

Ann Arbor Economic Development Assessment



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Ann Arbor Economic Development Assessment

Executive Summary

As part of a review of the City of Ann Arbor's economic development history and efforts, Carlisle Wortman Associates (CWA) was engaged to evaluate both internal and external parties who are involved in economic development that influences the City. In consideration of available resources, CWA retained the assistance of Urban Innovations to assist in the research and development of this report. This work commenced with the development of an outline which provided framework for examining the economic development goals of the City, background research on familiar economic development tools and organizations, opportunities to enhance those tools/organizations as well as new organizations to partner with and a final recommendation to attain the City's economic goals.

Upon the review of available information and the experience of professional staff with diverse backgrounds, it is clear that significant economic activity already exists within the City but, in many cases, done so with the guidance of an economic development strategy formulated by the City. With economic challenges surfacing, the City seeks to be proactive in coordinating economic efforts moving forward as opposed to the modus operandi of arm's length involvement with assumed gains. This report concludes with recommendations that the City requires a Plan on which to base its economic development decisions along with high-level staffing to guide and grow the City's efforts. These efforts are dependent upon each other in that one cannot attain success without the other.

Ann Arbor's assessment of economic development within its boundaries and beyond comes at a crucial time in urban development. Building on a decade of momentum, the City is not alone in being faced with both unique and historical economic challenges. COVID has challenged the traditional workplace with work from home, keeping more individuals from downtowns, especially as a workplace. Interest rates have doubled in four (4) years challenging the cost of new development and the stabilization of existing commercial property. Labor shortages are changing the cost of employment, a key line item in most commerce equations. This is a short list of headwinds facing the global economy of which Ann Arbor interacts and seeks to stabilize economic operations and capitalize on emerging growth opportunities.

Introduction and Purpose

Ann Arbor, Michigan, is a unique and vibrant city known for several distinctive features and qualities, including a sustainable and eco-friendly community with progressive values, strong neighbors supported by numerous parks and natural areas, and a hub of research and innovation including the University of Michigan. These unique features combine to make Ann Arbor a distinctive and appealing city with a strong sense of identity and a welcoming atmosphere.

With these great assets, Ann Arbor is a major economic engine for the region. The city recognizes the major existing partners already doing quality economic development including SPARK, Ann Arbor Downtown Development Authority, the Ann Arbor/Ypsilanti Local Development Finance Authority, the Ann Arbor Economic Development Corporation and The University of Michigan.

Ann Arbor's economy is evolving, becoming larger, more complex, more innovative, and more diversified. The workforce is becoming larger, younger, and much more diverse, which is creating and supporting new startups, small businesses, and fast-growing companies in key high-growth industries.

Due to the macro and local economic conditions as well as livability factors listed below, Ann Arbor has benefited from organic economic development over the past several decades.

- The City's founding in 1824 along the Huron River, a key transportation corridor and source of industrial waterpower, while also serving and draining a strong agricultural hinterland.
- Ann Arbor's regional location between Detroit and Chicago, two of the Midwest's most important economic centers.
- Ann Arbor's proximity to Detroit/SE Michigan, a global center of worldwide automobile/vehicle industries, including very significant related engineering/design, manufacturing, management, and financing organizations.
- The re-location of the University of Michigan to Ann Arbor in 1837, and its presence today, including:
 - The outstanding academic program with over 50,000 students and over 25,000 faculty, staff, and support personnel; and
 - The world class University Hospitals and Michigan Medicine, served by over 25,000 staff persons.
- Downtown Ann Arbor – a vital central business district and livable/walkable neighborhood
- Stable residential neighborhoods.
- Outstanding public and private K-12 and higher education schools and facilities, including Eastern Michigan University, Washtenaw Community College and Concordia University
- Rich cultural, heritage, and faith-based institutions, resources, and programs.
- Outstanding City parks and natural areas.

All of these factors provide natural momentum and an economic baseline for continued investment in the City which preserves and enhances economic vitality and prosperity. It has happened naturally, without needing special attention or highly organized economic development activities. Each of the entities and programs and factors discussed in this report have their own reasons for preserving/protecting and enhancing Ann Arbor's present and future growth.

However, the City of Ann Arbor, has not had a formal economic development strategy, and the city has identified economic gaps and lost opportunities. The City's current economic strategy is disjointed, to the extent that it has one, and is largely defined by its other economic development partners. Without a strategy, the city has been reactive rather than proactive in economic growth. A cohesive economic development strategy would allow the City to effectively focus its public resource expenditures in a concentrated and orderly manner.

An economic development strategy is essential to achieving measurable, sustainable economic growth. By creating a formal strategy, Ann Arbor can proactively set clear and attainable economic development objectives, and design ED policies and programs to drive additional untapped economic success. To effectively operate in an increasingly competitive regional, state, and national economy, and in order to encourage economic development, the City is advised to create market- and policy-driven ED strategies.

What is Economic Development

Economic Development is the creation of material wealth from which community benefits are realized. It is more than a jobs program; it's an investment in growing your economy and enhancing the prosperity and quality of life for all residents. Economic development means different things to different people. On a broad scale, anything a community does to foster and create a healthy economy can fall under the auspice of economic development. From a public perspective, local economic development involves the allocation of limited resources – land, labor, capital and entrepreneurship in a way that has a positive effect on the level of business activity, employment, income distribution patterns, and fiscal solvency. The overall goal of economic development is to improve the economic well-being of a community.

Economic Development Strategy Goals

The City of Ann Arbor should have an economic development strategy for several compelling reasons:

- I. **Economic Growth and Job Creation:** An economic development strategy helps stimulate economic growth and job creation within the city. By attracting new businesses, encouraging entrepreneurship, and supporting existing industries, the city can expand its tax base, create jobs, and generate additional revenue, which can be used to improve public services and infrastructure.
- II. **Housing:** Using economic development to foster the creation of substantially more market rate and affordable/workforce homes and apartments throughout the City.

- III. **Walkable Neighborhoods and Commercial Business Districts:** Undertake a concerted effort to address existing neighborhoods and commercial districts to make them more walkable, more economically relevant, and more safely accessible for neighbors.
- IV. **Building Regeneration and Transformation:** Converting existing underutilized buildings into new uses and encouraging new projects to meet emerging residential, business, and community needs.
- V. **Infrastructure:** Continuous attention to and revitalization/enhancement of all municipal infrastructure, including water, wastewater, DTE electric and gas utilities, roadways, sidewalks/trails, internet services, etc. A well-planned strategy can ensure that the city's infrastructure, including transportation networks, utilities, and public spaces, keeps pace with the demands of a growing economy.
- VI. **Business Retention and Attraction:** Understand and help existing local businesses to strengthen and grow their core capabilities,
- VII. **Sustainability:** An economic development strategy can incorporate sustainability goals, promoting environmentally friendly practices and industries. This can reduce the city's carbon footprint, conserve natural resources, and position Ann Arbor as a leader in sustainable development.
- VIII. **Resilience:** Economic development strategies can also focus on building resilience against economic downturns. Diversifying the local economy and supporting a mix of industries can help the city weather economic challenges more effectively.

As a global city, Ann Arbor faces economic competition not only from neighboring municipalities and the region, but also nationally and internationally. An economic development strategy unique to the City of Ann Arbor will ensure that the city remains competitive by identifying its unique strengths and assets, which can be leveraged to attract businesses, talent, and investment. The strategy will help the city make informed decisions about how to allocate resources and attract investment, ultimately benefiting both the local community and the broader region.

Assets

The City of Ann Arbor should build upon its existing economic development assets to promote sustainable growth and prosperity. These assets include:

- **Education and Research Institutions:** Ann Arbor is home to the University of Michigan and in close proximity to Eastern Michigan University. The universities, especially the University of Michigan, are a major economic engine through its research and innovation, technology transfer and startups, talent pipeline, and healthcare. In summary, the University of Michigan serves as a major economic engine due to its contributions to research, innovation, education, and community engagement. Its activities have a positive impact on the local, state, and national economies by driving technological advancements, creating jobs, and supporting various industries.
- **Innovation and Technology Hub:** Ann Arbor is emerging as an innovation and technology hub. Factors that contributed to Ann Arbor's status as an innovation and technology hub include University of Michigan, its startup ecosystem, numerous tech companies, research and development, talent pool, robust investment and funding, and widespread collaboration. Encouraging tech startups and providing resources like co-working spaces, incubators, and accelerators nurture a thriving tech ecosystem.

- **Healthcare and Biotechnology:** The presence of the University of Michigan Health System and other healthcare institutions makes Ann Arbor a strong contender in the healthcare and biotechnology sectors. Investments in these areas can lead to job creation and economic growth.
- **Cultural and Arts Scene:** Ann Arbor's thriving cultural and arts scene contributes to economic development by attracting tourists, creating jobs, boosting real estate values, supporting small businesses, fostering education and creativity, enhancing the city's identity, and improving overall quality of life. It is an integral part of a holistic approach to economic development in many communities.
- **Green Initiatives:** Ann Arbor has a strong commitment to sustainability and environmental conservation. These green initiatives are not only environmentally responsible but also economically advantageous. They drive job creation, attract investment, reduce costs, improve public health, foster innovation, enhance resilience, and enhance a city's overall competitiveness, contributing to sustainable economic development.
- **Workforce Development:** Investing in workforce development programs, vocational training, and education can ensure that the local workforce is equipped with the skills needed for the jobs of the future.
- **Quality of Life:** Ann Arbor has recognized high quality of life including quality of life including numerous parks and open space, recreational facilities, high quality public and private schools, world-class health care, culture and arts, public transportation, and the numerous amenities from the University of Michigan. Maintaining and building upon the existing high quality of life in Ann Arbor will increase economic development through talent retention, business support, productivity and innovation advancement, increased tourism. A high quality of life creates a positive and thriving environment that encourages economic activity and investment.

Incorporating these assets into a comprehensive economic development strategy will help the City of Ann Arbor attract investment, create jobs, and ensure a sustainable and prosperous future for its residents and businesses. It's important for the city to involve stakeholders, conduct feasibility studies, and adapt its approach over time to respond to changing economic conditions and opportunities.

