

MINUTES  
Housing and Human Services Advisory Board  
Thursday, September 13, 2018  
6:30-8:30pm  
200 N. Main Street  
Ann Arbor, MI 48104  
Lower Level Conference Room

Members Present: A. Carlisle, T. Jabzanka, A. Erickson, J. Daniel, N. Wright, D. Blanchard, E. Pollack

Members Absent: A. Foster, Z. Ackerman, F. Tsui, G. Pratt, R. Sarri, A. Bannister, P. Sher

Staff Present: Teresa Gillotti, David Beck

Public Present: Iffat Hussain, Jennifer Hall, Desirae Simmons, Jessica Letaw, Scott Trudeau, Linh Song

I. Convene Meeting:

T. Jabzanka, Chair, convened meeting at 6:45 pm

II. Public Comment

N/A

III. Approval of Agenda

A. Carlisle moved to approve agenda; E. Pollack seconded. Motion passed unanimously

IV. Approval of Minutes

A. Erickson moved to approve agenda; D. Blanchard seconded. Motion passed unanimously. A. Carlisle abstains for absence

V. Business

- a. Review of draft Y-Lot feasibility analysis

J. Hall: Policy is a really hard thing to pass so to start, back in May, City Council adopted the resolution with goals to develop the Y-Lot. These goals were:

- The City would maintain some ownership of the Property such as a land lease, and they would try to recapture the cost of \$5 million used to buy the property back.
- The Developer would offer a mix of unit types and rents, maximize the number of affordable and workforce housing units with a maximum of 110% of Fair Market

Value (60% AMI), accept Housing Choice Vouchers, and dedicate 50% of the ground floor to active and/or public uses to keep sidewalks active.

- The City may explore options with interested users, possibly with other public entities, to dedicate the ground level and levels immediately above and below for public use purposes and partner with a developer to incorporate these uses.

The core group of the study team for this analysis consisted of Howard Lazarus, Jennifer Hall, Tom Crawford, Derek Delacourt, Brett Lenart, Teresa Gillotti, and Susan Pollack. Other agencies such as the DDA, AATA, and AADL joined as well.

There were 3 options that the team came up with:

1. Housing Only: This would include supportive housing, workforce housing, moderate income, market rate housing, and senior housing.
2. Mixed-use: It would be market driven, on the Y-Lot only, and would come with an expanded footprint.
3. Sell as-is: This would be due to lack of success at leading developers and Council would have to determine the allocation of proceeds.

J. Hall: The site analysis included reviews of these issues:

1. **A partial Federal Environmental Assessment:** This was performed in addition to the City's zoning and planning regulations. The Federal Environmental Review is required for federal affordable housing development funding and rent subsidies. For this analysis, an environmental consulting firm, Environmental Consulting Services, reviewed the site to determine if there are any potential red flags that would either prohibit the use of federal funding or would require remediation.

ECS identified 3 main issues: noise, historic impact, and potential site contamination. For noise, we would probably be prohibited to have more exterior uses such as balconies as the noise level is too high, but interior usage would be okay as that can be remediated through construction techniques and more. For historic impact, we'd have to make sure there is some compatibility in style. For the potential site contamination, it'd just require remediation.

It seems like the property would be eligible based on these results, but we'd have to have a full environmental review to make sure.

2. **Zoning:** The property is zoned D1 which allows a 400% floor area ratio (FAR) by right, but the building area can increase to 900% FAR if it includes affordable housing premiums, for a building size of 313,632 SF (the premium area is 174,240 SF). Denser housing is generally less cost prohibitive. A developer could also request Planned Unit Development (PUD) zoning to permit flexibility in the regulation of the development.

3. **Uses:** This site has the potential and flexibility to include a variety of uses including commercial, offices, civic, institutional, services, rental or owner residential, and other lodging. The first floor will include an active use to increase street and sidewalk traffic and the remaining floors can include a mixture of uses and a mixture of income targets for the residential uses.

4. **Parking:** The cost to build underground parking in the downtown is approximately \$80,000 per parking space based on a recent DDA cost estimate. Parking is required for the affordable housing premium area at a rate of 1 parking space for each 1,000 SF of premium building area.

