Legislation Details (With Text)

File #:	18-1657 **Version:** 1	**Name:**	Final Draft Process for Y-Lot
Type:	Report or Communication	**Status:**	To Be Introduced
File created:	9/21/2018	**In control:**	Housing and Human Services Advisory Board
On agenda:	9/13/2018	**Final action:**	9/13/2018
Enactment date:		**Enactment #:**	
Title:	Final Draft Process for Y-Lot Feasibility Analysis		
Sponsors:			
Indexes:			
Code sections:			
Attachments:	1. 1800916 - Final Draft Process for Y-Lot		

Date	Ver.	Action By	Action	Result

Final Draft Process for Y-Lot Feasibility Analysis

SUBJECT: Development/Disposition of Property at S. 350 S. Fifth Avenue
DATE: September 16, 2018

PURPOSE: This staff study provides an analysis of the City's options for the development and/or disposition of the property located at 350 S. Fifth Avenue (the "Y-Lot").

SCOPE: On May 1, 2018, City Council adopted Resolution 18-0719 directing the City Administrator to recommend to City Council a process by August 31, 2018 that addresses the following requirements with regard to developing the Y-Lot (Goal numbers are inserted for ease of reference later in the study):

- **Goal 1**: The City will maintain some ownership of the Property (e.g. land lease).
- **Goal 2:** The City will seek to recapture the cost of exercising its rights in the Property while ensuring a sustainable financial model.
- **Goal 3:** The Developer will offer a mix of unit types and rents.
- **Goal 4:** The Developer will maximize the number of affordable and workforce housing units with a maximum of 110% of Fair Market Value as defined by the US Department of Housing and Urban Development.
- **Goal 5:** The Developer will accept Housing Choice Vouchers.
- **Goal 6:** The Developer will dedicate 50% of the ground floor to active and/or public uses

- **Goal 7:** The City may explore options with interested users to dedicate the ground level and levels immediately above and below for public use purposes and partner with a developer to incorporate these uses.

- If the City fails to reach an agreement to create a project that includes affordable housing (e.g. land lease) within 48 months of the City exercising its rights in the Property, then the prior restricting clauses will expire.

- If the City fails to reach an agreement and the property is developed under current zoning without restrictions, the City will dedicate a minimum of 50% of all future proceeds from the sale or lease of the land to the Affordable Housing Fund.

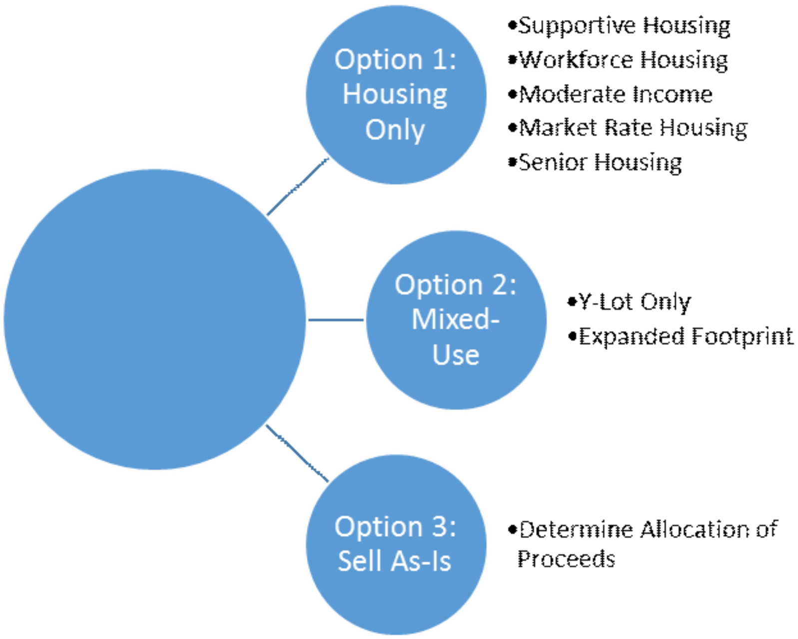
- If the City concludes the sale of the development rights at 319 S. Fifth Avenue to Core Spaces as authorized on April 17, 2017, $5 million from the sale price will be used to fund affordable housing and the remainder or the sale proceeds will be used to retire any debt incurred in the purchase of the property at 350 S. Fifth Avenue.