Use of the Strategy

Economic development plans are carefully and strategically built frameworks. Long-term in scope, they provide a pathway that Ann Arbor can follow to overcome diverse, often challenging situations. The Plan should be updated every 3-5 years to ensure they align with ever-changing needs and to keep pace with change and uncertainty in the economy. The following information regarding programs, strategies, opportunities and partnerships (new or existing) will highlight these different assets and how they can be better utilized. It will also provide a recommendation in the form of a “**Plan to Plan**” in which a direction is recommended for a unified economic development effort going forward.

Existing Organizations and Backgrounds

This section will examine the prominent organizations that either directly or indirectly influence economic development within the city. Only two entities have been established to operate solely for the benefit of the City, while the balance is cooperative efforts. Where relevant, specific programs associated with these entities will be examined as well. In addition, each section is concluded with considerations to utilize each organization to more effectively advance city economic goals.

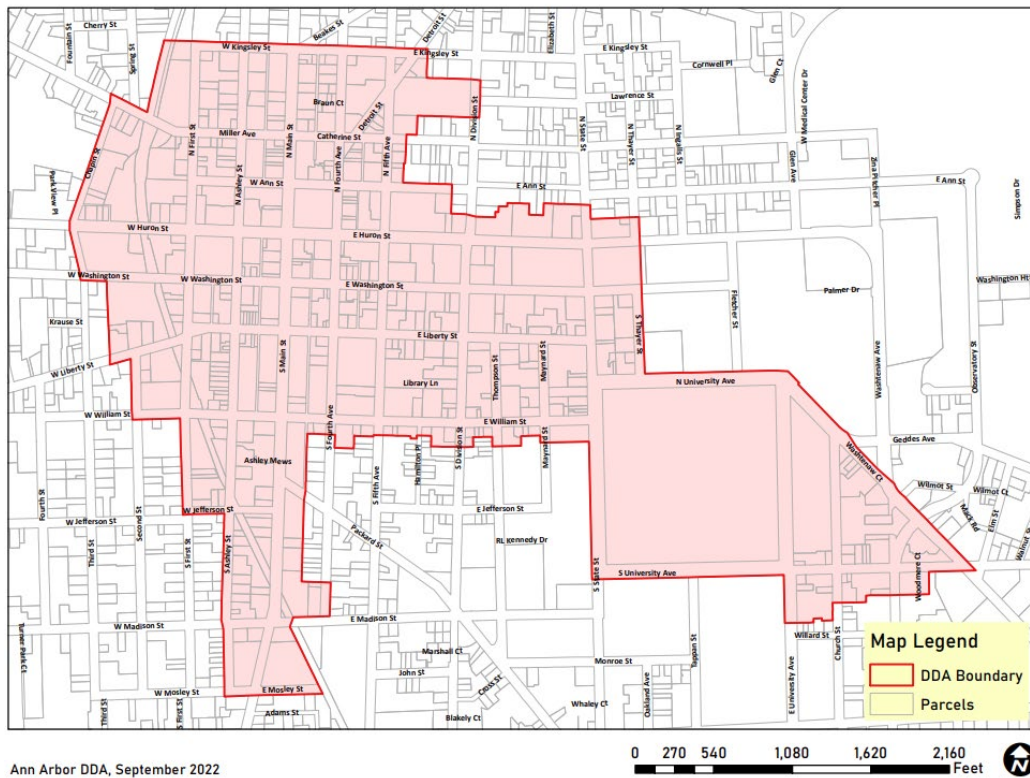
Ann Arbor Downtown Development Authority (DDA)

The DDA was created by the City of Ann Arbor in 1982 to initially address the impact the downtown was experiencing due to the construction of new shopping centers at the perimeter boundaries of the city. Since its inception, the DDA's role has expanded to have more direct responsibility for overseeing and managing various public elements of Downtown Ann Arbor. Since its inception in 1982, the DDA has generated and contributed millions of dollars to downtown infrastructure systems (water, wastewater, stormwater), public open space, public sidewalks and streets, downtown parking garages/lots/and on-street parking; new and renovated housing projects, public transportation and various bicycle/biking programs.

As a creation of a municipalities governing body, Michigan law requires a DDA to be accountable in the following ways. First, the DDA prepares a Development and Tax Increment and Financing Plan that is adopted by City Council. In the case of Ann Arbor, the Plan was originally adopted by City council in 1982 and amended in 2003. The 2003 Amended extended the term of the DDA to 2033. Second, the Board members of the DDA are approved by the City Council. The Chief Executive Officer of the City (either the Mayor or Manager) serves as a member of the DDA Board. In the case of the Ann Arbor DDA, the City administrator serves as the Board member, which has been highly beneficial for coordination between City Departments and the DDA. Finally, the DDA Director is required to prepare an annual budget. Before the DDA Board approves the annual budget, it must first be approved by the City Council. As with all expenditures that impact the City, the budget approval process is a means for the council to impact DDA policy.

The DDA is defined by the "DDA District Boundary", as shown below. The DDA District encompasses approximately 271 acres, . This includes all or portions of 67 city blocks. The district covers all five City wards. It includes four commercial Area Associations: Kerrytown District Association, Main Street Area Association, South University Association, and State Street Area Association. The DDA District also includes 9 historic districts and 49 historic buildings.

Ann Arbor DDA Boundary Map



Approximately 72 acres of land within the DDA are in public use, including 42 acres within the University of Michigan. In addition, public land developments include the City of Ann Arbor, Washtenaw County, and Ann Arbor School facilities and buildings, parks, and other civic facilities, including the Farmers Market and the AATA Blake Transit Center.

Programs

Property Tax and Tax Increment Financing

The DDA uses tax increment financing to fund operations, projects, and programs. Tax increment financing permits the DDA to capture the incremental value in the increase of property taxes which results from either new development or the improvement of existing buildings within the District. The captured tax dollars are reinvested within the district for either infrastructure improvements or programs that contribute to the overall economic enhancement of downtown. The justification is that these public improvements and programs lead to new private investment in the downtown district.

In addition to making substantial investments in downtown infrastructure, the DDA has also contributed significant tax dollars to making housing more affordable. Among the

objectives of the program has been to provide additional housing for a downtown workforce that are service providers.

DDA Parking Resources and Revenue

There are seven DDA parking decks and nine surface parking lots in the District. The DDA was given responsibility for managing public parking in these city-owned facilities as well as on-street public parking spaces (located mostly within the DDA, but also outside the DDA boundaries). While the majority of the funds generated by the parking system are used to operate and maintain parking facilities, some of the net revenues support DDA activities and a portion are also provided to the City's General Fund.

Opportunities

The DDA has effectively overseen and managed public facilities and priorities in downtown Ann Arbor over the past two decades. In order to facilitate and leverage downtown Ann Arbor's very attractive community, business, and investment opportunities, it is recommended that the City intensify its economic development coordination activities with the DDA, especially those activities that are in alignment with the DDA's key strategies (Business Encouragement, Housing, and Development Partnerships).

Given the success the DDA has exhibited in other areas it is reasonable to suggest the DDA could be brought in to support more broad economic development efforts sought by the city. For example, potential rests in the ability of the DDA to provide match funding for grants that could leverage further supplemental financial or capacity support from the city. An issue which both the City and DDA can and should address is the challenging conversion of downtown office space to other uses (predominantly residential). There is a significant amount of vacant office space downtown that is not likely to be occupied by new office users. However, older office space is difficult to repurpose. A site-based tax increment investment initiative, such as the one adopted by Troy, is one means to assist in creating an incentive to convert such space to new uses. Such a site-based program does not involve new TIF dollars but rather the reallocation of existing TIF dollars to invest in specific redevelopment projects. +- It is likely that more focused and strategic coordination between the City and the DDA would result in significant economic development results. This coordination will require the City to dedicate new attention and human resources to the effort.

Ann Arbor Economic Development Corporation (AAEDC)

The Economic Development Corporation for the city of Ann Arbor assists in the attraction, relocation, retention and expansion of profit and non-profit organizations. Its primary focus is the growth of employment and desirable business base for the city. The AAEDC's most prominent resource to accomplish these goals is the issuance of tax-exempt revenue bonds. This tool allows borrowers to receive savings in financing costs due to significantly lower interest rates. The AAEDC also offers referral and ombudsman services to the public and works cooperatively with the City, other area economic development corporations and similar entities involving matters of common interest.

Programs

Keeping to the parameters available to conduct research for this report, the general information available on the AAEDC's services, accomplishments and vision are limited which itself appears to be a constraint to the organization's operations. Some information regarding the department's financial services highlighted public and private organizations who have utilized the AAEDC's revenue bond program are available but quantified specifics regarding the benefits of the program were not available online. It should be noted that this financial support is offered to manufacturing projects and/or 501c3's. Organizations who utilized the AAEDC's services are shown below:

- Climax Molybdenum
- Parke Davis
- G. T. Products
- Ann Arbor Computers
- Ervin Industries.
- Ann Arbor YMCA
- Greenhills School
- ERIM
- Industrial Technology Institute

Opportunities

The AAEDC is discreetly located within the city's Finance and Administrative Services Department. Prior to, and after, the city's revamping of its website, it is not obvious to the end user on where to find the AAEDC. The term "Economic Development" does not appear on the home page of the City's site. This inadvertently establishes the organization as a low priority. Currently, all inquiries are directed to a third-party legal services contractor as opposed to a city employee. There is no record of meetings online which - whether accurate or perceived - implies that the department does not meet regularly and may not have proactive functions.

Given the recommendations offered later in this report, if determined to best serve the city in its current structure and programming, it should be considered to rebrand the AAEDC to clarify services and reduce confusion given the broad implications “Economic Development” implies. Either effort will ensure interested parties can engage these recommended options with ease and without confusion as to their purpose.

Regardless of a lack of marketing and potential underutilization, the AAEDC does have important networks that could be bolstered and maintained under any revamping considerations for the city’s economic development efforts. These networks include AAEDC’s board of directors which includes representatives from SPARK, U of M and local business leaders.

