

**TAX INCREMENT FINANCING
AND
DEVELOPMENT PLAN
FOR THE
SAULT STE. MARIE SMARTZONE**

Sault Ste. Marie, Michigan

Adopted by
Sault Ste. Marie
Local Development Finance Authority
February 9, 2009

Adopted by City Commission: March 16, 2009

Sault Ste. Marie Local Development Finance Authority

**TAX INCREMENT FINANCING
AND
DEVELOPMENT PLAN**

Sault Ste. Marie SmartZone

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INTRODUCTION

Through legislation enacted in 2000 (PA 248 of 2000), the State of Michigan established the SmartZone program, a program designed to foster and encourage the development of high technology enterprises through the commercialization of research products being developed at Michigan institutions of higher education. The SmartZone program was crafted to take advantage of pre-existing legislation - the Local Development Finance Authority Act (PA 281 of 1986) - which created the mechanism for the capture of certain property taxes for use by an LDFA to create or promote the development of high technology activities. The SmartZone legislation permitted the use of the LDFA legislation to capture funds to be used to develop business incubators, and perform marketing and property improvements to attract high technology investment. The SmartZone is designed to act as the linkage between local units of government and State-supported universities in the development and promotion of high technology business and the technology transfer that will improve the State's economy.

On May 22, 2008, the Michigan Economic Development Corporation issued a request for proposals for the designation of three additional SmartZones in Michigan, and on July 1, 2008, the City of Sault Ste. Marie, in partnership with the Sault Ste. Marie Economic Development Corporation and Lake Superior State University, submitted a proposal to the MEDC requesting designation as a SmartZone of certain areas within the City.

On December 1, 2008, the City of Sault Ste. Marie adopted a Resolution creating a Local Development Finance Authority, and on December 16, 2008, a SmartZone Agreement was fully executed by all three parties to the agreement: the City of Sault Ste. Marie, the Sault Ste. Marie Local Development Finance Authority and the Michigan Economic Development Corporation.

Upon approval by the MEDC, provisions in PA 281 of 1986, as amended, provide for the implementation of a certified technology park (or SmartZone), and provide the mechanisms for the utilization of tax increment financing to develop eligible projects within the SmartZone in accordance with the act and with the development agreement with the MEDC.

The Local Development Finance Authority reviewed and adopted this Tax Increment Financing and Development Plan at a meeting held on February 9, 2009, and requested approval of the plan by the City of Sault Ste. Marie.

SAULT STE. MARIE LOCAL DEVELOPMENT FINANCE AUTHORITY

Board of Directors

Joseph Herbig, Chairman

David Firack, Vice Chairman

Daniel Reattoir

Margie Hank

Thomas Veum

John Boger

Jackie Benson

Roselyn Zator, ex-officio, non-voting

DEVELOPMENT PLAN

This Development Plan adheres to the required statutory provisions of PA 281 of 1986, as amended, and assumes final designation of the LDFA district as a "certified technology park." The LDFA anticipates implementation of this Development Plan as a collaborative effort between the Local Development Finance Authority, the City of Sault Ste. Marie, the Sault Ste. Marie Economic Development Corporation and its Tax Increment Financing Authority, and Lake Superior State University. The implementation will also rely on the activities of a non-profit administrative entity representing the local partners, and which will be contracted by the LDFA to undertake the day-to-day activities of operating and managing the SmartZone. [NOTE: Annotations in brackets tie the responses below to Section 15 numbering.]

A. Legal Description of Property to Which Plan Applies in Relation to Boundaries of the Authority District [A]

The Development Plan applies to the Sault Ste. Marie Local Development Finance Authority District, which encompasses the geographic area of the corporate boundaries of the City of Sault Ste. Marie. A map of the LDFA District is attached as Appendix A.

Commencing at a point in the national boundary line in the St. Mary's River directly opposite to and in a line with the south line of fractional section seventeen, township forty-seven north of range one west; running thence easterly along the south line of fractional sections sixteen and seventeen and sections fifteen, fourteen, and thirteen, township forty-seven north of range one west, and the south line of sections eighteen and seventeen and fractional sections fifteen and sixteen, township forty-seven north of range one east, and said line produced to a point in the center of the principal or tug channel of the branch of the St. Mary's River entering into Lake Nicolet (formerly Hay Lake); thence northerly along the center of said channel to the said national boundary line in the main and steamboat channel of the St. Mary's River westerly until the same reaches the place of beginning; said description embracing fractional sections four, five, six, nine, fifteen and sixteen, and sections seven, eight, seventeen and eighteen of township forty-seven north of range one east; and fractional sections one, two, nine, ten, eleven, sixteen, and seventeen, and sections twelve, thirteen, fourteen, and fifteen, township forty-seven north of range one west, and the islands and bed of the St. Mary's River lying within the limits of said boundaries, all in the County of Chippewa and State of Michigan, according to its original government survey.