5. **Public Utilities & Public Roads:** The downtown is a good location for property as there is existing public infrastructure and the foundation is sandy which is good for storm water.

6. **Public Utilities Recovery Fees & Sanitary Sewer Flow Mitigation:** All new construction sites in Ann Arbor are required to pay public utility recovery fees, which for this property would cost \$550,000 to \$600,000 depending on size and use of the property.

The sanitary sewer flow mitigation fee was created to protect the health and safety of our community and environment using a city-wide approach. The purpose is to reduce the potential for development sites to exacerbate sanitary sewer backups in basements or sanitary system surcharging during wet weather rain events. For this site, it's be about \$500,000 to \$600,000 depending on size and use of the property.

A. Erickson: How do other communities do this?

T. Gillotti: Ann Arbor did a study about water/sewer rates and financed it differently. If you decided that this is your system, it must be applied equally and justifiably.

7. **Ownership:** The City of Ann Arbor can maintain ownership of the property and ground lease the improvements (the physical structure) to another owner or owners. Depending on the uses, the building may have a single lessee or the building can be separated into condominium units with separate lessees. The ownership structure, however, can be flexible.

8. **Financing:** You need public financial support to increase supply of housing and there's a few ways we're looking into it, such as grants, financing, and other subsidies. There's no way to build 60% AMI housing without public subsidies.

There are lot-income housing tax credits (LITHC) that are the largest source of equity and debt financing for affordable housing and are through the IRS. The 9% LIHTC is competitive but raises more equity than the 4% LIHTC, which is not competitive. The Qualified Census Tract (QCT) can help generate more tax credit revenue as well. Also, if there are unsuitable

and/or contaminated soil, this could make the site eligible for Brownfield Tax Increment Financing.

T. Gillotti: These sites could qualify for Brownfield grants and/or Brownfield Tax Increment Financing if there was contamination or perceived contamination.

J. Hall: Lastly, there are property management and waitlists. The property can be managed by a single entity or multiple entities if the building is divided into separate condominiums with separate owners. A centralized waitlist will also ensure a standardized, fair and public to access income-restricted apartments and condominiums. We will now go on to our 3 options analysis.

Option 1: Housing Only, would mainly focus around how many units we could build, after tax credits. The parameters that we'd have to abide by for permanent supportive housing and workforce housing are below:

<b><i>Permanent Supportive Housing</i></b>	
<b>Parameter</b>	<b>Discussion</b>
Income Goal/Requirement	30% AMI or less
Rent	100% project-based vouchers. Enables the rent to be set at rates that are financially feasible for the owner, but all tenants can afford to live in the building by paying 30% of their income for rent and the rent subsidy pays the balance.
Configuration	Primarily 1-bedroom units with some 2-bedroom for individuals with disabilities who require live-in aid.
Parking	Minimal parking required as tenants are unlikely to own a vehicle.
Other Considerations	<p>This option could also include efficiencies depending upon the funding sources. In order to meet most federal and state subsidized housing accessibility requirements and to meet the City's D1 zoning affordable housing density bonus, the minimum unit size is 600SF.</p> <p>On-site supportive services are provided. Front door coverage on a full-time basis (24/7) is ideal.</p>

<b><i>Workforce Housing</i></b>	
<b>Parameter</b>	<b>Discussion</b>
Income Goal/Requirement	Mixture of rent and income targets of 30% AMI to 60% AMI.
Rent	Council Resolution 18-0719 limits rents to 110% of fair market rent (\$1,000/month for a 1-bedroom unit and \$1,210 for a 2-bedroom unit in Ann Arbor for 2018). These limits are very close to the 60% AMI LIHTC rent limits. These rents will enable households at 50% AMI or less with tenant-based

<b>Workforce Housing</b>	
<b>Parameter</b>	<b>Discussion</b>
	vouchers to live in the units and pay 30% of their income on rent.
Configuration	Mixture of 1-bedroom and 2-bedroom units. Efficiencies may be included depending upon funding source restrictions.
Parking	Lower parking required as many tenants are unlikely to own a vehicle.

Workforce housing, in this study, would be 30-60% AMI and a full-time minimum wage job is about 29% AMI.

