



TO: Mayor and Council

FROM: Milton Dohoney Jr., City Administrator

CC: Derek Delacourt, Community Services Area Administrator
Nick Hutchinson, City Engineer
Brett Lenart, Planning Manager
Marti Praschan, Interim Deputy City Administrator
Jordan Roberts, Public Services Area Administrator

SUBJECT: March 17, 2025 Council Agenda Response Memo

DATE: March 13, 2025

CA-9 - Resolution to Approve FY25-27 Allocations for 3-Year High Impact Grants and Annual Mini-Grants as Part of the New Human Services Partnership (\$495,087.00)

Question: Have recipients for these funds already been chosen? Is the time period for this allocation FY25-27 or July 2024 thru June 30 2027? It looks as though both time periods are stated in the agenda item. (Councilmember Disch)

Response: Yes, decisions were reached by a NHSP grant review committee yesterday. These are one-year grants, 8 awards at \$40,000 each. Slated to go out July 1, 2025 or earlier if contract processing is completed by all parties.

CA-13 - Resolution to Approve Amendment No. 1 to the Professional Services Agreement with OHM Advisors for the Pittsfield Village Improvements Project (\$1,752,031.00 Amendment, \$2,893,002.00 Contract Total)

Question: I'm concerned that we seem to contract out a lot of non-construction services on our roads projects. Did we originally contract out this service because we don't have in house expertise or because we don't have staff capacity? Does staff have a regular, holistic look at the estimated costs to expand in house capacity/capability rather than contracting them out? (Councilmember Akmon)

Response: The services requested in CA-13 are being contracted due to a lack of staff capacity, not a lack of expertise. One reason for this is that these services are seasonal in nature – more capacity is needed during the summer construction season, and less in the winter. We regularly evaluate our staffing needs and capacity, but it has been a challenge to fill open positions for some roles. As an example, the Engineering unit has had an open construction inspector position but has not been able to find a qualified candidate.

Question: Is this an increase in cost or is the City purchasing additional services from OHM? (Councilmember Disch)

Response: The addendum is for additional services requested by the City, not increased cost for existing work.

C-4 – An Ordinance to Amend Sections 5.17, 5.27 and 5.28 of Chapter 55 (Unified Development Code) of Title V (Building Design Requirements on Primary and Secondary Streets, Design Review Board, and Design Review) and to Repeal Section 1:239 of Chapter 8 of Title I of the Code of the City of Ann Arbor CPC Recommendation: Approval (7 Yes, 2 No)

Question 1: What is the number of developments the DRB reviews every year? (Councilmember Akmon)

Response: Five, on average.

Question 2: Are there examples of projects where the DRB's involvement created unnecessary obstacles? (Councilmember Akmon)

Response 3: The primary obstacle is timing. For applicable projects, it adds a month of schedule prior to submission of a site plan. As the review is non-binding, any impact on the duration of development review could be considered unnecessary.

Question 4: Have developers expressed concerns that the DRB is slowing projects down? (Councilmember Akmon)

Response: This has been referenced as part of a long development review process, but the Design Review process has not been specifically called out as an elevated or sole factor in such concern.

Question 5: Do applicants generally find DRB recommendations helpful, or do they tend to disregard them? (Councilmember Akmon)

Response: Both. There are examples where changes have occurred and examples where changes did not. Generally, the evolution of design of projects after DRB review has been incremental. Experience with this process shows that project teams typically

plan/incorporate this design review process on the cusp of site plan submittal, which means that the building is far along in design, which can limit willingness or ability to make significant changes.

Question 6: Has the DRB helped improve the quality of development that we would lose by disbanding this board? (Councilmember Akmon)

Response: Any response to this would be subjective. Staff's opinion is yes, the quality of development was likely improved, but to a modest/incremental extent. During discussion at the Planning Commission, there was also identification that at times the Design Review Process resulted in undesirable outcomes/design.

Question 7: Does the City have codified design standards for the downtown? What criteria would staff be applying? (Councilmember Akmon)

Response: There are some codified design standards for downtown. Section 5.17.6 of the Unified Development Code prescribe materials, first floor height, and minimum transparency. These standards are currently measured and would continue to be determined by City staff.

For the purposes of the design review process, the Design Review Board currently utilizes the Downtown Design Guidelines, and under the proposed changes, staff would utilize the same Design Guidelines for project review. The change highlighted by the Planning Commission is that the review of these standards by a planner may result in a different outcome than a board comprised of people with different areas of expertise.