Ann Arbor Housing Commission (AAHC)

Housing is at the heart of any community and every neighborhood and is a key component of a comprehensive economic development strategy. The Ann Arbor Housing Commission is dedicated to meeting the City’s housing needs and goals. Annually, the commission assesses the needs and creates a plan to address the policies, programs, operations and strategies required to meet those needs and goals.

Programs

The Commission manages all housing-related programs and goals for the City, including the following specific activities :

1. Managing Housing Choice Vouchers (Section 8) or Affordable Housing units owned by the Commission.
 2. Administers the Eviction Prevention program.
 3. Administers the Homeownership program for low-income households.
 4. Accepts donations for Support Services for Affordable Housing Projects
- Participates in numerous community presentations about the AAHC, the local affordable housing market, and local housing generally.

The Commission currently leads high priority efforts to advance the City’s housing goals through its:

1. Recent successful millage which is generating over \$6 million annually toward its efforts;
2. Continuing advocacy and financial support for more workforce/affordable units within the City and community; and
3. Continuing partnerships with other non-profit housing advocacy and development organizations such as the Washtenaw Housing Alliance and Avalon Housing.

4. Notably, in early October 2023, the AAHC (through its sister organization, the AA Housing Development Corporation) received an \$8 million grant from the State MEDC RAP 2.0 program.

Current or planned significant new affordable/workforce housing projects in the City include: The former Y Lot 2-building project; the Kerrytown/Avalon project; 415 W. Washington, and others.

Opportunities

Through its housing development and advocacy efforts, The AAHC is in a key position to be a key partner in the advancement of economic development efforts in the City. A comprehensive economic development strategy would include strong and effective coordination with the AAHC on various housing development activities, including, for example, the following efforts:

1. Identification of the most important portions of the City for new and workforce housing
2. Land acquisitions for key housing projects
3. Identification of potential public and private funding sources for new housing in the City; the recently-received MEDC RAP 2.0 grant is a prime example of new public funding sources for housing development
4. Regular surveys of housing needs and the supply (adequacy/inadequacy) by population groups
5. Coordination of new housing with other non-residential projects to create more cohesive community-enhancing places and neighborhoods.

Ann Arbor / Ypsilanti Joint LDFA and SMARTZONE

The State of Michigan, through PA 248 of 2000, established the SmartZone program designed to foster the development of high technology enterprises through commercialization of university technologies and the establishment of new firms. The SmartZone program a Local Development Finance Authority (LDFA) to use tax increment financing to create or promote the development and attraction of high-technology activities to the designated SmartZone. The legislation allows the captured funds to be used to develop business incubators, improve property and market the area to attract high-tech businesses. SmartZones are established to be cooperative in nature by requiring partnerships that link business development and location with the technologies and technology transfer functions of the state's universities.

In October, 2000, the Ann Arbor Downtown Development Authority submitted a proposal for SmartZone status on behalf of the cities of Ann Arbor and Ypsilanti (the

"Cities"), and a variety of partners, including: Washtenaw Development Council, University of Michigan, Eastern Michigan University, Ann Arbor and Ypsilanti Downtown Development Authorities, Small Business Development Center and Ann Arbor IT Zone. The proposal was designed to enhance existing efforts in high technology business formation and attraction being undertaken by the SBDC, universities and the IT Zone.

As a result the Ann Arbor proposal received approval from the State as one of eleven designated SmartZones. The State SmartZone legislation allows a community designated as a SmartZone to establish an LDFA, which may cooperatively establish a "certified technology park".

The Ann Arbor/Ypsilanti SmartZone plan was adopted by the City of Ann Arbor and City of Ypsilanti on June 27, 2002 and the County of Washtenaw on July 17, 2002. The boundaries of the Ann Arbor/Ypsilanti SmartZone LDFA are essentially the same as the DDA boundaries for both communities.

In 2012, the Michigan legislature allowed for the extension of the SmartZone LDFA's , subject to certain new requirements. The Cities of Ann Arbor and Ypsilanti as host cities for the Ann Arbor/Ypsilanti SmartZone LDFA successfully sought extension of the SmartZone for an additional fifteen years.

The LDFA SmartZone captures only those taxes that are not otherwise captured by either of the DDA's. However, under the SmartZone legislation, the LDFA is able to capture a percentage of local school operating millage along with State education taxes. Currently, the LDFA TIF is capturing in excess of \$4,000,000 per year, which comes solely from the Ann Arbor capture.

Opportunities

The LDFA is governed by a nine-member board, the majority of which represent Ann Arbor. However, unlike the DDA, neither the Mayor or the City administrator are members. Thus, the LDFA doesn't enjoy the same opportunity to coordinate with City Departments as does the City's DDA. Although the LDFA conducts specific projects to support the LDFA District, such as providing funding to the fiber optic network program, approximately sixty percent of its funding goes to support SPARK, its largest service provider. However, the LDFA operates with a fund balance approaching \$2,000,000. Thus, the City should be exploring potential uses of the fund balance for additional economic development efforts.

Spark

SPARK is a 501 c(3) corporation representing Washtenaw and Livingston Counties, including Ann Arbor, to be a catalyst and promote economic growth capitalizing on the assets of the region. SPARK's mission is to *"advance the economy of the Ann Arbor region by establishing it as a desired place for innovation, business location and growth, and for talented people to live and work. The Ann Arbor region will be recognized for its academic, business, and community resources, and its collaborative culture."* SPARK relies on funding from a variety of sources, including contributions from local government to assist existing businesses, prospective businesses considering entering the area, as well as startups.

One of SPARK's more important roles as it influences economic development in the region is its position as a conduit for state economic development incentives via the Michigan Economic Development Corporation. This is both an asset and challenge to the City's direct economic development efforts. While SPARK is reliant on LDFA funding, the majority of which comes from Ann Arbor, it is a non-profit organization governed by an independent board. It also represents all the communities of Washtenaw and Livingston Counties. Therefore, SPARK has established an approach to economic development that may be more broadly based than one individual community. On the other hand, partnering with SPARK on a more broadly based mission allows the City to focus on more specific economic development needs that may not be a priority to SPARK.

Programs

SPARK offers a variety of services as shown below:

Entrepreneurial Services

- Affordable office space for startups
- Entrepreneur Boot Camp
- Expert counsel to entrepreneurs
- Access to funding opportunities
- Educational & networking events

Business Development

- Local business expansion
- Business attraction
- Business introductions & referrals
- Site search and selection
- Incentive support
- Talent services

Marketing

- Promoting company successes
- Amplifying visibility of the best & brightest
- Supporting the needs of startups
- Publicizing the region to a global audience

Opportunities

Ann Arbor contributes \$75,000 annually from the general fund to the SPARK operating budget which is approximately .5% of the organization’s total annual budget. However, the SmartZone Local Development Finance Authority (LDFA) contributes approx. \$4.5 million to SPARK’s annual budget, which account for nearly half of SPARK’s budget.

These funding tools and varied geographies can be a good source of collaboration and regional cooperation considering the numerous parties involved working towards a broad goal. Given the relationship between Ann Arbor and SPARK is of mutual necessity, a key goal of the new potential economic development strategy should be to work more closely with SPARK to leverage its substantial resources, including its seasoned staff, extensive business enhancement programs, and strong regional and national/international reputation. This cannot be facilitated without the proper capacity within the City to keep the relationship robust and salient.

As discussed later in this report, a central entity or individual placed within the City to navigate this relationship but also provide better internal City access to SPARK personnel and customers would provide synergies that have since functioned as silos. Start-up or established businesses in the region are typically directed to MEDC programs through SPARK. If Ann Arbor is a part of these facilitations earlier via coordinated communication with SPARK, it could provide a strong one-stop-shop approach to facilitate business start-ups and growth within the city proper.

Washtenaw County (WC)

As it relates to economic opportunity and the city of Ann Arbor, Washtenaw County’s two primary programs that influence development are the Washtenaw Urban County (WUC) program and Washtenaw County Brownfield Redevelopment Authority (WCBRA). Both are housed within the Community and Economic Development Department. While focused on the county as a whole, the City is a primary participant in these two departments.

Programs

Brownfield Redevelopment Authority (WCBRA)

The WCBRA offers resources to approved Brownfield projects via TIF funding and/or funds from the Authority's Local Brownfield Revolving Fund (LBRF). Property owners are able to leverage funding via loans or bonds with the security of future taxable values revenues based on the specific project. LBRF funds are capitalized from dedicated tax increment revenue (TIR) captured from projects within member communities of the Brownfield Authority. TIF funds can reimburse projects for eligible activities such as environmental clean up, demolition, due care, due diligence and environmental insurance. Projects in Ann Arbor and Ypsilanti are eligible for additional reimbursable activities such as funds for parking facilities, project specific infrastructure, site preparation and stormwater management. LBRF funds can be provided in the form of grants or loans for similar eligible activities.

Since 1999, the WCBRA has approved twenty-nine projects within the county. Of those, sixteen are located in Ann Arbor, two of which are currently under construction. Projects specific to the city have generated an approximate investment of \$730,000,000. It was estimated in 2019 that for every \$1 in TIF investment, \$12.50 in private investment is leveraged. With that investment, over two thousand jobs have been created. Newer projects are also incorporating affordable housing as a facet of their development. The Beekman on Broadway development will offer fifteen units of affordable housing as part of a collaboration on the City providing funds for the parking element of the project.

Using these metrics, there is vast potential to increase the coordination and utilization of this program as an economic generator for the City. Ann Arbor offers the landscape needed to accomplish the County's sustainable redevelopment goals as well as environmental equity initiatives. In the WCBRA 21-22 Report, the authority identifies several locations within the City that meet the Low and Very Low Access to Opportunity criteria. Projects in these locations will be heavily considered for grant awards.

The LBRF was established to assist brownfield projects with grant and loan funds to further supplement environmentally or economically challenged projects. The benefit of loan funds is their competitive interest rates and the ability for private developers to access them directly. In 2021 and 2022, the WCBRA provided \$964,850 in grant funding as well as \$500,000 in loans.

