



TO: Mayor and Council

FROM: Milton Dohoney Jr., City Administrator

CC: Joseph R. Giant, Economic Development Director
Marti Praschan, CFO
Jordan Roberts, Public Services Area Administrator
Maura Thomson, DDA Executive Director
Mariah Walton, Deputy City Administrator

SUBJECT: February 2, 2026 Council Agenda Response Memo

DATE: January 29, 2026

C-1 - An Ordinance to Amend Sections 1:152, 1:154, 1:156, 1:158, 1:159 and 1:160 of Chapter 7 (Downtown Development Authority) of Title I of the Code of the City of Ann Arbor

Question #1: Can the DDA clarify how the downtown service team will complement or replace services currently provided by the downtown business associations and BIZ districts? (Councilmember Cornell)

Response: The Downtown Service Team's scope of services includes:

- Litter removal and sidewalk cleaning— sidewalks, roadway gutters, planter beds, tree pits
- Proactive weed removal – tree pits, planter beds, sidewalk cracks, between pavers
- Landscape watering
- Graffiti and sticker removal
- Snow removal – clearing pedestrian ramps, around bus stops, public seating, and bike parking, and the sidewalk adjacent to ADA parking spaces
- Special event support – barricade deployment

- Overall attention to detail – wipe down trash can lids, furniture, and other public property, removal of tape and outdated postings
- Special projects – painting light poles, repairing public seating and tables, deep cleaning and mulching tree wells, replacing and adjusting bikeway delineators, holiday light installation, and other minor repairs
- Alleys - Annual power washing
- Hospitality - being present to answer questions

The DDA worked with multiple City departments, met with the downtown area associations, and the Main Street BIZ to identify unmet and inconsistent service needs downtown. Through these discussions, the scope of services for the Downtown Service Team was established, focusing on services not provided today. In addition, the list includes services that help reduce costs for the Main Street BIZ and downtown area associations and consolidates existing DDA minor repair contracts.

Sidewalk Cleaning: The Main Street BIZ currently provides sidewalk cleaning within the BIZ footprint. If the Downtown Service Team is established, the BIZ will reallocate the funds currently used for sidewalk cleaning to focus on regular alley cleaning, specifically, ongoing monitoring of illegally dumped items. The State Street and South University member associations currently pay for sidewalk cleaning from member dues, as funding allows. The Downtown Service Team ensures consistent sidewalk cleaning throughout downtown and allows the associations to reallocate their funds to events and programming.

Landscape Care & Watering: The Main Street Area Association and State Street District currently pay for landscape care and watering, as funding allows. Like sidewalk cleaning, the Downtown Service Team's scope will provide consistent service throughout downtown and allow the associations to reallocate their funds to events and programming.

Barricade Management: Barricade deployment and management is an ongoing challenge for event organizers and City safety services. Today, barricades are placed primarily by volunteers and in some locations by contracted services and/or the AAPD. This leads to inconsistencies and access management challenges. The Service Team is viewed as the solution to provide consistent, safe closures. If this program does not proceed, a solution with additional costs to the downtown area associations and event organizers will need to be developed.

Overall, the Downtown Service Team will augment the work of these groups. A full-time Service Team can provide services beyond what is provided today and help the area associations focus on what they do best - activation.

Question #2: How will the DDA determine where/ when/ how permanent retractable bollards will be used for street closures vs ones that will be installed on demand? (Councilmember Cornell)

Response: The DDA worked extensively with staff from City Public Services, Emergency Management, Community Services, and Transportation Departments. Simultaneously, members of this staff team met with the Art Fairs and downtown area associations to discuss frequently closed streets and operations, access, and safety needs. This helped develop a draft location list for permanent retractable bollards and also identify where flexibility is needed with on-demand equipment.

Should the DDA Plan be approved, the next step for retractable bollards is to assess feasibility and design each location. We will continue to work with City safety services to ensure the barricade solution meets safety needs and with event organizers to support operational needs. An engineering proposal for this work has already been developed and awaits DDA Plan approval, followed by DDA Board approval to proceed.