DS-2 - Resolution Authorizing Issuance of 2025 Capital Improvement Bonds for the Fire Station No.4 Replacement Project (Not to Exceed \$12,000,000.00) (Limited Tax General Obligation) (6 Votes Roll Call)

Question: The resolution notes "The City of Ann Arbor will be responsible for repayment of the bond proceeds, interest, and other related issuance costs through the allocation of funds per State of Michigan Public Act No. 289 of 1977 "Fire Protection Services for State Facilities," which allocates funding to municipalities that provide fire protection services to state-owned facilities." Is this because this station services UMich? (Councilmember Akmon)

Response: Yes, that is correct.

DC-1: Resolution to Authorize the City Administrator to Negotiate City Participation in the Arbor South Project, including Owning, Operating, and Bonding for Parking Decks

Question 1: Will both the developer *and* the City capture TIF revenue from the project? (Councilmember Disch)

Response: Both the developer and the City will be reimbursed for eligible expenses from the approved Brownfield Plan/TIF Capture.

Question 2: Am I correct that the developer will capture TIF from the value of the proposed housing, hotel, and other facets of the project that the developer is building? (Councilmember Disch)

Response: The Developer will be reimbursed for all eligible expenditures that are in the final approved Brownfield Plan.

Question 3: If the developer captures TIF from these components, can the City capture a share of the TIF generated by these components as well? (Councilmember Disch)

Response: The capture is not segregated and is available to reimburse all eligible expenditures in the final approved Brownfield Plan.

Question 4: I thought I understood from a conversation with Mr. Delacourt that the parking structures themselves *do not* generate TIF revenue (although there will be parking revenue). Are there other City-built improvements that would generate TIF capture for the City? (Councilmember Disch)

Response: If the City owns the decks, they do not generate taxes therefore do not generate TIF. If they remain privately owned and, are not abated through some other mechanism, the private owner will pay taxes, and the decks contribute to the generation of TIF. Any activity that increases the assessed value of the site creates TIF, it is not identified as being created by any one or other improvement. It is the cumulative impact on the assessed value of the property that creates the value to be captured.

Question 5: I infer from this sentence that the City must be receiving TIF capture: "The financial analysis performed by PFM confirms that the 30-yr forecasted TIF capture (\$162M) and parking revenue (\$46.5M) estimates surpass the debt payment requirement associated with the construction phase and the ongoing operational costs of the parking decks". If the cost of the decks is \$130.6M and there is a projected \$50M surplus, part of that *must* be generated by TIF capture. (Councilmember Disch)

Response: The BRA Plan has the TIF capture at over 300 million, when you include interest, and there is no longer any unassigned TIF available for collection. The remainder of the unassigned TIF is being submitted for infrastructure improvements necessary for the site and surrounding area.

Question 6: In the Comprehensive Land Use Process, which areas of the City are shaping up as the most promising locations for achieving greater residential density? Of those areas, which will need significant infrastructure investment in sanitary sewer capacity and other infrastructure in order to accommodate greater residential density? (Councilmember Disch)

Response: The City Comprehensive Plan process is considering additional residential density along numerous corridors. The most promising area for additional density without the need for significant infrastructure investment is north of the Huron River. Water & Sewer Comprehensive Planning efforts are currently underway. Specific capital infrastructure projects will be identified as the studies progress.

Question 7: Roughly speaking, how far would \$50M go toward augmenting sanitary sewer capacity and other infrastructure in areas of the city that seem likely for new residential development? (Councilmember Disch)

Response: Current analysis from the ongoing Sanitary Sewer Collection System Comprehensive Plan indicates that \$50M will not be sufficient to address all the capacity needs in the area. However the study is still underway and specific capital infrastructure projects will be identified as the study progresses.

Question 8: Construction of Arbor South is projected to take 10 years. Is it realistic to expect that the \$50M surplus will not even *begin* to be available for investment in City priorities till after the construction is completed? (Councilmember Disch)

Response: Surplus TIF is not allowed by statute to accumulate for unassigned eligible activities. There needs to be an eligible item identified in the plan, an associated cost estimated and included, and the plan approved for the TIF to be created. The only way for the TIF to be reimbursed is if the item is completed, inspected and the reimbursement request verified by the County.