STUDY TEAM: The study team consisted of the following core group:

Howard Lazarus, City Administrator (Sponsor)
Jennifer Hall, Ann Arbor Housing Commission Executive Director (Lead)
Tom Crawford, Chief Financial Officer
Derek Delacourt, Community Services Administrator
Brett Lenart, Planning Manager
Teresa Gillotti, Interim Director Washtenaw County Office of Community and Economic Development

The team also reached out to over 30 individuals and entities to ensure the breadth of the staff study fully addressed the intent of Resolution 18-0719. Other engaged agencies include (but are not limited to) the Downtown Development Authority (DDA), the Ann Arbor Area Transportation Authority (AAATA), and the Ann Arbor District Library (AADL). The detailed financial analyses supporting the reviews and recommendations put forward in this document are provided as attachments.

IDENTIFICATION OF OPTIONS: In compliance with the Council's direction, staff has identified the three primary options for development or disposition of the Y-Lot depicted in the diagram below and described in the paragraphs that follow. Option 1 and 2 both include active or public first floor use. Detail sheets on each option are provided as attachments to this document.



BACKGROUND: The site analysis for the above uses, including eligibility for federal affordable housing assistance, included reviews of the following issues:

1) A partial Federal Environmental Assessment was performed in addition to the City's zoning and planning regulations. In addition to a Background Environmental Assessment (BEA), Phase I and Phase 2 Environmental Assessments would be required for any development. The Federal Environmental Review is required for federal affordable housing development funding and rent subsidies. A full Federal Environmental Review can cost $10,000 - $25,000 and can take 6-8 months to complete. 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.

The most common federal environmental impact issues in the City of Ann Arbor are properties that are in the floodway and/or floodplain, have excessive noise due to road traffic and railways, are in close vicinity to hazardous materials such as underground gas tanks, are a historic property and/or impact nearby historic properties, or have hazardous material contamination such as contaminated soils or hazardous construction materials such as lead-based paint.

Environmental Consulting Services (ECS) identified three potential issues:

- **Noise**. ECS did a preliminary noise assessment and did find moderately high noise levels that would likely prohibit the addition of exterior uses such as balconies for federally subsidized units, but that interior spaces could be remediated through noise reducing construction techniques such as triple-pane windows and insulation.

- **Historic Impact**. The State Historic Preservation Office needs additional documentation such as architectural renderings and the building footprint in order to determine whether there is a negative historical impact.

- **Potential Site Contamination**. Potential ground contamination will require further testing and would not necessarily prohibit a federally funded project, it would just require remediation. The potential historic impact and potential ground contamination will both require significant additional resources and testing to determine whether either of these issues would prohibit federal funding.

Based on the above analysis, the property appears to be eligible for federal funding but would require additional resources to complete a full Environmental Review to definitively determine if federal funding can be utilized.

2) Zoning. The property is zoned D1 which allows a 400% floor area ratio (FAR) by right. The lot area is assumed to be 34,848 square feet (SF) (132' x 264' = 34,848 SF (0.8 acres), providing for a building of 139,392 SF. 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). The City Code defines affordable housing as housing that is affordable to households at 80% AMI (Area Median Income) or less. The affordable units must be a minimum of 600 SF each. As an example, if all of the units were 1-bedroom 600 SF units, the code would require 59 permanently affordable units to utilize 900% FAR out of a total of 304 apartments. However, this is just an example, as the number of units and number of affordable units depends on the size, design and use of the new building. In this scenario 59/304 units (19%) are affordable units.

A developer could also request Planned Unit Development (PUD) zoning to permit flexibility in the regulation of the development. The PUD district is intended to accommodate developments with one or more land uses, sites with unusual topography or unique settings within the community or sites which exhibit difficult or costly development problems or any combination of these factors. If the development exceeds the underlying density requirements of the master plan, the development must include 10% affordable housing units if the density is up to 25% more dense, 15% affordable housing units if the density is more than 25% more dense, or pay cash-in-lieu to the Affordable Housing Fund.

3) Uses. This site has the potential 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.

The property can be structured in a variety of ways to manage the portion of the building that is commercial and/or public. The development process will be more complicated and will take a longer time to design and secure financing with multiple uses and/or multiple partners. And the shared development and operating risk can have both positive and negative consequences. The non-residential financing will likely be from traditional market-rate financing sources in the case of commercial uses or from taxes and bond financing for public uses. The non-residential portion will also generate additional parking requirements. Since the property is owned by the City, it is an opportunity to develop the property for community purposes that might not otherwise get built, such as a grocery store, pharmacy, medical clinic, museum, community meeting space, computer center, or civic facility and/or expand the AAATA footprint.

4) Parking. The underground parking structure next to the public library is designed to allow connection to additional underground parking under this site. 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 not required for the base 400% FAR in D1 zoning. However, 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. In the scenario above, code would require 175 parking spaces at a cost of about $14,000,000.