DC-1: Resolution to Approve a Brownfield Plan for the Arbor South Project

Councilmember Mallek Question #1: The City's brownfield policy states that the tax increment revenue provided to a developer should generally not exceed 20% of the level of private investment in a project. This proposed project and brownfield reimbursement would far exceed that. Previously it was stated that this project needed that elevated level of reimbursement because of the complex nature of the public private partnership. Since this project is no longer proposed as a public private partnership at the moment, can staff elaborate on what necessitates this level of tax increment diversion? (Councilmember Mallek)

Response: There are two primary reasons why the 20% ratio is not an appropriate measuring stick for this project. But first, it is important to note that the primary effect of a financing arrangement that does not involve City-issued bonds would be an increase in overall project costs due to higher interest rates; it would not, by itself, alter what is built or how the space is programmed. In all cases, the project would transform approximately 17 acres of parking - roughly the size of six City blocks - into a dense, mixed-use urban district.

The first reason relates to the nature and scale of the project and the intent of the TC1 district. Discussions with Council when the project was first introduced concluded that the amount of tax increment needed would exceed 20% regardless of how the City's participation was structured, noting that transforming TC1 corridors from places designed primarily for convenient automobile access into interconnected, walkable, mixed-use "places" requires substantial public investment.

Most projects occur on sites with existing road access, utilities, and nearby public parking, effectively leveraging capital investments made in prior years. By contrast, this project

involves a district-scale redevelopment with minimal existing infrastructure and therefore requires a level of public investment that is substantially greater than a typical infill project. Applying the same proportional benchmark that may be appropriate for individual buildings is not well suited to complex, district-scale redevelopment and does not accurately reflect the infrastructure investment required to realize the vision of TC1.

The second reason relates to the appropriateness of the 20% guideline in today's environment. When the Brownfield Policy was adopted in 2019, market conditions were materially different. Housing demand pressures were lower, housing was more affordable, construction costs were significantly less, and interest rates were at historic lows. At that time, large commercial projects could typically secure construction financing in the mid-4 to mid-5% range, with permanent financing in the mid-3 to low-4% range. Today, construction loans are commonly priced in the 7 to 9% range, with permanent financing in the 6 to 7% range, materially increasing both upfront and long-term costs. The policy also predates the inflationary period associated with COVID, which resulted in sustained increases in labor and material costs.

Since 2019, voters have also approved additional millages focused on affordability and sustainability. These vividly express our shared values, but they also increase the ongoing tax burden on new development, which reduces net operating income and, by extension, the amount of private financing that can be secured. Over the same period, City policy and Council direction have placed a much stronger emphasis on growth and development as tools to meet both near-term community needs and long-term fiscal sustainability. That evolution is reflected in the adoption of TC1 zoning, which will be difficult to implement if the City's Brownfield Policy continues to rely on a proportional benchmark established under materially different conditions.

Councilmember Mallek Question #2: Absent a PPA, what assurances does the City have that the various infrastructure upgrades laid out as priority 2 reimbursements, such as the pedestrian and transit improvements, will still be honored? (Councilmember Mallek)

Response: The City and the Developer have spent the time since the last Council meeting to put together an agreement that should memorialize the commitments that the Developer is willing to make. Our goal is to bring this agreement to Council for approval at the February 2nd meeting since that was the date to which Council postponed the vote on the Brownfield Plan.

Councilmember Mallek Question #3: Do City staff envision the City having any further obligations regarding this project, such as requests for city bonding or purchasing of property, beyond the currently proposed brownfield plan? (Councilmember Mallek)

Response: The current understanding between the City and the Developer is that the Developer is not requesting City participation in form of ownership or operating the parking decks. The Developer will seek alternative financing. The Developer is hopeful that it will be able to obtain financing once the Brownfield Plan is approved. However, if

such financing does not materialize, there is no current agreement or understanding foreclosing the Developer from seeking City participation again. Any new request by the Developer will constitute a new decision to be made by Council at that time. We cannot offer a definitive answer on whether or not the Developer will seek City participation in the future, but that is not currently contemplated.

If the Brownfield Plan is passed, one additional obligation would be monitoring the reimbursement of TIF.

Approval of the Brownfield Plan is essentially a prerequisite for the project to move forward, because it is needed by the Developer to find and vet any alternative financing. There is no viable financing model for the Developer without the Brownfield TIF capture. In the absence of clear direction from Council on the Brownfield Plan, it would not be prudent for the developer or City staff to invest additional resources in restructuring the deal if it is entirely unviable.