Washtenaw Urban County (WUC)

The WUC is a partnership between the County and municipalities who have opted into allowing the County to administer the federally funded Community Development Block Grant program. The Urban County program seeks to foster cooperation between municipalities within counties of a certain population on the allocation of Community lock Grant (CDBG), HOME Investment Partnership Program (HOME) and Emergency Solutions Grants Program (ESG) funds. This collaboration comes in the form of

Cooperation Agreements stipulating mutual terms to which the county can administer these programs.

WUC is governed by the Washtenaw Urban County Executive Committee (UCEC) which prioritizes needs, provides project review and makes recommendations to the Washtenaw Board of Commissioners. It also makes policies that facilitate Washtenaw County's administration of the funding programs mentioned above. While there is one board member listed for the UCEC, the individual listed is also a Washtenaw County Board Commissioner. The County Board has the ultimately authority over WUC activities.

In 2021, Washtenaw County received \$2,228,571 in CDBG, \$1,258,791 in HOME funds and \$183,820 in ESG funds. These funds were dedicated to projects promoting suitable living environments, decent housing and economic opportunities for low- and moderate-income persons and households.

Opportunities

Based on comparison of resources available across County programs, the WCBRA offers the most robust opportunities to further economic development in the City. Either through TIF or LBRF, the funding and demand for housing provide numerous opportunities for cooperation between the City and Country.

The WCBRA seeks to focus on redevelopment that reduces sprawl and promotes development utilizing existing infrastructure. This positions Ann Arbor as a substantial target for Brownfield resources small and large. Coupled with the additional activities eligible for funding, a cooperative effort in promoting these resources would yield greater utilization of the overall Brownfield program. Given the County is funded via taxable value and property values in the City are some of the highest in concentration, it is mutually beneficial to revitalize underutilized or vacant sites within Ann Arbor. Either through TIF or LBRF resources, the valuation of proposed projects and financial viability of revenues generated by Ann Arbor residential projects would aid in the increase of future TIF and LBRF balances.

To facilitate that cooperation, per PA 381 of 1996, the WCBRA Board must have representation from three county municipalities. One Ann Arbor representative sits on the WCBRA Board. This provides the City with shared authority over the Board but more importantly establishes an avenue for communication with the WCBRA as a whole. The Board member can serve as an important connection between the WCBRA activities and the city's economic development goals. As with representation on other Boards, the City's role could be strengthened with a representative who is knowledgeable with the City's broader economic development goals.

Via Ann Arbor's Brownfield Policy dated September 16th, 2019 projects seeking non-environmental eligible brownfield assistance (public infrastructure, parking, rain gardens, etc.) must offer an affordable housing component regardless of a rent or own model. The ratio requirement is 15% of all units must be in the affordable category. If a development is void of affordable units, a fee in lieu is assessed. If only environmental activities are requested, no affordable component is necessary.

With the City and County prioritizing affordable housing, the relative age of the Brownfield Policy and the considerable economic changes over the past five years (notably COVID and inflation), a collaborative review of this policy is worth undertaking. Leading this review should be a City entity charged with economic development goals centered around housing, community benefits and infrastructure. This entity should consult closely with the WCBRA to craft policies that will serve multiple needs and be informed by the success (or failure) of past projects. Removal of fees in lieu in place of affordable housing requirements and the potential increase in maximum reimbursable amounts may be worth consideration.

Recent reporting from the County suggests challenges in fulfilling its housing goals as shown below. In direct relation to these challenges, WUC resources are limited (approx. \$3,600,000 in 2021) and expected to be shared across the entire jurisdiction. Capacity may also be an issue in coordinating more WUC participation given a lack of staff. For these reasons, leverage of WUC funding for other matching Ann Arbor grant dollars may be the best avenue.

Consolidated Annual Performance and Evaluation Report (CAPER) July 1, 2021 through June 30, 2022

CR-20 - Affordable Housing 91.520(b)

Evaluation of the jurisdiction's progress in providing affordable housing, including the number and types of families served, the number of extremely low-income, low-income, moderate-income, and middle-income persons served.

	One-Year Goal	Actual
Number of Homeless households to be provided affordable housing units	0	0
Number of Non-Homeless households to be provided affordable housing units	47	0
Number of Special-Needs households to be provided affordable housing units	53	21
Total	100	21

Table 10 – Number of Households

	One-Year Goal	Actual
Number of households supported through Rental Assistance	0	0
Number of households supported through The Production of New Units	100	21
Number of households supported through Rehab of Existing Units	0	10
Number of households supported through Acquisition of Existing Units	0	0
Total	100	31

Table 11 – Number of Households Supported

The efforts of a more structured engagement with the WCBRA and securing funds and resources to couple with WUC projects should be coordinated by a city department with the capacity to manage these important relationships. Given the premium placed on the combination of funding sources for projects and the access the City has to numerous other programs, the department could generate fund levels large enough to incentivize catalytic projects. With staff, this department would be able to provide capital and human resources to mutually beneficial initiatives which the county would otherwise not be capable of pursuing.

In addition, the County's interest in transportation initiatives such as ReImagine Washtenaw and the City's TC-1 zoning designation along Washtenaw Avenue is another strategy for cooperative support. While only a portion of the Ann Arbor geography, the Washtenaw corridor is an important thoroughfare which if invested in correctly from a transportation and infrastructure perspective, could spur beneficial development for both the City and County.

University of Michigan (UM)

With annual enrollment figures between 40,000 and 50,000 students and approximately \$975,000,000 in federally sponsored research in 2022 alone, there are significantly implied economic benefits from having the primary campus for the University of Michigan located within Ann Arbor proper. UM is a very significant economic developer/investor in Ann Arbor and the region, with approximately \$300-\$500 million under construction per year over the past decade and expected into the future. Currently, key capital projects include the Hospital Pavilion (\$920 million), the replacement CCRB building (\$235 million), the new Leinweber Computer Science project (\$145 million), the new Stadium scoreboards (\$41 million), and numerous other significant capital improvement projects. Advanced plans for new student residential halls in the former Elbel Field are underway, with construction beginning in 2024 and total capital investment estimated at approximately \$490 million over a 2-4 year period.

While impressive in nature and value, these investments and statistics still garner challenges when identifying a mechanism in which the University and City can mutually benefit from economic development efforts. While examples from other states should be considered, relevant comparisons are difficult given statutes and policies vary from state to state. For that reason, the basis for reviewing how the City can engage UM in matters of economic development was limited to the current set of circumstances and laws in place.

Being of non-profit status and international recognition, UM has little incentive to consult or consider the City when determining its internal needs, means and development goals. An MLive article from 2022 outlined conversations between the City and University as it related to the need for workforce housing. A prominent sentiment from City Council was the acknowledgement that UM has the ability to develop land for its own needs and on its own property which does not contribute to the City's taxbase. The same can be said for if/when the University needs additional land. It has the means to purchase it as opposed to having it developed and owned by private third parties.

Economic development requires capital. To fund or finance these endeavors, revenue is required. Cities' primary source of revenue is property taxes. Accounting for the structure of Ann Arbor's ability to collect taxes and the University's non-profit status, the two entities' ways and means come into direct conflict by no fault of either organization.

Below is a summation showing some of the University’s largest revenue generating activities:

2021-2022 University of Michigan Revenue Budget Summary	
Source	Revenue

General & Designated Revenues	
Michigan Medicine	\$ 5,672,187,872
Departmental Activities	\$ 135,045,000
Source Total	\$ 5,807,232,872
Total Budgeted	\$ 10,715,903,467
% of budget	54.19%

Other Auxiliary Units	
University Housing	\$ 138,619,000
Intercollegiate Athletics	\$ 165,160,000
Parking Operations	\$ 27,086,985
Source Total	\$ 330,865,985
Total Budgeted	\$ 949,097,318
% of budget	34.86%

* These amounts are based on all campuses. It should be noted that the Ann Arbor campus was forecasted to generate \$10,371,013,967 (96.8%) of the total systems anticipated \$10,715,903,467 revenue.

The operations of many of these activities require real estate. It is also fair to assume that the primary driver for some of this revenue is the real estate itself such as parking, student housing, intercollegiate athletics, and departmental activities. To accommodate or expand these critical functions in some circumstances, UM must retain or acquire land. While beneficial to the University’s core function, the land in question (and its related property taxes) is the primary source of revenue for the City of Ann Arbor. As property transfers from the private sector to the University’s portfolio, it removes taxable assets from the city’s property assessment rolls and decreases (likely for decades and/or in perpetuity) the city’s ability to capture revenue from property within its borders and to which it is expected to provide services. It’s a zero-sum situation. As the UM gains land by purchasing private property, City property taxes on that very land are eliminated.

501c3 and other non-profit organizations' status are granted by states in part because they are seen as providing a public good. While there is no argument that Universities throughout the country provide public benefits, it is reasonable to argue that residents of the communities in which these institutions reside are not guaranteed access to these public benefits. It is also notable that the product of that good can sometimes be exported to other communities (graduates move away). Per an article posted by the James G. Martin Center for Academic Renewal in 2017, large research universities can engage in the sale of commercial goods. By doing so, their non-profit status could be questioned by local and statewide residents who support the institutions through taxes. It is not to imply these realities are intentionally perpetuated by the Universities themselves but are merely matters of fact.

While Universities typically provide campus security, other municipal services such as public works, roads, fire and police are utilized by university personnel and students while either visiting campus or residing within the City. The 2020 population of Ann Arbor was approx. 123,000 residents. In 2021, UM's enrollment topped 50,000 students. It is assumed that in any given year most of these students are also considered residents (by the US Census). The City is built around an infrastructure designed to serve all residents, visitors, businesses, and the UM, but not all of these entities contribute to the property taxes needed to provide this infrastructure and related vital services.

Opportunities

* Given the sensitive nature of the relationship between the two entities, the following section is meant to offer general guidance on potential opportunities for the City and University to cooperate on needs and goals. It is acknowledged that these options may be perceived as unpopular, but their approach can be simply that of exploratory given the current constraints of mechanisms to drive similar outcomes.