The city has a policy to allow contributions in lieu of required parking to provide a full array of transportation alternatives in the downtown. The contribution can include the purchase of monthly parking permits plus 20% of the permit parking cost for fifteen years. In the scenario above, the cost would be \$238/month at the 4th/William structure (1.2 x \$198/month = \$238/month). The total contribution at current permit rates (if there were no permit fee increases during the fifteen year period) would be \$7,497,000. Alternatively, the contribution can be \$55,000/parking space paid prior to the Certificate of Occupancy for a total of \$9,625,000.

Parking requirements will have a significant impact on the financial feasibility of including affordable housing units at this site. The site is conveniently located adjacent to the Blake Transit Center. Low and moderate-income households are less likely to own cars and therefore have the lowest demand on parking. However, the parking needs of the development are dependent on the use of the building. For example, restaurants, offices and market-rate housing will have higher parking needs than low and moderate-income housing. If the residential aspects of the property include apartments i with permanent below-market rents, staff would recommend that the parking requirements for the residential portion be waived or reduced significantly depending on the income target.

The DDA needs to be engaged as soon as possible to have a discussion about parking needs, parking requirements, parking management, and how parking will be funded.

5) Public Utilities & Public Roads. The location and size of public utilities including water, sewer, and stormwater can significantly impact the cost of construction if the developer must install or increase the capacity of public utilities. Likewise, the location and age of public streets, street lights and sidewalks can significantly impact the cost of construction if these public amenities do not exist or must be brought up to code. A downtown is generally a good location for a new construction project due to the existing public infrastructure in the downtown. In addition, a vacant property that was previously developed is more likely to have appropriately sized public utilities on or near the site.

The site is adjacent to a 12-inch water line and a sewer line that is 11-13 feet deep on William Street, which would allow for basement sewer if needed for laundry or bathrooms for example. A water infiltration test will need to be conducted with the Washtenaw County Water Resource Commission office to determine whether underground stormwater storage will need to be constructed or whether the soil is sandy enough to filtrate naturally. Downtown soils tend to be sandy and therefore this site might not require additional stormwater storage and filtration.

The site has existing roads, sidewalks and street lighting. Sidewalks may need to rebuilt after construction, but due to the compact size of the site, sidewalk construction will be minimal. Because the site is close to existing water and sewer lines, street cuts and repair would be minimal. The vertical construction minimizes impervious surfaces compared to a similar-sized project that is 3-stories tall but has a much larger footprint. The downtown location does however pose challenges with construction equipment and material staging compared to a larger site with horizontal construction.

6) Public Utilities Recovery Fees & Sanitary Sewer Flow Mitigation. All new construction sites in Ann Arbor are required to pay public utility recovery fees. The purpose is to recover capital costs for past system investment and to provide funding for future system improvements. New developments utilize existing public infrastructure that was previously paid for by the City and other previous developments. The capital recovery fees distribute the cost across all developments and helps to pay for existing maintenance as well as future improvements. The public utility recovery fee for this site under D1 Zoning with 900% FAR is estimated to cost \$550,000 - \$650,000 depending on the size and use of the new building.

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.

Developments that are adding sewer flow to the system must mitigate 110% of the estimated net new flow contribution from the development into the sanitary system. The sanitary sewer flow mitigation fee for this site under D1 Zoning with 900% FAR is estimated to cost $500,000 - $600,000 depending on the size and use of the new building.

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. For example, the ground floor and the levels immediately adjacent could provide for public uses and the City would lease that portion of the building to that public entity with a separate lease to the residential component above it. The City would recoup the purchase cost over time through lease payments instead of recouping the cost immediately by selling the property. The City would determine the appropriate monthly or annual lease payment for each lessee based on the owner, use and revenue generated. However, the financing mechanisms for those spaces could require ownership by the financing entity.

8) Financing. The supply of supportive and workforce housing cannot be increased in the Ann Arbor marketplace through either acquisition of existing market-rate housing or new construction without public financial support. That support can be in the form of grants, low-cost financing, reduced taxes, reduced-cost or no-cost land, high-density zoning, regulatory concessions and/or fee reductions.

City Council's goal of both maximizing the number of supportive and workforce housing as well as recapturing the cost to the City of acquiring the property can be met through a variety of strategies.

Grants. Programs like the City, DDA and Washtenaw County Brownfields Redevelopment Authority (WCBRA) Revolving Fund are important sources of local gap financing. These funds should not be used to pay for 100% of the cost of developing an affordable housing unit, they should be a source of leverage for other funds. In the past, these funds have provided $5,000 - $100,000/unit in subsidy. Staff recommends that the City adopt a policy limiting the per unit subsidy amount to $100,000/unit and limiting the income target for these units to 60% AMI.