Councilmember Cornell Question #1: City staff has indicated Arbor South will max out the sewer trunkline servicing that part of the City. Now that this infrastructure is "if money is available after priority one obligations are met" in the TIF table, how will the City pay for this improvement? And what's the timeline for the budget to meet that financial obligation (how far off is that improvement)? (Councilmember Cornell)

Response: The determination that Arbor South can be accommodated within the City's existing sanitary sewer capacity was made through the City's engineering review and approval process. It is correct that the new anticipated sanitary flows from a fully built out Arbor South development would use up most of the remaining wet weather capacity in the sanitary sewer trunkline that services this area of the City. Given these anticipated constraints, staff are recommending that the City begin planning for sanitary sewer improvements in this area to ensure there is adequate capacity for both system resiliency and future redevelopment along the TC1 corridors in this sewershed, which includes both State & Eisenhower and Washtenaw Avenue.

The Sanitary Sewer Collection System Comprehensive Plan is wrapping up now and will include specific sewer improvement project recommendations for this trunkline and associated cost estimates and funding options. Staff expect to be able to share this information with City Council in the Spring – likely late March 2026. The ultimate timing for constructing these improvements should be tied to the intensity of development demand in this area.

Councilmember Cornell Question #2: Absent a traffic study, how is the City preparing for infrastructure demands created but the Briarwood redevelopment and Arbor South? Is there a cost analysis available that offers insight on the impact to future budgets? Similarly, how can we understand the increased costs to public safety with those added residents and businesses? (Councilmember Cornell)

Response: To date, the City has received Multimodal Transportation Impact Analyses (MMTIAs) from each approved development in this area. While these analyses address project-specific impacts, a comprehensive evaluation of corridor-wide infrastructure needs resulting from the cumulative land use changes will be added to the Capital Improvement Program (CIP) this year. If funded, this study would include an estimated cost analysis and evaluate multimodal transportation needs along the State Street corridor, generally from Ellsworth Road north to Oakbrook, where lane reductions occur.

At this time, there is no comprehensive cost analysis available that quantifies long-term impacts to future City budgets, including infrastructure maintenance or expansion. Similarly, no formal analysis has yet been completed to assess increased public safety service costs associated with additional residents and commercial activity. These considerations would be part of a broader, citywide evaluation tied to growth and service demand rather than individual developments.

We recognize the importance of understanding both infrastructure capacity and fiscal impacts as redevelopment continues, and the proposed corridor study would be a key step toward providing that information.

Councilmember Cornell Question #3: Confirming: The PPA as written does not guarantee the City will not be asked in the future to pay for/ own/ operate any of the three parking decks? (Councilmember Cornell)

Response: This response is the same as response to Councilmember Mallek question #4 above. The current understanding between the City and the Developer is that the Developer is not requesting City participation in form of ownership or operating the parking decks. The Developer will seek alternative financing. The Developer is hopeful that it will be able to obtain financing once the Brownfield Plan is approved. However, if such financing does not materialize, there is no current agreement or understanding foreclosing the Developer from seeking City participation again. Any new request by the Developer will constitute a new decision to be made by Council at that time. We cannot offer a definitive answer on whether or not the Developer will seek City participation in the future, but that is not currently contemplated.

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Councilmember Briggs Question #1: The City's current Brownfield Policy states "Developer-reimbursable Brownfield TIF shall not exceed 20% of overall project investment." What is the % for this project? (Councilmember Briggs)

Response: The Eligible Activities identified in the TIF Tables have not changed since the Brownfield Plan was first placed on the Council agenda in early November. The total cost to construct the overall project is approximately \$588.4 Million. The total hard and soft costs to construct the Eligible Activities, excluding the City-led sewer trunkline and excluding interest, is approximately \$182.4 million, consisting of roughly \$132.4 million for the parking structures and \$50 million for all other eligible costs. These activities represent approximately 31% of total project construction costs.

State law recognizes that these costs are financed by the developer and that providing reimbursement for construction costs alone does not reflect the full financial burden associated with Eligible Activities. Accordingly, the statute allows interest of up to five percent per year to accrue on unreimbursed Eligible Activities. When this statutory interest is included, the total potential TIF reimbursement increases to approximately \$329 million, or 56%, again excluding the sewer trunkline.

It is important to note that this ratio overstates the relative public contribution. The figure includes interest on reimbursable Eligible Activities but does not account for the interest paid by the developer to finance the broader project. Financing approximately 70% of the total project cost, which is typical for a project of this scale, would result in total debt service over the life of the financing that could approach the magnitude of the original capital investment itself, which would, again, result in a public / private ratio around 31% (calculated as \$329 million / \$1,176 million).