There are also some studies we've done for moderate-income housing, market rate housing, and senior housing. Moderate is targeted at 61% of AMI to 100% of AMI. Market rate has no income limits and pricing is based on size, unit configuration, and amenities. Senior housing, aged 55 years or older, may include a mixture of independent living, assisted living, skilled nursing and/or continuous care facilities. There is a lot of ways to support senior housing.

Affordable housing units in any development will require multiple funding sources. Many factors depend on a mix of unit sizes and income. The table below shows how each form of housing would help achieve the policy goals and has the assumption of using LIHTCs with underwriting assumptions.

<b>OPTION 1 – HOUSING ONLY (SUPPORTIVE, WORKFORCE, AND MODERATE OPTIONS)</b>						
<b>POLICY GOAL ACHIEVEMENT</b>						
<b>Goal 1 Land Lease</b>	<b>Goal 2 Recover Initial Cost</b>	<b>Goal 3 Mix of Units &amp; Rents</b>	<b>Goal 4 Maximize Low Income/ Workforce</b>	<b>Goal 5 Accept Vouchers</b>	<b>Goal 6 Ground Floor Active</b>	<b>Goal 7 Additional Public Purpose</b>
Yes	Yes	Yes	Yes	Yes	Yes	Yes
<b>DESCRIPTION</b>						
These scenarios are stand-alone residential projects with 5,000 SF first floor office/community space [active use] D1 Zoning Scenario 1 & 2, D1 with Affordable Housing Premium Scenario 3 & 4 which triggers parking Rental rates: 1-bedroom \$860 - \$1209; 2-bedroom \$1069 - \$1488						
<b>Scenario:</b>	<b>1 4% &amp; 9% LIHTC<sup>1</sup> 75 PSH 40 WF 35 Mod</b>	<b>2 TWO 9% LIHTC 75 PSH 40 WF 47 Mod</b>	<b>3 TWO 9% LIHTC 80 PSH 60 WF 60 Mod</b>	<b>4 TWO 9% LIHTC 80 PSH 60 WF 60 Market</b>		

<sup>1</sup> Tax credits at 4% are non-competitive. Tax credits at 9% are competitive.

<b>ZONING</b>				
FAR	400%	400%	600%	600%
Number of Units	150	162	200	200
Floors	5-6	5-6	6-7	6-7
Parking Requirement	n/a	n/a	47	47
<b>DEVELOPMENT PRO FORMA</b>				
Total Dev Cost	\$38.2M	\$40.5 M	\$55.4M	\$55.2M
4% & 9% LIHTC Equity*	\$23.2M	\$28.2M	\$28.2M	\$28.2M
MSHDA Bond/Loan**	\$11.0M	\$12.3M	\$17.7M	\$21.0M
Add'l Gap Financing	\$4.0M	\$00.0M	\$9.5M	\$6.0M
<b>YEAR 1 OPERATING FINANCIALS</b>				
Annual Income	\$1.7M	\$1.9M	\$2.5M	\$3.3M
Total Operating Expense	\$0.9M	\$0.9M	\$1.1M	\$1.7M
Net Operating Income	\$0.8M	\$0.9M	\$1.4M	\$1.6M
Debt Payment	\$0.7M	\$0.8M	\$1.2M	\$1.4M
Net Cash Flow	\$0.1M	\$0.2M	\$0.2M	\$0.2M
<b>ANNUAL REVENUE TO CITY</b>				
Annual Lease***	\$87K	\$125K	\$136K	\$156K
Property Taxes/PILOT	PILOT	PILOT	PILOT	\$540K
NOTES:	* \$0.94 credit/\$1.00; **35 years at 5.75%; ***75% post audit cash flow			

One of the most important lines is the “Add'l Gap Financing”. That shows how much would be left after the LIHTCs. For scenario 1, \$4 million is a good amount. Are there any questions?

A. Carlisle: Why do scenarios 3 and 4 need parking?

J. Hall: As there are more units, the premium zoning was triggered requiring parking. 47 spots were the amount of parking spaces that we came up with.

J: Hall: Also, for these scenarios, we came up with about 50 scenarios and only put the 4 better options here. There are different challenges to consider such as needing 600 sq ft for each 1 bedroom apartment. These 4 scenarios all are made up of most 1 bedroom apartments.