Payment-In-Lieu-of-Taxes (PILOT)

Per the Department of Government Relations, below are some funds/services UM has provided to the benefit of Ann Arbor:

- \$14,000,000 for water and sewer service in 2022.
- \$1,000,000 a year from the State of Michigan to assist in providing fire protection services.
- Fire Station #5 serving northeast Ann Arbor is located on campus and provided by the University rent and maintenance free.
- U-M often rents portions of the sidewalk and/or streets from the City of Ann Arbor for an average of \$285,000 per year over the last decade.

- U-M frequently contributes up to one half of the cost of the reconstruction or resurfacing of local streets adjacent to campus. In some instances, the University has covered 100% of the costs.

While there are many metrics that point to the overall benefit of being home to a large research university, cities function on budgeting practices that attempt to quantify and predict revenues for the purpose of funding services. No accounting perfectly forecasts income but some level of reliable expectation is necessary when developing complex budget. It is clear UM acknowledges the need for financial provisions and/or direct investment in Ann Arbor's operations and services however the terms of that provision appear to be as needed (renting sidewalks, road construction) but not necessary. Since the City cannot forecast these needs, budgeting for this revenue may prove difficult. For this reason, it is worth the consideration of developing a payment in lieu of taxes (PILOT) that accounts for past contributions as a means for establishing an average for contributions in the future.

A study in 2012 conducted by the Lincoln Institute showed that the majority of payment-in-lieu-of-taxes (PILOT) revenue in the country comes from major universities such as Harvard, Yale, Stanford, Dartmouth and Princeton. Please note that these are all private universities, not public institutions such as the University of Michigan. The most common methods of receiving these payments were long-term contracts with annual routine payments. When contracts were not a feasible option, voluntary payments were made but amounts and frequencies varied. The report also shows the growing popularity with which these programs are being adopted. In 2000, PILOT programs were utilized in 18 states. In 2012, PILOTs existed in 28 states. The study does attribute a portion of this increase to modified methodologies for recording PILOT programs.

The study reported that approx. 92% of all non-profits making PILOT payments were either Higher Education (67.5%) or Healthcare Systems (24.8%). It also highlighted that these two sectors contributed approx. \$78,000,000 in PILOT revenue from 2001 to 2012. A limitation to the benefit of these programs is that while they offer some revenue in light of none, the amounts provided are fractional to the taxable value of the property were it to remain in private ownership.

While a program of this nature will require finesse and coordination, there is proof the model works in similar regions with similar circumstances. To replicate the best practices of this program, Ann Arbor, as a function of economic development, should engage counterparts in municipalities that have successfully negotiated PILOTs with their respective institutions. If after research and consideration, a conversation about PILOTs with UM is considered feasible, the report provides the following items that should be considered:

- Education and Healthcare are the highest non-profit sectors that remove private property from tax rolls. It would be worthy to estimate the amount of taxable value UM and

Michigan Medicine remove from the city's budget to highlight the savings they realize via their non-profit status but also to substantiate the amount of, and structure of, the PILOT's sought.

- Collaboration is better than conflict. Given there is no requirement for UM to consider this request, it should be presented from a perspective of mutual benefit. Ann Arbor provides a desirable environment for student and faculty life. Maintaining that fabric requires resources that if reduced, will deteriorate. Providing UM a voice in how the PILOT is to be used may also garner consideration from the University if it understands where the money is invested and how that investment is of benefit to all, not just the city.

One other consideration not mentioned but worth deliberation is whether or not the city should engage all non-profits in PILOT conversations to show a level of fairness. An MLive article from 2014 references past conversations with the University regarding PILOTs. At the time, an agreement made against PILOT consideration was whether Ann Arbor would engage other non-profits for similar contributions. It is unlikely PILOT terms with other 501c3 organizations could be to the scale of a program with UM however the terms and conditions of what other non-profits contribute could vary based on several factors including size, service provided, fiscal stability, etc. The gesture is the basis for equal consideration as opposed to singling out larger organizations.

Garnering support for PILOT or other similar programs is anticipated to be challenging. Given the current structure of laws, there is no major benefit to UM considering these types of arrangements. However, if compelling information includes real examples from comparative communities and presented with an air of collaboration and mutual gain, there is validity in this approach.

Third Part Facilities

A strategy that may be worth attention is engaging UM regarding the cost of operating their facilities. While the University saves funds by not paying property taxes, there are no savings associated with maintenance and operations of the portfolio. In some instances related to housing, general office, and research and development uses, there may be a model under which UM could engage private parties to develop properties meant to cater to the University's needs. There is evidence the University already engages in this practice. The Department of Governmental Affairs states the University does lease local privately owned office, clinical and storage space. They estimate that through those lease payments, UM pays an estimated \$3 million in property taxes annually. This model leaves ownership in the hands of the private market and provides UM with a long-term lease as well as other favorable options (first right of refusal, lease extension/termination rights, pass-through expense caps, etc). The recognized benefit to both parties is taxable revenue generated for the city and UM has limited exposure to maintenance/capital costs associated with operating the facility.

Universities typically maintain their own assets which can lead to deferred maintenance and additional red tape considering the bureaucratic nature and varied priorities of large institutions. Shedding these responsibilities removes the burden from UM personnel and budgeting and operations become more predictable. To further incentivize this model, Ann Arbor could roll tax incentives into the private facility to reduce expenses to which savings are then passed in part onto UM in the form of lower rent.

The validity of this approach is aligned with its timing. Cities across the country are faced with looming commercial vacancies which threaten land values and the erosion of commerce through a lack of employees converging daily on downtowns and other districts. While housing conversions are at the forefront of solution considerations, utilization of vacant office space for higher education purposes is gaining momentum. An article highlighting the University of California-Berkeley discusses how higher education uses intertwined with urban environments activate different property types, supports local shops and restaurants and caters to a constituency open and adept at utilizing public transit.

The article references how cities can attract Universities to their downtowns which itself implies an advantage Ann Arbor has in the conversation. While not the size of other cities cited (San Francisco and Oakland), Ann Arbor is the largest downtown in the state which houses a major college. To the extent spaces of the size and relative use are available, it may serve as a function of economic development to connect the University with properties the City knows have increased vacancy or are anticipated to vacate in the coming years.

This model may present the best opportunity for mutual benefit by the City and UM. Below outlines the positive effects this level of cooperation could generate:

- UM space needs are met with predictable rent and operational budgeting. Advantageous rates can be obtained via tax breaks from the City and/or University leverage as reliable asset based tenant.
- UM sheds portion of maintenance responsibility and cost
- Taxable revenue stays on rolls
- Private Party benefits from long term, stable rental income in softening market

Next Steps

Should it be determined the time is not appropriate to engage the University on any of the aforementioned items, it seems appropriate that a conversation working through an entity or individual sponsored by the City would allow for consistent communication at the very least. This communication would be such that over time, a more compelling case could be made for aligned efforts between the City and UM as it relates to mutually beneficial economic development efforts. Ann Arbor provides the community to which the University functions and provides amenities that are desirable to its core users. If the services that

support those amenities fail, the University will be faced with additional considerations regarding service provisions and place-based deficiencies.

A laissez-faire approach to UM will only facilitate further erosion of the city's tax base. While complex in structure and unpopular to address, Ann Arbor must engage UM from the perspective of mutual gain/loss if the two entities cannot find common ground on property needs and means. Having an economic development department or team dedicated to said communication would offer transparency in the conversation given its origin from an economic development focused team, and not the city directly. Early contact should establish that the city's goals are not to gain at UM's cost but to develop some equally beneficial arrangement. This arrangement should allow the city to serve the needs of the University that are beyond the University's core mission (education and research) and provide resources to allow the city to maintain services and grow place and economic based initiatives.

Michigan Economic Development Corporation (MEDC)

The Michigan Economic Development Corporation (MEDC) is a public-private partnership organization that serves as the state's lead agency for economic development and business support in the U.S. state of Michigan. It was established in 1999 as a nonprofit corporation and is governed by a board of directors appointed by the governor of Michigan. The MEDC's annual budget exceeds \$100 million, with over 70% dedicated to attracting and growing businesses, and between \$8-15 million allocated annually to support entrepreneurial ecosystems (like SPARK), State tourism (such as the Pure Michigan campaign), and arts and cultural programs.

The primary mission of the Michigan Economic Development Corporation is to promote economic growth, job creation, and investment in the state of Michigan. To achieve this mission, the MEDC offers a wide range of programs and services to support businesses, communities, and entrepreneurs.

