To examine the Brownfield Redevelopment Financing Program and related records. This performance audit* was required by Section 125.2666(6) of the *Michigan Compiled Laws*. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The scope of our audit focused on the work plans that were submitted for approval by EGLE and/or MSF. Work plans or projects that do not relate to transformational brownfield plans or seek to capture school taxes do not require State approval and, therefore, were not included in our audit scope.

Also, the 2012 amendments to the Act created the State Brownfield Redevelopment Fund to be used for purposes including administrative costs of the Program; grants and loans provided by the Clean Michigan Initiative Bond Fund; a new grant and loan program that shall be operated by MSF; and to distribute construction period tax capture revenues*, withholding tax capture revenues*, and income tax capture revenues* in accordance with a transformational brownfield plan. The activity in the Fund was not significant. Therefore, we excluded the Fund from our audit scope.

As part of the audit, we considered the five components of internal control* (control environment, risk assessment, control activities, information and communication, and monitoring activities) relative to the audit objectives and determined that all components were significant.

PERIOD

Our audit procedures, which included a preliminary survey, audit fieldwork, report preparation, and quality assurance, generally covered January 1, 2017 through December 31, 2019.

METHODOLOGY

We conducted a preliminary survey of the Program to formulate a basis for establishing our audit objectives and defining our audit scope and methodology. During our preliminary survey, we:

- Interviewed EGLE and MSF staff with Program responsibilities to obtain an understanding of the various factors that impact the taxable values of eligible property; the processes related to outreach activities and

* See glossary at end of report for definition.

work plan submission, review, and approval; and Program reporting processes.

- Reviewed applicable laws, rules, regulations, policies, procedures, and other relevant information.
- Identified the population of BRAs and projects approved during our audit period.
- Reviewed Program guidance and requirements.
- Completed limited testing of EGLE and MSF approved work plans for compliance with the Brownfield Redevelopment Financing Act.
- Completed limited testing of the annual legislative report for inclusion of all BRAs.

OBJECTIVE #1

To assess the effectiveness of the Program to increase the taxable value of eligible brownfield properties.

To accomplish this objective, we:

- Identified 700 brownfield projects that, as of August 5, 2020, had been reported by the BRAs, at some time subsequent to calendar year 2013, as involving the capture of school TIF. These 700 projects included 410 projects for which the project status was "project complete" or "construction complete."
- Selected 10 of the 302 brownfield projects that the BRAs reported the project status as "project complete" or "construction complete" and had captured school TIF during calendar years 2013 through 2019 to verify the accuracy of the initial taxable value amounts of the eligible properties, as reported in Salesforce by the BRAs, with the original work plans and to verify the current taxable value amounts, as reported in Salesforce by the BRAs, with local tax assessor records. Our sample was randomly and judgmentally selected to eliminate bias and to limit our testing to completed projects. Therefore, we could not project the results to the entire population.
- Calculated the difference, by project and in the aggregate, between the initial taxable values and the current taxable values as identified in Salesforce for the 700 brownfield projects that had been reported by the BRAs as involving school TIF at some time during calendar years 2013 through 2019.

OBJECTIVE #2

To assess the effectiveness of EGLE's and MSF's efforts to administer the Program.

To accomplish this objective, we:

- Reviewed Program information available to local governments, BRAs, and developers on EGLE's and MSF's Web sites.
- Reviewed the efforts of brownfield coordinators and CATs to facilitate brownfield projects with local units of government, BRAs, and developers.
- Analyzed the geographic locations of BRAs to determine whether authorities were distributed throughout the State and existed in higher populated areas and core communities.
- Reviewed work plan preparation guidance available to BRAs.
- Identified 66 EGLE and 84 MSF work plans, including 2 work plans related to transformational brownfield plans approved in calendar years 2017 through 2019 (see Exhibit #1), and:
 - Reviewed 7 EGLE and 10 MSF work plans, including the 2 work plans related to transformational brownfield plans, for compliance with the requirements of the Act and EGLE or MSF work plan guidance, such as:
 - BRA submitted a copy of the brownfield plan.
 - Eligible property and eligible activity met definitions in the Act.
 - Work plan included key required documentation.
 - EGLE and/or MSF approved the work plan within 60 days and MSF approved the work plan related to a transformational brownfield plan within 90 days.
 - Compared Salesforce data (initial taxable value, approved school TIF, approved local TIF, and EGLE or MSF approval date) to approved work plan documents for the 17 work plans reviewed above.