Option 2: Mixed use developments, would be harder to enact and has two options to consider.

The first (2A) would be for the city to work with a private partner to develop a project for just the Y-Lot. There are many options that could be financially feasible. To maximize taxes, the City should issue an RFP to the private sector with a minimal amount of workforce housing required, such as 20%. There would be no supportive housing units and workforce units would be subsidized by market-rate units. The City would charge an annual lease payment and taxes as well. This scenario wouldn't fulfill our goals as it wouldn't include supportive housing units and doesn't utilize LIHTCs.

The other option (2B) would be to potentially partner with public entities such as the Ann Arbor District Library and AAATA for a mixed-use, mixed-income project. This partnership would work well with 100 to 200 units of permanent supportive housing and workforce housing due to the compatibility of uses and financial feasibility of an affordable housing project of this size. In addition, with 3 public entities partnering, the sites should include community event and meeting spaces.

This option would be more complex legally, financially, and politically but it would enable the City to address transportation, housing, parking, community space and the library's needs in a larger, integrated project. This scenario might not generate taxes, but the City could charge a lease amount. This option would, again, be harder to accomplish, but would accomplish our goals.

Option 3: Sell "as-is" is our last option, but wouldn't achieve many of the goals that we have. Based on our research, study, and SWOT analysis we would recommend option 2B as it best fits our goals.

Lastly, there are 4 policy recommendations we would recommend:

- If part of the residential portion of the site is permanently restricted by covenant to below-market rents, the parking requirements for the residential portion be waived or significantly reduced in a D1 district.
- The City should adopt a policy for City grant funding, limiting the per unit subsidy amount to \$100,000/unit and limiting the income target to 60% AMI.
- The PILOT ordinance should be amended to increase the maximum rent to 80% AMI for qualified PILOT projects to match the new IRS rules.
- The City should create a centralized waitlist for all income-restricted apartments that the City is monitoring through a covenant, that do not already have HUD or MSHDA waitlist requirements.

D. Blanchard: Should we make a resolution to support and recommend the findings of the study?

J. Hall: That wouldn't hurt. We would also like public process involvement as well.

**D. Blanchard moves to back recommendation (Option 2B) and the 4 policy recommendations. A. Erickson seconds. Motion passed unanimously**

Here is the resolution:

## Memorandum

In deliberation over the repurchase of the Y Lot, City Council directed staff to present several options for redevelopment as described in Resolution R-18-0719

Staff led by Jennifer Hall, Executive Director of the Ann Arbor Housing Commission has prepared a draft Staff Study to be provided to City Council as part of the packet for the Mon. Sept. 16, 2018 City Council meeting.

Prior to finalizing the memo, staff was able to present the draft Staff Study to the HHSAB for review and discussion. HHSAB provided several comments and changes that will be incorporated into the study.

In addition they supported the staff recommendations and offered to incorporate the recommended policy changes into their current and future workplan.

Whereas the City of Ann Arbor passed a resolution R-18-0719 May 1, 2018 directing the City Administrator to recommend to City Council a process by August 31, 2018 for redevelopment of the Y Lot incorporating a series of goals; and

Whereas the City Administrator directed a staff team to provide review and recommendations regarding this process including the development of a draft Staff Study dated Sept. 16, 2018 and

Whereas the HHSAB received the draft Staff Study and presentation on Thurs., Sept. 13 at their regular meeting, and;

Now therefore be it resolved that the Housing and Human Services Advisory Board (HHSAB) supports the Staff recommendation as provided in the Staff Study (Option 2B) and May it further be resolved that the HHSAB will incorporate the four policy recommendations into their work plan for review and action as necessary.

Moved: D. Blanchard

Supported: A. Erickson

Yays: T. Jabzanka, A. Erickson, J. Daniel, N. Wright, D Blanchard, A. Carlisle, E. Pollack

Nays: none

Absent: P. Sher R. Sarri, A. Foster, F. Tsui, G. Pratt, Z. Ackerman, A Bannister

## VI. City Council member update



N/A

VII. Public Comment

N/A

VIII. Adjournment

T. Jabzanka, Chair, adjourned meeting at 8:25 pm.

A. Erickson moved, E. Pollack seconded. Motion passed unanimously

DRAFT