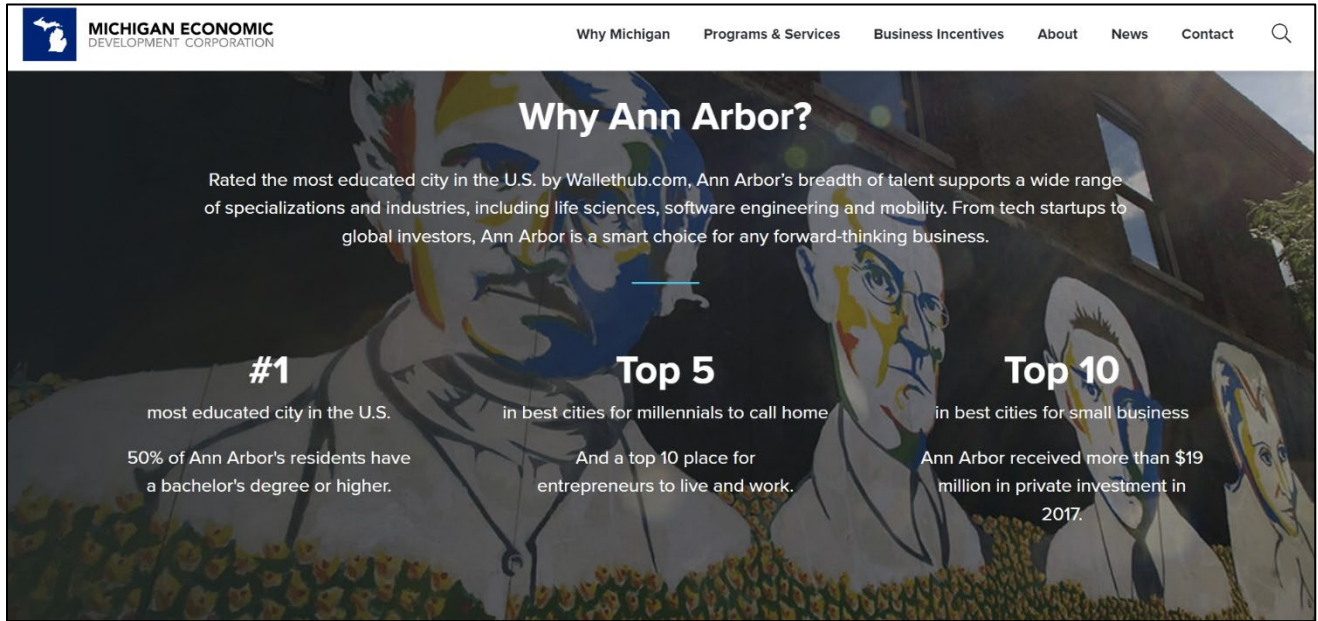
Programs

City Promotion

The MEDC promotes Ann Arbor via its "[Why Ann Arbor is the right choice for your business | Michigan Business](#)" webpage. The site offers some snapshot statistics that highlight the city's live, work and learn attractiveness.

The website has property/site locator information with available spaces - and this analysis suggests - there may be potential for the City to provide public property that could be for sale/lease in the database. For example, conversations could be conducted to

ascertain if Ann Arbor listings can be prioritized. The site could use more supportive information such as recreation or local attraction items. It would also aid in the circulation of information if the city provided a link to the website via the Ann Arbor homepage A2gov.org.



Michigan Business Development Program (MBDP)

The MBDP is a tool used to encourage job creation and investment in Michigan when companies could choose a location elsewhere to either relocate or invest in additional facilities. This incentive program is available from the Michigan Strategic Fund (MSF) in cooperation with the MEDC. The program is designed to provide grants, loans and other economic assistance to businesses for highly competitive projects in Michigan that create jobs and/or provide investment and results in a net-positive return to Michigan.

This analysis suggests that Ann Arbor should work with MEDC once an existing business applies to offer additional incentives and establish a first name basis with the organization looking to relocate or expand. While competitive in application as shown below, it is arguable that given the city's access to the largest research institution in the state (University of Michigan), more grant capture could occur if the city played a more upfront role with applicants.

2019-Present Applications

Ann Arbor	8 (majority 2019-2021)
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Grand Rapids	11
Detroit	6

An example of the successful use of the MBDP in Ann Arbor is Workit Health. Headquartered in Ann Arbor and founded in 2015, it is a healthcare technology company that utilized the MBDP when looking to expand their operations. The company offers virtual clinics for triage, face time with clinicians, e-prescriptions, therapy, drug testing and follow-up. As a result of their approval for MBDP resources, Workit’s expansions plans called for a larger office presence in Ann Arbor and the creation of approx. 180 highly skilled, high wage jobs. The project is expected to generate a total private investment of \$14.8 million and expand further over five years with a potential additional 530 jobs created over five years.

Ann Arbor SPARK has worked with Workit as they’ve grown in the Ann Arbor region. SPARK supported the healthcare services company since its inception in 2015 by providing incubator space in its Central Innovation Center (CIC) located in Ann Arbor. Other resources from SPARK included grant funding for marketing, legal, and customer discovery work as well as hiring interns to extend their team’s capabilities. SPARK is mentioned in this section to provide context to the specific reference to Workit but will be examined more in depth later in this report.

Upon the expansion, the City of Ann Arbor did offer to assist with recruitment of the open positions created by Workit but it was unclear if any other incentives were offered through the city.

RAP 1.0/2.0

The Revitalization and Placemaking program is a relatively new MEDC program that provides access to gap financing for place-based infrastructure development, real estate rehabilitation and development, and public space improvements. Eligible applicants are individuals or entities working to rehabilitate vacant, underutilized, blighted and historic structures and the development of permanent place-based infrastructure associated with traditional downtowns, social-zones, outdoor dining and placed-based public spaces. Now in its second round, it is anticipated this program will continue on an annual basis while funding is available.

Given the substantial financial amount awards can total (multi-millions), this program will prove valuable to aid in placemaking and housing initiatives as shown with the AAHC application. To better influence the direction of these funds, the City may consider application through entities in has more control over. This is not meant to create competition amongst entities with like goals but merely to allow the City to appropriately guide applications to projects it solely feels need attention. This effort would require

dedicated attention from the City as application requirements are in-depth and turnaround time for spend downs is expedient.

Michigan Community Revitalization Program (MCRP)

The MCRP is a new incentive program available from the Michigan Strategic Fund (MSF), in cooperation with the Michigan Economic Development Corporation (MEDC), designed to promote community revitalization that will accelerate private investment in areas of historical declining values, contribute to Michigan's reinvention as a vital, job generating state, foster redevelopment of functionally obsolete or historic properties, reduce blight, and protect natural resources.

Types of properties and projects for this program are:

- Potentially contaminated sites with hazardous substances
- Historic buildings or structures
- Functionally Obsolete Properties
- Blighted Properties
- Properties adjacent to any sites with the factors listed above
- Neighborhood grocers in downtowns and/or CIA districts

While the declining land value criteria of the program may be a challenge or limitation for a city application, declining values may still apply to properties that are considered of high taxable value but nonetheless have seen devaluation based on local factors. Below shows that Ann Arbor has not participated in this program over the past four years. A more exhaustive review of neighborhood taxable values may illuminate portions of the city that are eligible for this product.

2019-Present Applications

Ann Arbor	0
Grand Rapids	3
Detroit	19
Kalamazoo	7

Opportunities

While the City is a part of the context for many MEDC initiatives, program and marketing, there appears to be a lack of direct connection between the two. From a marketing perspective, the resources available on MEDC's webpage could be greatly enhanced given the region's educational, technology and healthcare sectors. In addition to this information expansion should be a direct contact for the City as it relates to economic and business development/retention interests. This contact would be either a person or an

entity charged with taking the conversation levels beyond general interest in the city. This will be expanded upon in the overall recommendations of this report.

From a program utilization standpoint, there is an opportunity for Ann Arbor to become more active in MEDC incentives and initiatives. However, it has been observed that many MEDC resources deployed in the city have been garnered through SPARK. SPARK is the Region 9 Rep for the MEDC's Collaborative Development Council which is charged with meeting monthly to streamline services from statewide agencies, improve customer service, coordinate information sharing and encourage regional initiatives. This affiliation along with the CIC have made SPARK a natural "go to" for MEDC inquires. In terms of developing a more direct relationship with the MEDC, it should be noted that these efforts should be developed around complimenting current organizations and activities as opposed to creating redundancies and confusion in the initiative.

Through stronger coordination with SPARK and establishing an internal economic development department, Ann Arbor has an opportunity tot improve its representation with the MEDC andt not rely solely on SPARK or other organizations to be its voice at the table. The City should also not be reluctant to assert itsis relevancy to certain initiatives or potential programs that may be pursued by other organizations. A department dedicated to this representation and empowered by a plan with directives would justify strong representation and, if done with transparency and clarity, not be in competition with other regional economic development organizations such as SPARK.

New Opportunities

Building on the previous background section outlining the status of the Ann Arbor economic development playing field, below is a series of recommendations for how the city can strengthen its position regarding the aforementioned organizations. There is also mention of other opportunities and entities the city may be underutilizing or not engaging.

Environmental Great Lakes and Energy (EGLE)

EGLE's is the State of Michigan's regulatory agency in charge of protecting Michigan's environment and public health by managing air, water, land, and energy resources.

The Michigan Healthy Climate Plan (MHCP) is an initiative directed through the Department of Environment, Great Lakes and Energy (EGLE) that proposes to protect clean air and water, promote sustainability and improve public health. The program underscores the urgent need for action on climate and identifies bold, necessary, and strategic measures to deliver a carbon neutral economy. The State recognizes that the byproduct of this initiative will create tens of thousands of clean-energy jobs, spur economic development and innovation,

The MHCP identifies actions to reduce greenhouse gas (GHG) emissions by 50-52% from 2005 baselines by 2030 in an equitable manner, including the following priority action areas:

- Commit to Environmental Justice and Pursue a Just Transition
- Clean the Electric Grid
- Electrify Vehicles and Increase Public Transit
- Repair and Decarbonize Homes and Businesses
- Drive Clean Innovation in Industry
- Protect Michigan's Land and Water

Ann Arbor has an established national reputation for environmental sustainability and justice. It serves to reason that there are numerous opportunities for the city to get in front of this initiative and partner with EGLE and MEDC to ensure exhaustive exposure to the companies and departments that will utilize this program.

An example of the programs application in the region is LuxWall, Inc.. Founded in 2016 and headquartered in Ypsilanti, the company manufactures glass systems which increase heat and cooling retention by 30-60%. The company plans to establish the first manufacturing operations in two existing, vacant facilities in Litchfield, where it hopes to manufacture in commercial volumes. The company is currently evaluating sites in Detroit for its second facility in hopes of drastically increasing its capacity. The company plans to mass manufacture energy-efficient windows that will be sold to residential and commercial customers in the U.S., Canada, and Europe.

The MHCP initiative has also attracted the attention of Norwegian hydrogen company Nel Hydrogen who will be establishing an automated gigawatt electrolyzer manufacturing facility in Michigan. Nel's CEO stated that access to the research university sector was an important factor in their decisions to locate in the state. This factor would have direct implications that Ann Arbor is on the company's radar. While still speculative, they could generate a total capital investment of up to \$400 million and create more than 500 clean energy manufacturing jobs.