Our sample was randomly selected to eliminate bias and enable us to project the results to the entire population.

- Reviewed 25 of the 100 oldest, active, and State-approved projects to determine whether the amount of TIF collected through December 31, 2018 was approved

in the project's work plan. Our sample was randomly and judgmentally selected to eliminate bias and to limit our testing to projects with TIF capture. Therefore, we could not project the results to the entire population.

- Reviewed the performance measures utilized by EGLE and MSF to determine whether they assessed factors associated with economic growth, such as increases in investments and jobs created by project.

OBJECTIVE #3

To assess EGLE's and MSF's compliance with statutory reporting requirements.

To accomplish this objective, we:

- Reviewed the completeness of EGLE and MSF's annual legislative reports for calendar years 2017 and 2018.
- Compared the listing of active BRAs provided by MSF with the calendar years 2017 and 2018 annual reports to determine whether all BRAs reported to MSF.
- Reviewed projects approved by EGLE and MSF during 4 and 7 quarters, respectively, within our audit period to determine whether the agencies posted all approved project information to their Web sites as required in the Act. The quarters tested were randomly and judgmentally selected to eliminate bias and ensure adequate audit coverage. Therefore, we could not project the results to the entire population.
- Obtained an understanding of EGLE's process for verifying the accuracy of the information reported by the BRAs and reviewed 4 of the 15 projects that EGLE selected for review during calendar year 2018. Our sample was randomly and judgmentally selected to eliminate bias and ensure adequate audit coverage. Therefore, we could not project the results to the entire population.

CONCLUSIONS

We base our conclusions on our audit efforts and any resulting material conditions* or reportable conditions*.

AGENCY RESPONSES

Not applicable.

PRIOR AUDIT FOLLOW-UP

Our prior performance audit of the Brownfield Redevelopment Financing Program, Department of Environmental Quality and Michigan Strategic Fund, Department of Talent and Economic Development, issued in February 2018, contained no findings.

* See glossary at end of report for definition.

**SUPPLEMENTAL
INFORMATION**

Our audit report includes supplemental information presented as Exhibits #1 through #3. Our audit was not directed toward expressing a conclusion on this information.

GLOSSARY OF ABBREVIATIONS AND TERMS

active projects	As used in this report, active projects include all Brownfield projects in Salesforce, except those for which the BRAs reported the status as "project complete", and any additional projects approved by EGLE or MSF during calendar years 2017 through 2019 for which BRAs had not reported to Salesforce.
additional response activities	Response activities identified as part of a brownfield plan that are in addition to baseline environmental assessment activities and due care activities for an eligible property.
baseline environmental assessment	A document that describes the results, sampling, and analysis that confirm that the land is a facility or a site.
blighted property	Property that meets any of the following criteria as determined by the governing body: <ul style="list-style-type: none">i. Has been declared a public nuisance.ii. Is an attractive nuisance to children.iii. Is a fire hazard or is otherwise dangerous to the safety of persons or property.iv. Has had the utilities, plumbing, heating, or sewerage permanently disconnected, destroyed, removed, or rendered ineffective so that the property is unfit for its intended use.v. Is tax reverted property owned by a qualified local governmental unit, by a county, or by this State.vi. Is property owned or under the control of a land bank fast track authority under the Land Bank Fast Track Act.vii. Has substantial buried subsurface demolition debris present so that the property is unfit for its intended use.
brownfield plan	A plan that identifies specific brownfield properties that meet the requirements of Section 125.2663 or Section 125.2663c of the <i>Michigan Compiled Laws</i> and is adopted under Section 125.2664 of the <i>Michigan Compiled Laws</i> .
brownfield redevelopment authority (BRA)	An agency of a local unit of government created to facilitate the implementation of brownfield plans.
CAT	Community Assistance Team.