Debt. Most projects require both construction loan financing to finance development prior to lease-up and a separate longer-term loan after development to take-out the construction loan. Just like a homeowner loan, the interest rate, equity (down payment) and term (length of time to repay the loan) all affect how much debt is affordable. Homeowners have to be able to make the monthly debt payments that they can afford and the developer/owner has to be able to make the monthly debt payment that the project can afford. Generally speaking, the rent revenue minus the operating expenses equals the net operating income (NOI). Debt (principal and interest) is paid from NOI. A lender will evaluate a project's NOI to determine whether there is enough cash-flow to make a monthly debt payment including a cushion such as 15%, called the debt-service coverage ratio (DSCR). In this case, if the annual debt payment is $100,000, then the annual NOI must be at least $115,000/year to meet the DSCR of 1.15 (i.e. 15%).

In addition, the lender will require the borrower to provide some equity so that the borrower has a vested interest in a successful outcome. For example, a lender might only loan 80% of the value of the project, which means that the developer/owner must provide 20% of the value of the project as equity. If the City leases the land rather than selling the land up-front to the developer, the value of the City's land can be used as equity in addition to cash equity.

Loans can be from local, state or national lenders and the interest rate and term follows the market. If a developer can access construction financing or long-term debt at a 4% interest rate instead of a 6% interest rate, this can save thousands to hundreds of thousands of dollars in interest payments, depending on the size of the project. In addition, just like a homeowner taking on a 30-year loan instead of a 15-year loan, if the term is longer, the monthly debt payment is lower. Reduced financing costs and lowering debt payments can enable a developer to include affordable and workforce housing units.

Equity Investment. There are a variety of ways a developer can raise capital to provide equity for a project. Equity is different from grants because an equity investor has an ownership stake and is expecting a return on the investment Equity is also different from debt in that equity repayment is variable because it is based on cash-flow and is a risk/market based return. Debt is a loan that does not require ownership and the debt is paid off in agreed-upon monthly installments. Depending on the financing, the value of the City's land can be used as equity even if the City leases the land.

Low-Income Housing Tax Credits (LIHTC). The single largest source of equity and debt financing for affordable housing is through an Internal Revenue Service (IRS) program called Low Income Housing Tax Credits (LIHTC). The 9% LIHTC is competitive but raises more equity than the 4% LIHTC, which is not competitive. The 4% LIHTC must be paired with bond financing (debt) and in Michigan, Michigan State Housing Development Authority administers the 9% LIHTC, 4% LIHTC as well as issues the bond. The LIHTC program can finance a project that is 100% low-income or a mixed-income project that includes market-rate housing. LIHTC funding can only be used for the portion of units that are low-income. LIHTC units can include units set aside for households up to 80% AMI but must serve an average of no more than 60% AMI.

Qualified Census Tract (QCT). For the purposes of LIHTC, a Qualified Census Tract is a census tract where at least 50% of the households have incomes of 60% AMI or less or at least 25% of the households are below the poverty line. The purpose of a QCT is to provide additional financial incentives to build in a low-income area, which in most communities are harder to attract development. However, in the City of Ann Arbor, almost all of the QCT's are in high student population areas, including the downtown. The former Y lot is in a QCT, which makes it eligible for a 30% increase in its eligible basis (expenses) for the purpose of calculating how much tax credits the project generates. For example, a tax credit project that has $1 million in eligible basis, can increase its eligible basis to $1.3 million if it is in a QCT. A portion of the cost to construct the commercial component can be included in the LIHTC basis because it is in a QCT.

Brownfield. It is expected that there are unsuitable and/or contaminated soils on site. This could make the site eligible for Brownfield Tax Increment Financing (TIF). TIF could be used to address environmental as well as non-environmental concerns such as public infrastructure, underground parking, etc. Further environmental testing is needed (Phase I and Phase II) to determine the extent of brownfield eligibility. TIF can help finance the portion of the property that is taxable.

Other Financial Incentives: Other communities have adopted millages, charged impact fees on market-rate development, levied taxes on other industries such as hotels/Air BnB to raise cash for affordable housing projects, and/or provided tax-exempt bond financing for affordable housing projects to significantly reduce the cost of debt. In addition, many communities are starting to dedicate a portion of their marijuana taxes to low-income housing.