On a broader scale, investments such as these aid in the State's ambition to become one of six to ten "H2 Hubs" which will focus on hydrogen and fuel cell research and development. Given the intensive pace in which goals have been set and the national lens of attention, this program will need proactive and accessible partners to which Ann Arbor should pursue aggressively.

Business Retention

Business retention efforts throughout Ann Arbor are spearheaded by SPARK. To this end, there is not much evidence to suggest the City is proactive in its efforts to retain the businesses or economic generators it currently has. The pandemic has placed all major metropolitan areas on edge as businesses navigate the road between return to work and remote options. Prior to 2020, businesses were investing countless resources in creating engaging and interactive workspaces as an amenity and desirable alternative to cubicle culture.

While the city would have little role to play in that conversation, it has great influence on the environment beyond the front door. Activating spaces and organizing morning, afternoon and evening programming and infrastructure investment around major employment centers may facilitate new relationships with the business community as the city aligns itself with their effort to put employees back in the city. An active marketing campaign to highlight these efforts would provide good standing with current employers attempting to offer soft enforcement of return-to-work policies.

Regardless of the nature of contact, a grass-roots economic development campaign of regularly putting feet on the ground and going door to door would show a sign of support for existing businesses. This personal engagement (possibly coordinated with SPARK's annual business survey) would facilitate an opportunity to garner real time feedback on what barriers businesses are experiencing either in their pursuit of survival, partnerships, labor, location, or growth. This effort could be catalyzed by open houses held at various dates/times and within existing business locations as a form of sponsorship.

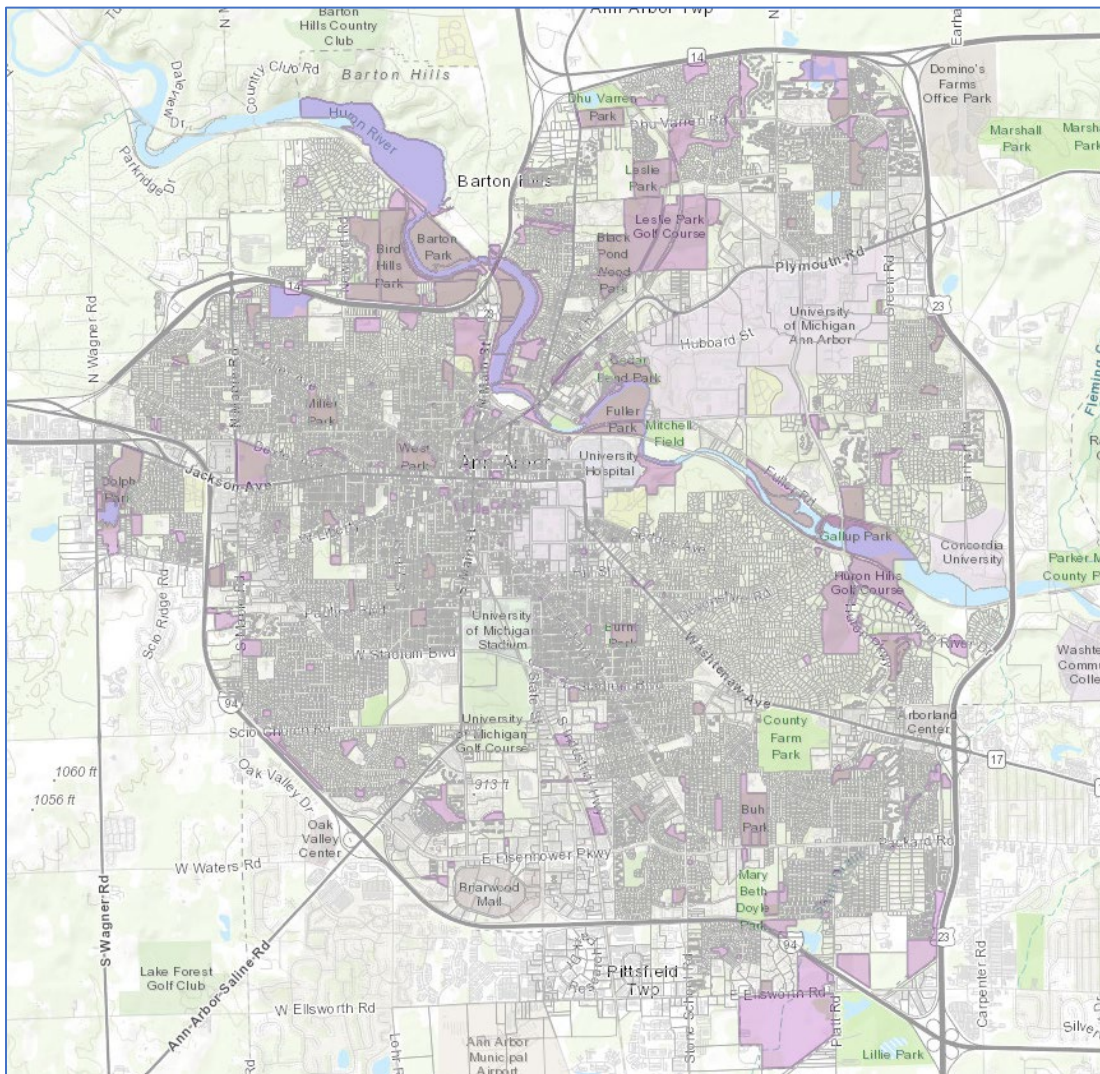
To develop this "face and a name" networking and retention strategy, the city must be aggressive with its message of support and show of resources. This effort should be part of an economic development strategy and maintained on a consistent basis. To ensure this effort is not just a "chapter in a plan", it should be directed and managed by a department dedicated to all economic development efforts to ensure all internal and external resources are available to engaged

businesses but also to provide impromptu partnership opportunities (employer A needs service from employer B but no connection between the two exists).

Land

There are two economic development strategies with regard to land: 1). Selling existing city land for redevelopment; and 2). Strategically purchasing land to repurpose and keep on the tax rolls.

Shown below is a visual compilation of all parcels owned by Ann Arbor. While it is apparent that larger parcels are either parks and/or open space utilized by visitors as parks, a more in-depth assessment of the city-owned land should be completed to ascertain development potential. Surface parking lots and/or garages are obvious targets for development or ancillary support to development.



Recently the University of Michigan has purchased numerous and large properties. The purchase of those properties removes them from tax rolls and eliminate those parcels from redevelopment.

The City's economic development could be strategic in land acquisition, seeking properties that are:

- Adjacent to existing city owned sites, allowing property consolidation.
- Adjacent or in close proximity to University of Michigan property.
- Larger properties, which if removed from the tax rolls would have a detrimental impact.

The City may need to partner with for-profit real estate entities to manage the property and collect a portion of rental revenue to offset the loss of tax funds.

Given the local, regional, and national commercial developer activities in Ann Arbor during the past decade, it may be advantageous for the city to potentially work closer with developers in addressing affordable and workforce housing in the area. Strong demand for student and open-market residential units (market rate) has driven much of the past residential development in the city with very significant projects in and around downtown Ann Arbor. These projects have been both exclusively residential and/or mixed use residential/commercial facilities.

As stated above under the AAHC section, the City could align its current or anticipated land portfolio goals with the Commission's efforts to advance affordable housing development via the recent actions below:

- Recent successful millage which is generating over \$6 million annually toward these efforts.
- Continuing advocacy and financial support for more workforce/affordable units within the community.
- Its continuing partnerships with other non-profit housing advocacy and development organizations such as the Washtenaw Housing Alliance and Avalon Housing.

Strategy to Attain Opportunities

This report concludes with the observation that the city of Ann Arbor and region as a whole applies resources to economic development through siloed efforts and with short range goals. If synergized and prioritized, economic development initiatives would produce a more efficient use of resources as well as a higher yield on time and resources invested.

Ann Arbor's aspiration to grow its international recognition for livable neighborhoods, an active downtown, and substantial research and educational opportunities has always been attainable (and realized by certain measures) but to continue the economic status quo, a more intentional ED approach is necessary. Functioning without clear economic policy or direction is no longer an option for the city. In the same respect, economic development requires proactive efforts, not reactionary problem solving. The burgeoning of UM, the rising cost of all housing and the pace to which live/work trends are affecting commercial, industrial and retail development dictate that the city put a policy to paper with the appropriate marketing and capacity to act.