B. Existing Public Improvements and Existing and Proposed Land Uses [C]

The LDFA District is fully developed with roads, sidewalks, lighting, utilities and public facilities. This infrastructure is publicly financed and maintained. The Development Plan does not anticipate large improvements or expansions of this existing infrastructure.

C. Proposed Public Facilities and Anticipated Improvements [D,E]

The "Public Facilities" other than operating, marketing and planning costs of the LDFA, to be acquired or constructed pursuant to this Plan will consist of a new facility to serve as a technology accelerator, and to be known as the "Technology Breeder," a facility that meets the definition of "Incubator" under PA 281, as amended. While it is intended that the building will be constructed by the City, the building may be developed by the City, by the LDFA, by another City instrumentality, or by a non-profit entity operating under an agreement with the

LDFA to construct and/or manage the facility. In any case, the facility will be operated and used in a manner consistent with PA 281 of 1986, as amended.

It is anticipated that the facility will be owned by the City of Sault Ste. Marie, and leased to the non-profit entity operating under contract to the LDFA for the management of the zone. The LDFA will participate in the financing of this facility through the capture of tax increments, which will be combined with direct funding from the City and possible funding from other City instrumentalities such as the City Tax Increment Financing Authority. Other funding for the construction of the building may be obtained from the MEDC or from other state or federal agencies as available and appropriate.

The construction of the breeder is expected to be completed during the first quarter of 2010, at a cost of approximately \$1.2 million.

In addition to the construction of the breeder and related building operation costs, the LDFA anticipates using tax increment revenues received under this Plan for funding the costs related to providing staffing and administrative services for the zone, including marketing, recruitment, technology transfer, business planning assistance, and related operational expenses. In addition, the LDFA will be financing the acquisition or leasing of appropriate equipment and supplies needed for the evaluation and analysis of production processes leading to effective solutions for the entrepreneurs refining their prototyped products to full commercialization capability. In addition, improvements and other modernization to the Soo Industrial Incubator will be financed through this plan.

D. Construction Stages and Timing [F]

May 2009	Engineering design plans initiated
June 2009	Financing secured and finalized for Building
July 2009	Bids let for Building
August 2009	Bids awarded for building
January 2010	Building completed

E. Description of any portions of property which the LDFA desires to sell, exchange, donate, or lease to or from the municipality and the proposed terms [G]

The LDFA does not currently own any property in the LDFA District subject to this Plan. The LDFA does not anticipate any sales, donations, exchanges, or leases of land by the LDFA to the City of Sault Ste. Marie or from the City. The City is expected to retain full control of all improvements financed (in part) by the LDFA, unless it elects to make other arrangements. In such a case, the City will abide by all applicable ordinances and laws. The LDFA may act as the City's agent in accomplishing the improvements and in implementing the plan.

F. Description of desired zoning changes and changes in streets and other infrastructure [H]

No zoning changes are required for the implementation of this Development Plan.

G. Estimate of the Cost of Public Facilities and statement of the proposed method of financing the public facilities and ability of authority to arrange financing [I]

It is estimated that the overall cost of implementing this Development Plan from 2008 through 2024 will be approximately \$9,200,000, which includes \$6,300,000 of LDFA

captured tax increments, and the remaining \$2,900,000 from other sources including the City, the existing Airport Tax Increment Authority and from fees, licenses, royalties and misc, interest over the life of the tax capture. The costs of permitted activities include \$3,000,000 for breeder and future incubator construction and interest costs, and \$6,200,000 for the costs related to the operation of the zone, including equipment purchases, marketing, business assistance, engineering and prototype assistance, and related management and administrative costs. Tax increment revenues will be used as received for these activities.

All revenues received will be utilized for purposes consistent with this Development Plan.

H. Persons to Whom Public Facilities Will Be Conveyed & Persons Receiving Benefit [J]

No building facilities constructed or improved under this Development Plan are expected to be conveyed to any person or firm. The breeder facility, or other future facilities to be developed over the term of the LDFA, is expected to provide development space under fee arrangements with the zone, and zone customers would not normally be leasing space.