Taxes. If the City leases the improvements (the physical building), the improvements can still be taxed. The property will be taxed based on the value of the improvements and use. Taxes are based on the type of building and value of the building, not based on the rents charged unless there is a permanent covenant restricting the rents, and thereby reducing the value of the property. Consequently, any apartments that are rented at below-market rate rents for moderate-income tenants will still be charged taxes based on the market rate rents if there is not a restrictive covenant. This has a significant impact on the number of moderate-income units that the project can afford. *The* *annual tax bill for a typical 1 bedroom 600 SF apartment at this site will be approximately $8,000/year. The rent for a 1-bedroom apartment at 80% AMI is $1395/month or $16,740/year. The remaining $8,740 must cover the cost of operations and debt.*

PILOT (Payment in Lieu of Taxes). The only way to significantly reduce taxes for affordable housing is through the City's Payment In Lieu of Taxes (PILOT) Ordinance. A project can only qualify for a PILOT if it meets the statutory requirements of having financing from a state or federally-aided mortgage; and if the ownership entity is a non-profit housing corporation, a consumer housing cooperative, a limited dividend housing association limited partnership, a limited dividend housing association limited liability corporation or a limited dividend housing corporation. In addition, the City of Ann Arbor limits the PILOT to households at 60% AMI or less. Congress recently amended the LIHTC regulations to increase the maximum income under the program from 60% AMI to 80% AMI. A LIHTC project can only include 80% AMI units if the average LIHTC unit is still 60% AMI. This new rule is intended to incentivize more 30% AMI units by off-setting the lower rent revenue with 80% AMI rents. Staff recommends that the City's PILOT ordinance be amended to increase the maximum rent to 80% AMI for qualified PILOT projects. It should be noted that a property cannot have both a PILOT and TIF financing on the same portion of the property.

9) Property Management. The property can be managed by a single entity or multiple entities if the building is divided into separate condominiums with separate owners. The property or condominiums within the property can be managed by a for-profit, non-profit and/or public entity.

10) Waitlist. If the City adopts a policy to develop underutilized city-owned property on a large scale with private-sector developers, then the City should consider adopting a centralized public waitlist for income-restricted apartments and condominiums. Currently, each private developer is responsible for marketing their affordable units to low-income households, collecting income documentation and certifying that the tenants meet the income qualification for the apartment. The City currently contracts with the Washtenaw County Office of Community and Economic Development (OCED) to annually review the rent and income certifications for these units as well as for PILOT units.

As the number of rent-restricted units grows, the City will need to provide additional funding to the County to conduct these annual certifications. As the inventory grows, potential tenants will have to contact each individual property manager to find out what the process is to rent or purchase a unit. A centralized waitlist will streamline the process for potential tenants, homebuyers and property managers. A centralized waitlist will also ensure a standardized, fair and public process to access income-restricted apartments and condominiums. Staff recommends that the City create a centralized waitlist for all income-restricted units the City is monitoring through a covenant. Properties that already have other regulators, like HUD or MSHDA, overseeing the waitlist and income and rent restrictions would be exempt from the centralized waitlist but would still be required to show evidence of compliance with the income and rent restrictions.

ANALYSIS OF OPTIONS: The three options identified above are analyzed in the following paragraphs:

Option 1 - Housing Development

Option 1 provides for development of the site as housing, including affordable housing. While there could be some ground floor retail or service activity, this option focuses on achieving a mix of supportive housing (PSH), workforce housing and market-rate housing. This option is dependent on leveraging a variety of federal, state and local resources to subsidize the permanent supportive and workforce housing. Each source of funding will have an impact on the tenant income target, rents charged, and services provided. This option allows the developer the flexibility to provide housing to a range of incomes within one or more ownership and property management structures. All residential scenarios include ground floor public or active space. A summary table for all types of housing discussed below is provided at the end of this section.

Permanent Supportive Housing

The parameters for permanent supportive housing are presented in the table below:

Permanent Supportive Housing	
Parameter	**Discussion**
Income Goal/Requirement	30% AMI or less
Rent	100% project-based vouchers. Enables the rent to that are financially feasible for the owner, but all te live in the building by paying 30% of their income fo rent subsidy pays the balance.
Configuration	Primarily 1-bedroom units with some 2-bedroom fo disabilities who require live-in aid.
Parking	Minimal parking required as tenants are unlikely to
Other Considerations	This option could also include efficiencies dependin funding sources. In order to meet most federal and housing accessibility requirements and to meet the affordable housing density bonus, the minimum un -site supportive services are provided. Front door c time basis (24/7) is ideal.

Workforce Housing

The parameters for workforce housing are presented in the table below:

Workforce Housing	
Parameter	**Discussion**
Income Goal/Requirement	Mixture of rent and income targets of 30% AMI to 6
Rent	Council Resolution 18-0719 limits rents to 110% of ($1,000/month for a 1-bedroom unit and $1,210 fo unit in Ann Arbor for 2018). These limits are very c AMI LIHTC rent limits. These rents will enable house or less with tenant-based vouchers to live in the un their income on rent.
Configuration	Mixture of 1-bedroom and 2-bedroom units. Efficie included depending upon funding source restrictio
Parking	Lower parking required as many tenants are unlike

Workforce housing is defined in this study as 30% -60% of AMI. A full-time minimum wage job currently pays

$19,240/year at $9.25/hour, which is about 29% of AMI. The maximum rent limit for a one-bedroom unit at 30% AMI is $523/month. A full-time job at 60% AMI for a one-person household is $39,050. The maximum rent limit for a one-bedroom unit at 60% AMI is $1,046/month under the LIHTC program. The maximum rent limit for a two-bedroom unit at 60% AMI is $1,255/month under the LIHTC program.