construction period tax capture revenues	Funds equal to the amount of 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. "Wages" is defined in Section 3401 of the Internal Revenue Code of 1986 (Title 26, Section 3401 of the <i>United States Code</i>).
core communities	Urban communities and traditional centers of commerce in which the State of Michigan has initiated an effort to spur private development. The incentives target critical needs of older communities through new housing development, redevelopment of obsolete facilities, and development of contaminated properties.
due care activities	Response activities identified as part of a brownfield plan that are necessary to allow the owner or operator of an eligible property in the plan to comply with the requirements of Section 20107a of the Natural Resources and Environmental Protection Act (Public Act 451 of 1994, as amended).
effectiveness	Success in achieving mission and goals.
EGLE	Department of Environment, Great Lakes, and Energy.
eligible activities	Actions that are undertaken to redevelop a brownfield property, the costs for which are eligible for reimbursement via TIF.
eligible property	Property included in a brownfield plan that qualifies as a facility/site, functionally obsolete property, blighted property, historic resource, transit-oriented property/development, or targeted redevelopment area.
facility	Any area, place, or property where a hazardous substance in excess of the concentrations that satisfy the cleanup criteria for unrestricted residential use has been released, deposited, disposed of, or otherwise comes to be located.
functionally obsolete property	Property that is unable to be used to adequately perform the function for which it was intended due to a substantial loss in value resulting from factors such as overcapacity, changes in technology, efficiencies or super adequacies in design, or other similar factors that affect the property itself or the property's relationship with other surrounding property.
goal	An intended outcome of the program or an entity to accomplish its mission.

income tax capture revenues	The amount for each tax year by which the aggregate income tax from individuals domiciled within the eligible property subject to a transformational brownfield plan exceeds the initial income tax value.
internal control	The plan, policies, methods, and procedures adopted by management to meet its mission, goals, and objectives. Internal control includes the processes for planning, organizing, directing, and controlling program operations. It also includes the systems for measuring, reporting, and monitoring program performance. Internal control serves as a defense in safeguarding assets and in preventing and detecting errors; fraud; violations of laws, regulations, and provisions of contracts and grant agreements; or abuse.
local taxes	As used in the Brownfield Redevelopment Financing Act, all taxes levied other than taxes levied for school operating purposes.
material condition	A matter that, in the auditor's judgment, is more severe than a reportable condition and could impair the ability of management to operate a program in an effective and efficient manner and/or could adversely affect the judgment of an interested person concerning the effectiveness and efficiency of the program. Our assessment of materiality is in relation to the respective audit objective.
MSF	Michigan Strategic Fund.
observation	A commentary that highlights certain details or events that may be of interest to users of the report. An observation may not include all of the attributes (condition, effect, criteria, cause, and recommendation) that are presented in an audit finding.
performance audit	An audit that provides findings or conclusions based on an evaluation of sufficient, appropriate evidence against criteria. Performance audits provide objective analysis to assist management and those charged with governance and oversight in using the information to improve program performance and operations, reduce costs, facilitate decision-making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability.
reportable condition	A matter that, in the auditor's judgment, is less severe than a material condition and falls within any of the following categories: a deficiency in internal control; noncompliance with provisions of laws, regulations, contracts, or grant agreements; opportunities to improve programs and operations; or fraud.

response activities	The evaluation, interim response activity, remedial action, demolition, or taking of other actions necessary to protect the public health, safety, or welfare; the environment; or the State's natural resources.
tax increment financing (TIF)	Stream of revenue obtained from the additional tax money generated by the higher property value of redeveloped property or the "tax increment". This stream does not go to the city or schools but is kept separate and used to pay for the redevelopment.
tax increment revenues	The amount of ad valorem property taxes and specific taxes attributable to the application of the levy of all taxing jurisdictions upon the captured taxable value of each parcel of eligible property subject to a brownfield plan and personal property located on that property.
taxes levied for school operating purposes (school TIF)	Taxes levied by a local school district for operating purposes, taxes levied under the State Education Tax Act (Public Act 331 of 1993, as amended), and that portion of specific taxes attributable to these taxes.
transformational brownfield plan (TBP)	A brownfield plan that meets the requirements of Section 125.2663c of the <i>Michigan Compiled Laws</i> and is adopted under Section 125.2664a of the <i>Michigan Compiled Laws</i> and, as designated by resolution of the governing body and approved by MSF, will have a transformational impact on local economic development and community revitalization based on the extent of brownfield redevelopment and growth in population, commercial activity, and employment that will result from the plan.
withholding tax capture revenues	The amount for each calendar year by which the income tax withheld under Public Act 281 of 1967, Part 3 of the Income Tax Act of 1967 (Sections 206.701 - 206.713 of the <i>Michigan Compiled Laws</i>), from individuals employed within the eligible property subject to a transformational brownfield plan exceeds the initial withholding tax value.
work plan	A plan that describes each individual activity to be conducted to complete eligible activities and the associated costs of each individual activity.



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