I. Procedures for bidding for the leasing, purchasing, or conveying all or a portion of the public facilities upon its completion [K]

While no building facilities constructed or improved under this Development Plan are expected to be conveyed to any person or firm, it may be beneficial for companies emerging from the breeder to acquire some of the machinery used in the evolution of the manufacturing processes. Should those cases arise; the LDFA or the operating entity under contract for management with the LDFA for the management of the zone will negotiate a fair value for the equipment. In addition, should it be beneficial for the advancement of the purposes of the zone, lease agreements may be negotiated with emerging companies. In such cases, standard lease rates similar to those as established by the Sault Ste. Marie Economic Development Corporation for the Sault Industrial Incubator will be used as a basis, subject to confirmation by the MEDC if required.

J. Displacement of Persons and Businesses and Relocation [L,M,N,O]

There will be no displacement of business or persons.

K. Amendments

This Development Plan is adopted in accordance with the provisions of PA 281 of 1986, as amended, and may be changed from time to time subject to the same provisions that are necessary for approval or rejection of the original plan.

TAX INCREMENT FINANCING PLAN

This Plan authorizes the capture of certain tax increment revenues by the LDFA for purposes of funding and financing the costs of "public facilities" as that term is defined by Act 281 of 1986, as amended.

A. Reasons that the Plan will result in the development of captured assessed value that could not otherwise be expected

The development of the Sault Ste. Marie SmartZone through the Tax Increment and Development Plan will create a growth engine that will translate entrepreneurial concepts to operating manufacturers that are commercialized through the support of the zone. It is expected that a number of these new businesses and companies will establish their operations and manufacturing or research facilities in the Sault Ste. Marie region, and will add to the taxable value of the community. The taxes captured by this Tax Increment Plan will enable the LDFA and the SmartZone to establish the mechanisms, the administrative and technical support and the production and testing facilities necessary for the evolution of these entrepreneurs into commercial entities.

B. Estimates of captured taxable values for each year of the plan

Estimates of captured taxable values are depicted on Table 1 for the 15 year period of the Tax Increment Plan. Beginning in 2009, the LDFA will capture ad valorem and specific tax levies on all new and incremental growth from the initial taxable value of the captured property determined on the basis of taxable values existing at December 31, 2007.

C. Estimated tax increment revenues for each year of the plan

Estimates of captured tax increment revenues are also depicted on Table I for the 15 year period of the plan. As provided in PA 281 of 1986, as amended, this plan provides for the capture of the increments of specific taxes authorized by the Act, specifically, 50% of the amounts levied by the state pursuant to the state education tax act, 1993 PA 331, MCL 211.901 to 211.906, and local and intermediate school districts for a period not to exceed 15 years, on both eligible real and personal property in the district.

D. Explanation of tax increment procedure

Tax increment financing for a SmartZone or "Certified Technology Park" permits the LDFA to capture tax increment revenues attributable to increases in the value of all real and personal property that is within the SmartZone and that has been made subject to tax increment revenue calculation. The tax increment finance procedure is governed by Act 281.

Upon the adoption of this plan by the City of Sault Ste. Marie, the initial taxable value of the captured property will be established as the most recent value as equalized. This value is expected to be the value as equalized for 2007. In each year the Plan is in effect, the Current Taxable Value of the captured property is determined. The amount by which the Current Taxable Value exceeds its initial taxable value in any one year is the Captured Taxable Value of the SmartZone. The tax increments that will be captured from the Captured Taxable Value will be governed by the amount of mills applied to the different classes of property.

The LDFA district overlaps two Downtown Development Authority Tax Increment districts

and one Act 450 Tax Increment Authority District. All three of those tax increment districts are only capturing local tax increments. This Plan only captures the allowable school tax increments, so no conflict exists.

As a SmartZone, tax increment revenues authorized to be captured under this Plan from captured property may be used, subject to required approvals of MEDC, to assure conformance with PA 281, as amended.

Tax Increment Revenues in excess of estimates set forth in this Plan or in excess of the actual costs of the Plan to be paid from Tax Increment revenues will be considered surplus under PA 281. Unless retained for further implementation of the Development Plan set forth herein, surplus tax increments revenues must revert proportionately to the respective taxing jurisdictions from which collected.

E. Maximum amount of note or bonded indebtedness

The maximum amount of note or bonded indebtedness to be incurred directly by the LDFA or to be incurred by the City of Sault Ste. Marie or one of its instrumentalities on behalf of facilities included in the Development Plan is \$2,000,000 plus interest. This limitation shall include the principal amount of any note or bonded indebtedness only and shall not include any reimbursement agreements to repay any advances made by the City or other instrumentality.

Subject to the requirements and restrictions of state law, the LDFA may participate in the authorization, issuance, and sale of notes or bonds. The exact type of note or bond to be issued will be decided by the LDFA and City as the occasion arises.