Moderate-Income Housing

Moderate-income housing is targeted at 61% of AMI to 100% of AMI. This range translates into the following monthly rental ranges:

Efficiency: $961 - $1,627
1-Bedroom: $1,001 - $1,743
2-Bedroom: $1,211 - $2,092

Market Rate Housing

Market-rate housing is uncontrolled and rental rates are established in comparison to and in competition with other housing in the downtown area. There are no income limits, and pricing is set based upon the mixture of bedroom sizes, unit configuration, and resident amenities offered. Parking requirements are generally higher because most residents are likely to own vehicles. Market rate housing can also include for-sale condominiums. The inclusion of market-rate units in a mixed-income development can help subsidize the rent for supportive, workforce and moderate-income households.

Senior Housing

Senior housing include households in which at least one member is aged 55 or older. Rental rates for senior housing are often higher than the basic rate due to the inclusion of on-site meals and other services. Senior units are primarily configured as 1-bedroom to qualify for federal or state subsidies, although some 2-bedroom market rate units may also be included and some units may be offered as for-sale condominiums. Senior housing have low to moderate parking requirements.

Senior housing may include a mixture of independent living, assisted living, skilled nursing and/or continuous care facilities. On-site services may be similar to those provided in permanent supportive housing developments including full time (24/7) on-site staff, medical assistance, case management, and recreational activities.

Summary Table

The table below provides a comparison of the options described in the preceding discussion.

	Supportive	**Workforce**	**Moderate**	**Market-Rate**
Income Target	30% AMI or less	30% - 60% AMI	61% - 100% AMI	Over 100% AMI
Efficiency Rent	$960 PBV	$488 - $960	$961 - $1,627	Market
1 Bedroom Rent	$1,000 PBV	$523 - $1,000	$1,001 - $1,743	Market
2 Bedroom Rent	$1,210 PBV	$627 - $1,210	$1,211 - $2092	Market

Rent Max determined by:	Funding Sources	110% Fair Market Rent	City needs to adopt formula (MSHDA rents used here)	Market
Tenant Rent Subsidies (tenant pays 30% income)	All Units have Project -Based Vouchers	Tenant-Based Vouchers eligible (up to 50% AMI)	None	None
1 Person Income Limit	$19,530	$39,060	$65,100	None
2 Person Income Limit	$22,320	$44,640	$74,400	None
3 Person Income Limit	$25,110	$50,220	$83,700	None
Parking Need	None	Low	Moderate	High
Other	24/7 front desk On-site services		Can include owner purchase	Can include owner purchase

For this chart, rent include all utilities (water, sewer, garbage, electric, gas). Rents reduced if utilities paid for by tenant.

Affordable housing units included in any development will require multiple funding sources. The unit sizes and income mix will be dependent on the funding that is available at the time of the development. For illustration, the table provided on the following page depicts different scenarios to determine affordable housing project feasibility with a range of income targets and uses. The table also indicates whether or not the policy goals established in Resolution 18-0719 are addressed. Once policy issues have been decided and a developer is selected, the numbers below will change and will be dependent on the market at the time of development. Please also note that this analysis is assuming that the project will be developed with Low-Income Housing Tax Credits (LIHTC), with LIHTC underwriting assumptions. The analysis does not follow the same underwriting assumptions that a market-rate development would. There is no return on investment (ROI) because the goal of affordable housing is to maximize the number of affordable units and to essentially "break-even."

OPTION 1 - HOUSING ONLY (SUPPORTIVE, WORKFORCE, AND MODERATE OPTIONS)						
POLICY GOAL ACHIEVEMENT						
Goal 1 La Lease	**Goal 2 Recover Initi**	**Goal 3 Mix of Units**	**Goal 4 Maximize Income/ Workforc**	**Goal 5 Accept Vouc**	**Goal 6 Ground Floo**	**Goal 7 Additiona Public Pu**
Yes	Yes	Yes	Yes	Yes	Yes	Yes
DESCRIPTION						
These scenarios are stand-alone residential projects with 5,000 SF first floor office/community space D1 Zoning S Premium Scenario 3 & 4 which triggers parking Rental rates: 1-bedroom $860 -$1209; 2-bedroom $1069 - $148						