Economic Development Strategic Plan

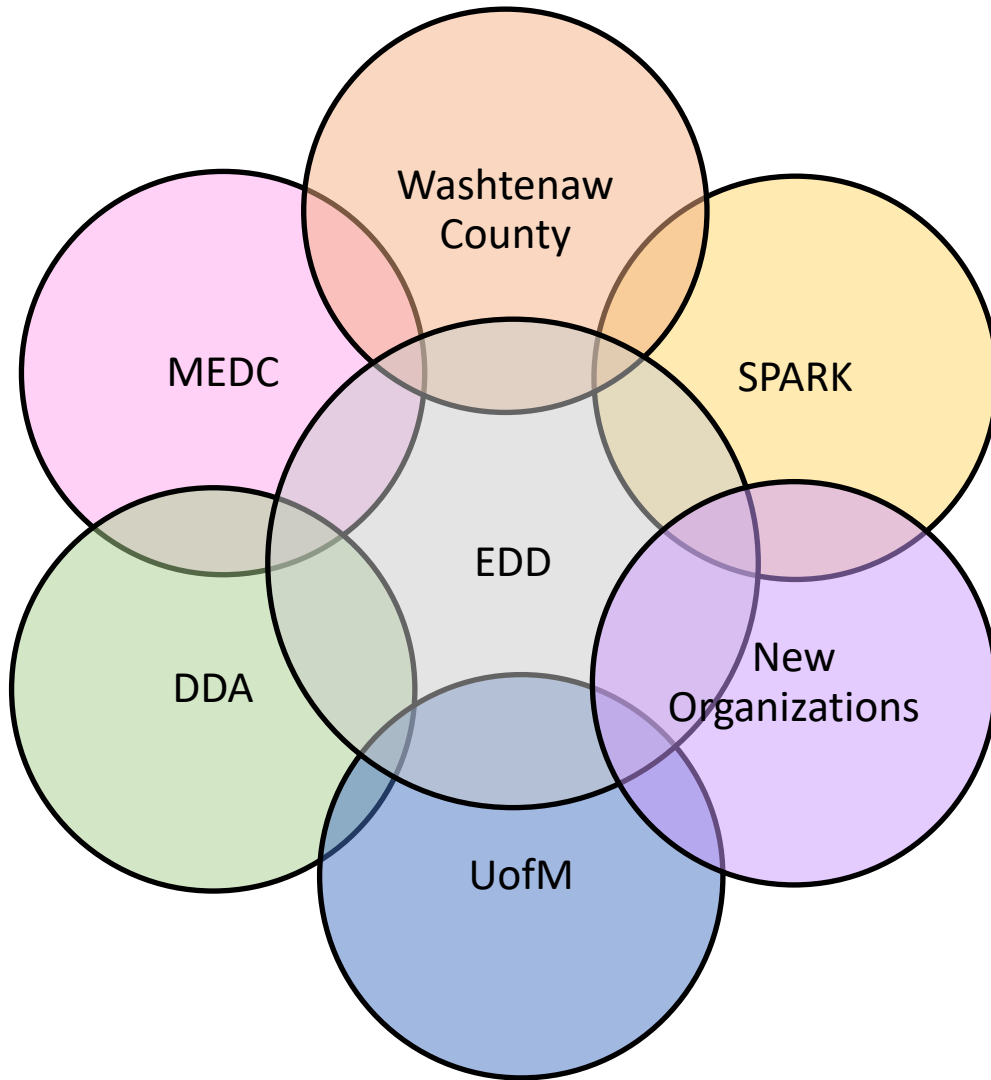
Given the broad array of initiatives and organizations focused on different facets of economic development, it makes sense for the City to develop an economic development strategic plan (EDSP) focused on weaving all the identified programs and entities together in a unified mechanism that focus efforts on achievement of goals that the City deems a priority. Such a plan would be instrumental as a policy guide that establishes benchmarks, timelines, and goals to achieve a level of cohesive economic development that better addresses the City's needs.

Economic Development Department

While the EDSP is an integral part of this recommendation, it will be short-lived without human resources to empower its utilization. The tools for economic development exist at all levels and the city has a general familiarity with these instruments but has lacked an internal entity to utilize them. To ensure the EDSP goes beyond a plan on paper and becomes a living document that generates feet on the ground as well as brick and mortar results, an equally important recommendation is personnel.

The EDSP will provide a posterboard for the city's intentions to become more hands-on with its economic goals. The plan should be created, championed and executed by either a high-level economic development position in the City Administrator's office or a new City-staffed team or department to spearhead these efforts. Whatever structure is ultimately decided, a City operation on par with other internal bureaus such as police, fire, planning, parks and rec, etc. Communication, education, and collaborative brokering would be the focus of this entity with the goal of forming a conduit through which economic activity flows. This system would allow for real-time updating on all economic fronts as well as proactive viewsheds of potential issues

requiring early intervention. The below image outlines the basic function and intent of the new organization. The use of EDD may refer to either an Economic Development Department or Director.



A somewhat prevalent theme amongst the organizations listed above is the mention of some collaboration but not across all fields and not across all entities. The EDD would be charged with garnering intimate knowledge of all economic players and programs in the region as well as regular structured communication to identify cooperation opportunities and advocate for

development that provides a net gain for Ann Arbor and other entities. It should not be misconstrued that these efforts should always equate to a City address but that the designated outcome offers a favorable return on investment for Ann Arbor.

EDD Metric Examples

In order to measure the success of economic development efforts, establishing clear metrics is essential. Some traditional and non-traditional metrics for success are listed below. These metrics should be applied to the review of the EDD's effectiveness in fulfilling the goals for the EDSP. It is encouraged that while important, quantifiable metrics should not be the only tool used to assess the department. Economies change and therefore an ability to pivot between static and variable criterion is important.

- ROI
 - Calculation of City resources (time and funds) against expected taxable revenues.
- Deal Scale
 - Number of housing units added. Amount of square feet constructed and leased.
- Business Customer Tracking
 - More customers, more money circulated through local economy.
- Existing and New Business Lead Generation and Conversion
 - How many prospective deals coming in. How many converted to economic generators.
- Customer Feedback
 - Business and partnering organization feedback and satisfaction rate.
- Recognition Rate
 - After a period, how familiar is the EDD to businesses and economic development partners. Are their services well known?
- Leveraged Investment
 - How much outside capital is being invested in the City?
- Business Aid
 - Number of new or existing businesses or organizations being assisted.
- Jobs Created / Jobs Filled
 - Numeric assessment of job creation and placement.
- Wages
 - Tracking of job salaries and hourly wage. The emphasis here should not be only high paying positions. Small business and service industries require lower wage positions which if unfilled, could threaten the business's survival or the establishment.
- Business Growth by Region

- Are businesses relocating/expanding locally, statewide, nationally, or internationally?

Accountability

Regardless of the organization or department's structure, accountability should be to the City. This is not meant as a means of control but as a means of eliminating confusion about the intent of the group's endeavors. Resources in the form of funding and staff should be provided to a scale appropriate for deliverables. Depending on that determination, potential funding sources could be reallocations from other economic development partnerships or efforts. Expected to generate resistance from the traditional receivers of those funds, the EDD should be presented not as a financial drain on the partnering organization (DDA, SPARK, etc) but as a support system meant to relieve them of certain responsibilities. Should the efforts of the EDD prove effective in the realm of taxable revenue, a portion of said increases could be funneled to the department as a means of support as well.

Administrative and managerial staff should be available to keep operations running smoothly and to provide initial contact and support for inquiring parties. These support systems will enable the director to function as an economic development broker focused on networking, face-to-face communication, and deal execution. A budget for external expertise and third-party studies will be crucial to functionality. Resources should be available for temporary capacity increases and the creation of non-biased information needed to direct the team's efforts. These funds will also allow for the consistent updating and marketing of the EDSP meant to be the basis of the group's existence.

In conclusion, the EDSP and creation of the EDD should be pursued somewhat simultaneously. A general outline for the EDSP should be created internally. This will provide the framework for the new department's staffing requirements and skillsets. Once hired, the staff tasked with enacting the plan will have a role in creating it. A side-by-side effort will allow for fresh perspectives from new personnel that are based on realities provided by tenured City staff.

If support from current elected officials exists for these actions, it would be advantageous to establish the new department within the next twelve (12) months. This would provide personnel in place prior to the November 2024 election to which afterwards, new and/or remaining City Council members could be solicited to inform the EDSP and directives for EDD. Regardless of timing, it should be noted that all city departments should be consulted on drafting the plan to promote unified buy-in on its success. All facets of city services either by design or by indirect contact aid or stifle economic development. To ensure all departments understand their role in the City's growth, new department personnel should be exposed to and educated on the nuances of each unit with the understanding that they will be tasked with garnering collaboration as projects traverse the City's review and approval process.

Appendix

Articles of Relevance

Ann Arbor is among the most educated cities in the nation. This annual article has featured Ann Arbor over many years.

[These 2 Michigan cities rank in the top-50 most educated in the nation, WalletHub says - mlive.com](https://www.waltr.com/news/ann-arbor/2023/07/2023-ann-arbor-most-educated-cities)

What Michigan can learn from Columbus Ohio. This is an article regarding the successful regional cooperation and economic prosperity in and around Columbus for over 50 years.

<https://www.bridgemi.com/business-watch/what-michigan-can-learn-booming-columbus-ohio>

This [Bridge article](#) contrasts Ann Arbor with Austin Texas, home of UT. It frames the possibility of “turning Ann Arbor into Austin”

<https://www.bridgemi.com/business-watch/turning-ann-arbor-austin-and-other-tech-recommendations-michigan>

This comprehensive article addresses Ann Arbor’s various housing projects via an interview with Brett Leinart, Ann Arbor’s Planning Director.

<https://www.wemu.org/wemu-news/2023-01-19/ann-arbor-on-track-for-some-1-600-new-housing-units-this-year>

Grand Rapids, [The Right Place Development Report, 2023](#). This report shows projects and potential development sites of GR Area. This could be a model analysis and report for Ann Arbor/SPARK/Potential EDD to produce.

<https://www.woodtv.com/wp-content/uploads/sites/51/2023/06/RPI-Development-Report-2023-FINAL-Web.pdf>

This July 2023 article features current University of Michigan projects which totals \$2 billion.

<https://www.mlive.com/news/ann-arbor/2023/07/theres-2b-in-construction-going-on-now-at-the-university-of-michigan.html>

This article explains the State Economic Development differences in strategy and impacts between Wisconsin and Michigan.

[Michigan's Western Upper Peninsula towns empty out, look to Wisconsin for lessons | Bridge Michigan](#)

This is an insightful article from [Building Design and Construction](#) explains and illustrates new and renovated multi-family housing innovations:

https://www.bdcnetwork.com/course/affordability-and-innovation-all-multifamily-housing-ideas-break-barriers?utm_source=BDC+Daily+5+Newsletter&utm_medium=newsletter&oly_enc_id=0662I1054334D9E

This October 2023 article makes a case for using downtown buildings for higher educational purposes, particularly as such commercial buildings are left behind by stay-at-home employees.

<https://nextcity.org/urbanist-news/higher-ed-campus-can-revitalize-our-downtowns>

References

[The University of Michigan \(umich.edu\)](https://www.umich.edu)

[Higher Ed Campuses Can Revitalize Our Downtowns \(nextcity.org\)](https://nextcity.org/urbanist-news/higher-ed-campus-can-revitalize-our-downtowns)

[Payments in Lieu of Taxes by Nonprofits: Which Nonprofits Make PILOTs and Which Localities Receive Them \(lincolnst.edu\)](https://www.lincolnst.edu)

[Should All University Property Be Tax-Exempt? – The James G. Martin Center for Academic Renewal \(jamesgmartin.center\)](https://www.jamesgmartin.center)