Councilmember Briggs Question #2: Why does the PFM report continue to be referenced in our Brownfield Staff Report, when the analysis was for a different scenario (bonding)? (Councilmember Briggs)

Response: When the City considers the use of Tax Increment Financing (TIF) for any project, it must evaluate whether the project could reasonably proceed as proposed without that support. For smaller or less complex projects, this analysis is often completed in-house. Given the size and complexity of this project, the City engaged its municipal financial advisor, PFM, to conduct an independent feasibility analysis. That initial analysis, which is referenced in the Brownfield Staff Report, addressed the fundamental question of project feasibility and the need for TIF. PFM's later bond underwriting work builds on that same financial framework but evaluates a specific financing structure.

Councilmember Briggs Question #3: The Brownfield Staff Report states "*There are various Non-Environmental Eligible Activities that will result in area-wide benefit, including transportation, sewer trunkline, transit, and utility improvements. The parking decks ultimately support a denser, more vibrant neighborhood that acts as a mixed-use destination for the area.*" I question the inclusion of a few of these items as notable area-wide benefits. First, the Brownfield Plan notes: The *Brownfield Plan includes costs related*

to trunkline improvements that would be performed by the City of Ann Arbor under Priority 2. Should Tax Increment Revenues be available the County LBRF lump sum fee will be prioritized first, developer Priority 2 costs, then city trunkline cost will be reimbursed, or as otherwise specified in the reimbursement agreement. Given the financing gap the developer has noted for the third parking garage, stating sewer trunkline improvements as a definite area-wide benefit dubious. Second, the transit benefits (an enhanced bus stop) are questionable when measured against the tax capture. (Councilmember Briggs)

Response: The Brownfield Plan describes categories of public infrastructure that are eligible for reimbursement under State brownfield law, subject to the availability of tax increment revenues, rather than guarantee each identified improvement will necessarily be constructed or reimbursed.

The reference to transportation, transit, utilities, and related infrastructure reflects staff's judgment that investments in mobility, access, and system capacity provide benefits that extend beyond the project itself by supporting a safer, denser, mixed-use environment consistent with City goals.

Councilmember Briggs Question #4: Staff has noted that a financial gap still exists for this project pertaining to the third parking structure and the City may be reapproached to consider a private-public partnership to fund the third garage. Under the first proposal considered for this project, the City was going to bond for the three garages (and then set up a parking authority to purchase, operate, and maintain them). The bond repayment was going to be paid back by the TIF. Is this the same arrangement (except just for one garage) that would be considered if the developer cannot close their financial gap? (Councilmember Briggs)

Response: Staff has noted that a financial gap remains for the project overall but has not characterized that gap as being specific to the third parking structure, nor has staff contemplated a deal structure similar to the original PPA that would apply to a single garage.

From a practical standpoint, ownership of a single garage is not a proportional extension of the original proposal. Differing construction costs, operating arrangements, equipment, and management structures across garages introduce inefficiencies that would make such an approach difficult to implement. As a result, it is more likely that later phases of the project would be reconfigured than that the City would pursue a long-term ownership structure focused on a single parking facility.

It is important to note that any future request related to Phase V, which includes the third parking structure, would arise only after substantial private investment had already occurred and the project had demonstrated viability through earlier phases. Any such request would be evaluated independently by a future City Council.

Councilmember Briggs Question #5: The letter by the Michigan Master Assessment Officer declaring the parking structure serving 777 as functionally obsolete notes there is

no structural deficit with the subject structure, but rather there are no longer enough on-site employees to require a parking structure and the top level is no longer getting maintained in the winter and is blocked off. Yet, this brownfield plan proposes to provide a significant public subsidy to build new parking structures, in part, to serve those same employees. Can you provide more clarity on why this is warranted? (Councilmember Briggs)

Response: The purpose of TC1 zoning is to create dense, walkable, mixed-use places for people, supported by shared infrastructure rather than surface parking or single-purpose garages. Structured parking in the TC1 context is enabling infrastructure that allows buildings to engage the street, encourages walkability and street life, supports a mix of residential, office, retail, and visitor uses, and consolidates parking demand that varies by time of day.

While some parking demand will be generated by existing office employees, the proposed structures are intended to serve the district as a whole, over time, and not a single employer or building. As such, the comparison to the 777 parking structure is not a like-for-like comparison. The proposed garages are part of implementing the TC1 vision, whereas the existing structure reflects a land-use pattern that TC1 was designed to move away from.