Scenario:	**1 4% & 9% LIHTC 75 35 Mod**	**2 TWO 9% LIHTC 75 PSH 40 W**	**3 TWO 9% LIHTC 80 60 Mod**	**4 TWO 9% LIHTC 80 60 Market**
ZONING				

FAR	400%	400%	600%	600%
Number of Units	150	162	200	200
Floors	5-6	5-6	6-7	6-7
Parking Requiremen	n/a	n/a	47	47
DEVELOPMENT PRO FORMA				
Total Dev Cost	$38.2M	$40.5 M	$55.4M	$55.2M
4% & 9% LIHTC Equi	$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
YEAR 1 OPERATING FINANCIALS				
Annual Income	$1.7M	$1.9M	$2.5M	$3.3M
Total Operating Exp	$0.9M	$0.9M	$1.1M	$1.7M
Net Operating Incon	$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
ANNUAL REVENUE TO CITY				
Annual Lease***	$87K	$125K	$136K	$156K
Property Taxes/PILO	PILOT	PILOT	PILOT	$540K
NOTES:	*$0.94 credit/$1.00; **35 years at 5.75%; ***75% post audit cash flow			

Option 2 - Mixed Use Development

Option 2 envisions the development of a mixed-use and mixed-income development (including housing) on the Y-Lot or expanded to the adjacent AAATA lot. Due to its prominent location in the downtown, the City has been contacted by other entities with an interest in partnering to achieve multiple outcomes from the redevelopment. The two alternatives identified below present approaches for a stand-alone project and a combined development.

Option 2A: The City enters into a development agreement with a private partner to develop a stand-alone project on the Y-Lot only. The project could include a combination of the uses allowed under the zoning and a mix of market rate and workforce housing. There are endless possible scenarios that are financially feasible.

If the City's main goal is to maximize taxes, then the City should issue an RFP to the private sector with a minimal amount of workforce housing required, such as 20%. The Workforce housing component must accept vouchers as a form of payment, without a minimum income requirement. Under this RFP, it is assumed that if there are no LIHTC units then all of the units pay full taxes. There will not be any supportive housing units and the workforce units will be subsidized by the market-rate units. Under this RFP it is assumed that the City will not sell the property and therefore the City will charge an annual lease payment in addition to annual taxes. In addition, it is assumed that the City can be reimbursed up-front for the $5.75 million acquisition cost.

This scenario does not include an analysis because it does not include any supportive housing units and it does not utilize low-income housing tax credits. The City could choose to dedicate resources to design concepts and financial models in order to adopt a PUD prior to issuing the RFP.

OPTION 2A - Private Partnership Mixed-Use and Mixed-Income						
POLICY GOAL ACHIEVEMENT						
Goal 1 Land Lease	**Goal 2 Recover Initial Cost**	**Goal 3 Mix of Units & Rents**	**Goal 4 Maximize Low Income/ Workforce**	**Goal 5 Accept Vouchers**	**Goal 6 Ground Floor Active**	**Goal 7 Additional Public Purpose**
Yes	Yes	Yes	No	Yes	Yes	No

<u>Option 2B</u>: The footprint can be expanded if the City potentially partners with the Ann Arbor District Library (AADL) and the AAATA to redevelop the Y-Lot, AADL's current property at 343 S. 5th Avenue, and AAATA's Blake Transit Center at 371-399 S. 5th Avenue. 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.

Option 2B is more complex legally, financially, and politically but it would enable the City to addresses transportation, housing, parking, community space and the library's needs in a larger, integrated project. This option would include an expansion of the underground parking. Under this scenario, the City would not issue an RFP, but would enter into an agreement with the AADL, AAATA, DDA and the AAHC to develop the site for a multitude of public purposes. This scenario might not generate any taxes, but the City could charge an annual lease amount. This scenario does not include an analysis because it would require significantly more resources to design concepts, determine the legal structure and financing mechanisms for these public entities.

OPTION 2B - Public Partnership Mixed-Use and Mixed-Income						
POLICY GOAL ACHIEVEMENT						
Goal 1 Land Lease	**Goal 2 Recover Initial Cost**	**Goal 3 Mix of Units & Rents**	**Goal 4 Maximize Low Income/ Workforce**	**Goal 5 Accept Vouchers**	**Goal 6 Ground Floor Active**	**Goal 7 Additional Public Purpose**
Yes	Yes	Yes	Yes	Yes	Yes	Yes

Option 3 - Sell As-Is

If City Council moves forward with Option 1 or 2 and a project has not progressed satisfactorily to the City within 48 months, then Option 3 is to sell the property as is. Under this option, the City would seek to maximize the financial gain that could be realized by selling the property to a developer with no restrictions. The most recent appraisal the City had performed for the site estimated the value at ~$11.0M under normal development density (700 FAR) and current zoning (D1). Assuming a range of ± 25%, the City would realize between $8.25M and $13.75M. In total, the City purchased the property at an all-in cost of $5.75M, producing a net income of between $2.5M and $8.0M. Under the conditions Council established in its May 1st resolution, a minimum of 50% of the proceeds would be deposited into its Affordable Housing Fund.