F. Amount of operating and planning expenditures of authority and municipality and amount of advances from the municipality or others

As the LDFA determines, expenses related to operating, administration, planning and expenditures allowed by PA 281 of 1986, as amended, are expenditures for "public facilities" for which tax increment revenues may be used, and will be budgeted and approved by the LDFA and City for payment from tax increment revenues.

It is anticipated that the LDFA will contract with a non-profit corporation to be formed to manage and administer the operation of the LDFA. Expenses associated with oversight by the LDFA and the City in the management and administration of the zone, and as may be allowable as permitted expenses, may be supported with tax increment revenues.

G. Costs of the plan anticipated to be paid from tax increments

It is estimated that the overall cost of implementing this Development Plan from 2008 through 2024 will be approximately \$9,200,000, which includes \$6,300,000 of LDFA captured tax increments and the remaining \$2,900,000 from other sources including the City, the existing Airport Tax Increment Authority and from fees, licenses, royalties and misc, interest over the life of the tax capture. The costs of permitted activities include \$3,000,000 for breeder and future incubator construction and interest costs, and \$6,200,000 for the costs related to the operation of the zone, including equipment purchases, marketing, business assistance, engineering and prototype assistance, and related management and administrative costs. Tax increment revenues will be used as received for these activities.

All revenues received will be utilized for purposes consistent with this Development Plan.

H. Duration of the Plan

The Tax Increment Plan will extend for 15 years and will expire on December 31, 2023.

I. Impact of revenues on other taxing jurisdictions

Provisions of PA 281 of 1986, as amended provide for protections to local taxing jurisdictions that result from forgone tax increments resulting from this plan, specifically, the state shall reimburse intermediate school districts each year for all tax revenue lost that was captured by an authority for a certified technology park designated by the Michigan economic development corporation after October 3, 2002; reimburse local school districts each year for all tax revenue lost that was captured by an authority for a certified technology park designated by the Michigan economic development corporation after October 3, 2002, and reimburse the school aid fund from funds other than those appropriated in section 11 of the state school aid act of 1979, 1979 PA 94, MCL 388.1611, for an amount equal to the reimbursement calculations under subdivisions (a) and (b) and for all revenue lost that was captured by an authority for a certified technology park designated by the Michigan economic development corporation after October 3, 2002.

J. Legal description of the eligible property to which the tax increment financing plan applies

In accordance with the Sault Ste. Marie SmartZone Agreement, the tax increment financing plan applies to the entire LDFA district, defined as all land within the City boundaries of the City of Sault Ste. Marie. A map of the LDFA district is included as Appendix A. As a designated SmartZone, and pursuant to the terms of Agreement, public facilities may be developed for any eligible property within the SmartZone.

K. Number of jobs to be created

A minimum of 230 direct jobs and 390 indirect jobs are expected to be created over the duration of the plan.

L. Proposed boundaries of a Certified Technology Park

The Sault Ste. Marie Certified Technology Park encompasses all land within the boundaries of the authority district, defined as the City boundaries of the City of Sault Ste. Marie.

TABLE 1

TAXABLE VALUES AND TAX INCREMENT PROJECTIONS

Sault Ste. Marie Local Development Finance Authority

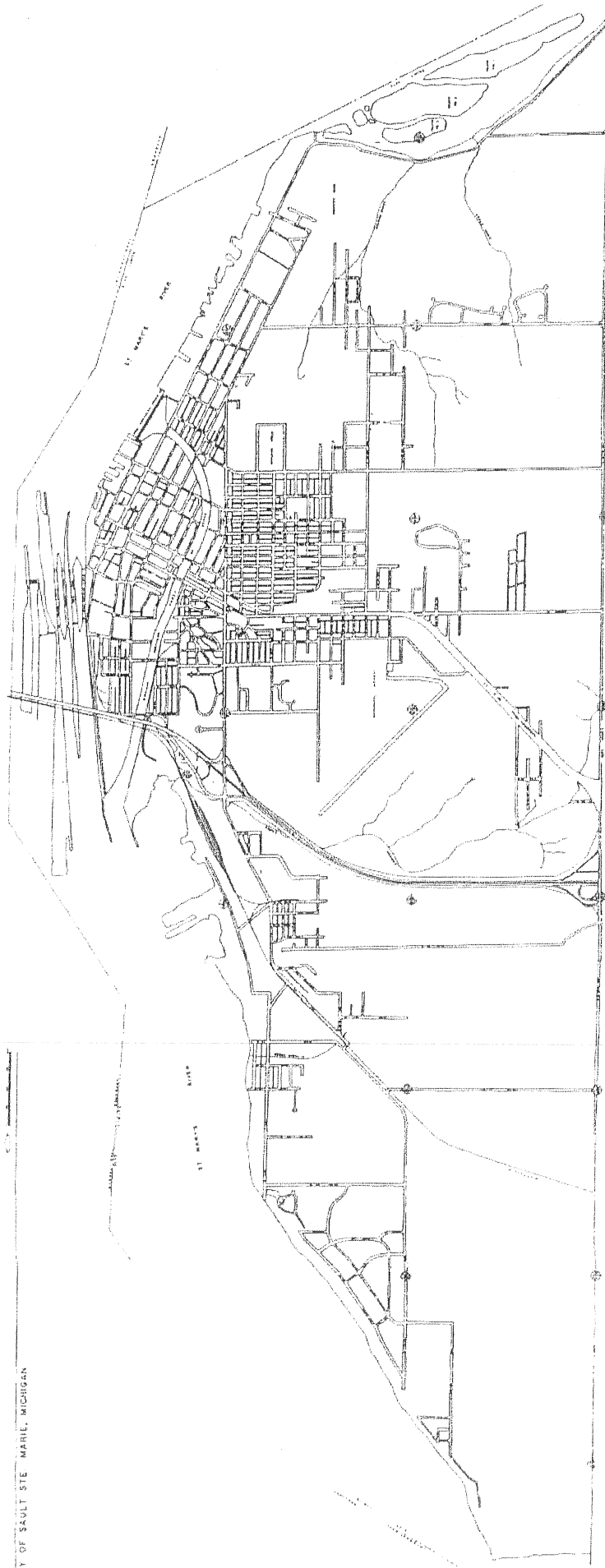
Assessment Year Ending	Current Year Taxable Value	Initial Value	Captured Taxable Value	Captured Tax Increment Revenues	Projected additional increments from Zone induced growth	TOTAL INCREMENT	Cumulative Increments	Fiscal Year Funds Available
2007	\$256,097,000							
2008	\$263,000,000	\$256,097,000	\$6,903,000	\$51,008		\$51,008	\$51,008	2009-2010
2009	\$273,260,000	\$256,097,000	\$17,163,000	\$150,638		\$150,638	\$201,645	2010-2011
2010	\$278,725,200	\$256,097,000	\$22,628,200	\$189,760		\$189,760	\$391,405	2011-2012
2011	\$284,299,704	\$256,097,000	\$28,202,704	\$229,665	\$18,750	\$248,415	\$639,820	2012-2013
2012	\$289,985,698	\$256,097,000	\$33,888,698	\$270,368	\$19,125	\$289,493	\$929,314	2013-2014
2013	\$295,785,412	\$256,097,000	\$39,688,412	\$311,886	\$19,508	\$331,393	\$1,260,707	2014-2015
2014	\$301,701,120	\$256,097,000	\$45,604,120	\$354,233	\$15,918	\$370,151	\$1,630,858	2015-2016
2015	\$307,735,143	\$256,097,000	\$51,638,143	\$397,428	\$31,236	\$428,664	\$2,059,522	2016-2017
2016	\$313,889,846	\$256,097,000	\$57,792,846	\$441,486	\$31,861	\$473,347	\$2,532,869	2017-2018
2017	\$320,167,642	\$256,097,000	\$64,070,642	\$486,426	\$32,498	\$518,924	\$3,051,793	2018-2019
2018	\$326,570,995	\$256,097,000	\$70,473,995	\$532,264	\$33,148	\$565,412	\$3,617,205	2019-2020
2019	\$333,102,415	\$256,097,000	\$77,005,415	\$579,019	\$36,609	\$615,628	\$4,232,833	2020-2021
2020	\$339,764,464	\$256,097,000	\$83,667,464	\$626,709	\$37,341	\$664,050	\$4,896,883	2021-2022
2021	\$346,559,753	\$256,097,000	\$90,462,753	\$675,353	\$38,088	\$713,441	\$5,610,324	2022-2023
2022	\$353,490,948	\$256,097,000	\$97,393,948	\$724,970	\$38,849	\$763,820	\$6,374,143	2023-2024

Captured tax increment revenues are sums of the separate projections for the different classes of property from the Increment Projection Work Tables found in the Supplemental Materials.

NOTE: * "Additional increments" reflects captured tax increments from new manufacturing establishments resulting from the SmartZone over and above background growth, added at rate of one new 20,000 sf building with \$3.0 mi value every four years starting in capture year 2112-2113.

February 2009
Cumulative Total added April 2009

CITY OF SAULT STE. MARIE, MICHIGAN



APPENDIX "A"

CITY OF SAULT STE. MARIE LOCAL DEVELOPMENT FINANCE AUTHORITY BOUNDARIES (Entire City Limits)