OPTION 3 - Sell "As-Is"
POLICY GOAL ACHIEVEMENT

Goal 1 Land Lease	**Goal 2 Recover Initial Cost**	**Goal 3 Mix of Units & Rents**	**Goal 4 Maximize Low Income/ Workforce**	**Goal 5 Accept Vouchers**	**Goal 6 Ground Floor Active**	**Goal 7 Additional Public Purpose**
No	Yes	No	No	No	Yes	No

COMPARISON OF ALTERNATIVES: The purpose of this section is to compare the options to support the recommendations presented in the last section of the study. The first mechanism used to present the comparison is a side-by-side comparison of the options with respect to achieving Council's policy goals. As shown below, Options 1 and 2b can best achieve the objectives of Council. Option 2a has the potential to achieve many of the objectives of Council. Option 3, while it maximizes the return on initial purchase investment, is offered only as a last resort if the City is not able to obtain a development partner and will no longer be considered.

Council Goal		Option 1 Housing Only	Option 2a Private Mixed Use	Option 2b Public Mixed-Use	Option 3 Sell "As-Is"
1	Ma	Yes	Yes	Yes	No
2	Rec sus	No	Yes	Yes	Yes
3	Off	Yes	Yes	Yes	TBD
4	Ma uni	Yes	No	Yes	No
5	Acc	Yes	Yes	Yes	No
6	Ded use	Yes	Yes	Yes	TBD
7	Use use	Yes	No	Yes	TBD

The second means of comparison is a SWOT (Strengths-Weaknesses-Opportunities-Threats) analysis, which is provided below:

SWOT COMPARISON OF OPTION 1 (HOUSING) AND OPTION 2B (MIXED-USE)		
	OPTION 1	**OPTION 2B**
Strengths	• Maintains City ownership of proper be accomplished iwthiin 4 years • Re initial property purchase cost througl lease payments • Simpler - requires a entity • Provides more affordable un Accepts housing choice vouchers • D ground floor to actives uses •	• Maintains City ownership of proper Recovers initial property purchase co Provides more diverse funding optior Parking potentially at market rate • A housing choice vouchers • Dedicates floor to active uses

Weaknesses	• Provides low financial return to City Require parking subsidies or reductio market rate component • No tax retu	• No tax return to City • No market ra component
Opportunities	• Replaces 100 very affordable housi that were previously on site	• Provides opportunities to address t AADL needs and concerns • Replaces affordable housing units that were pr on site • Each of the stand-alone affo housing analyses above can be a con combined with other public uses in se condos
Threats	• Will be difficult to receive 2 9% LIHT in same funding round	• Complex - involves multiple parties not be achievable within 4 years

RECOMMENDATIONS:

Staff recommend pursuing **Option 2B.** In order to maximize community input and develop a vision for a broader scope. The following next steps are recommended:

1. Contract with the appropriate professionals to develop conceptual plans and conduct a series of public engagement meetings to seek input and identify preferred uses for the site. The AAATA and DDA have agreed to partner with the City, each contributing $25,000 to engage the appropriate professionals. The Library Board may also be interested in exploring options through a public engagement process.
    a. Development of the conceptual plans will allow the community and stakeholders to gain an understanding of what each option could provide on the site, the mix of potential uses and most importantly to visualize what the site will look like and how it will function.
    b. Seek feedback from the community regarding the potential options and provide clarity regarding design and massing of the site and incorporate feedback into a final recommendation.

2. Complete additional site review to include a full federal Environmental Review, BEA, Phase I, Phase II, and water infiltration study.

3. Initiate discussions with DDA about parking and other DDA resources. Determine what resources the City and DDA will make available for the site (i.e Brownfield TIF, Affordable Housing Fund etc).

4. Provide City Council and other applicable boards and commissions with a recommendation regarding which option to move forward.

5. Refine and seek additional public input on the preferred option.Solicit appropriate development partners to develop the approved PUD project.

Staff also provides the following policy recommendations:

1. 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.

2. 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.

3. The PILOT ordinance should be amended to increase the maximum rent to 80% AMI for qualified PILOT projects to match the new IRS rules.

4. 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.

ATTACHMENTS
1 - Scenario 1 Financial Analysis
2 - Scenario 2 Financial Analysis
3 - Scenario 3 Financial Analysis
4 - Scenario 4 Financial Analysis