Question 9: The memo states that total estimated revenues from the parking decks over 30 years would be \$46M. Given that the parking decks will not be built all at once and that demand for parking will increase over the course of the project's completion, it is a little difficult to translate this figure into an estimate of annual revenue. But I'd like to have an estimate of annual revenue in order to sketch a comparison between the parking revenues projected for Arbor South and current DDA revenues. I'll suggest a working assumption of roughly \$2M annual parking revenues (I welcome a more accurate estimate from you!). Currently, the total downtown system (decks and lots) generates \$21.5 M annually. In order for three parking decks totaling 2,476 spaces to generate roughly \$2M annually/ \$46M over 30 years, would hourly rates and monthly permits need to be: 1) about the same as downtown; 2) higher than downtown; 3) considerably higher than downtown? (Councilmember Disch)

Response: Based on the current financial proforma and its assumptions the annual estimated parking revenue, for the first phased structure, for a five year period equates to an average of \$1.3M Annually. The proforma assume a 24-Hour rate of \$122/month and transient parking rate of \$1.50/hr.

Question 10: What is the cost of the debt service for the \$130M to build, operate, and maintain the parking decks? (Councilmember Disch)

Response: Estimated annual debt services to finance the approx.. \$130M in structured parking deck costs is \$8.8 million (an estimated \$2.9 million annually for each deck). The amount is subject to change based on actual financing terms. Note that annual operation and maintenance costs are not included.

Question 11: Is the parking revenue estimate of \$46.5M gross or net? (Councilmember Disch)

Response: The \$46.5M represents the net present value of the estimated parking net operating income.

Question 12: Would staff please provide a breakdown of costs for construction, operation, routine maintenance, capital restoration (e.g. structural maintenance like repairs to concrete, waterproofing, etc) (Councilmember Disch)

Response: At this point in the process, cost assumptions in the model reviewed in our analysis includes the following categories and estimates on an average per deck basis:

Total (30-Yr) Facility Operation Costs	\$13.2M
Total (30-Yr) Parking Operation Costs	\$ 4.5M

Question 13: With respect to estimates for operation, what level of customer service is anticipated? Will these structures be fully automated? Will there be a mix of automation and human presence? (Councilmember Disch)

Response: We are not yet at a point in the process where details of that level have been determined.

Question 14: Could staff provide arguments for and against constructing the parking decks so as to build in the capacity to repurpose them (e.g. as housing) in the future? (Councilmember Disch)

Response: Staff recommends against constructing in a manner that would allow future conversion of the interior to residential. It is more likely that we would demolish the existing structures replacing them with code compliant residential structures per the applicable building code at that time. Staff is reviewing the possibility of designing the structures in a manner allowing future construction above the decks, that will continue through the permitting process.

Question 1: Can staff explain how establishment of the Special Assessment District(s) on the development is expected to provide a financial backstop ensures sufficient revenue to service the parking structure bonds should TIF revenue fall short? What are the mechanics on that, and how/when does it kick in? (Councilmember Akmon)

Response: It allows the city to increase the amount of taxes paid by the property owners of record at any time during the life of the bond, covering a shortfall in TIF. Council

establishes the district in tandem with bond approval and issuance, kicking in if the annual collection of TIF is lower than the bond payment.

Question 2: What potential risks to the City have staff (or consultants) identified? (Councilmember Akmon)

Response: The most definable risk is annual TIF and parking revenue falling short of bond payments. The Special Assessment District (SAD) protects the general fund against such a risk by assessing property owners in the district for the shortfall. But, even with an SAD, the assumption is that the taxpayers will pay their taxes, i.e. the risks inherent in tax collections remain. This could be compounded if the developer walks away from the project without completion, in which case there will be no forthcoming taxes.

The city also needs to ensure that the use of the deck(s) meets the requirements necessary to maintain tax-exempt status. As the owner of the deck(s), we will need to spell those requirements out to the operator/manager of the deck. The tax-exempt versus taxable nature of the bonds will have to be analyzed for each individual bond issuance and that analysis is heavily fact dependent regarding the proposed use of the deck. Because this development spans multiple years, there is inherent uncertainty in how future uses might materialize and how that might affect the analysis regarding the tax-exempt nature of the bonds.

The financial analysis conducted utilizes economic and financial assumptions (e.g. interest rates), significant changes in those assumptions, given the unpredictability of the current political/economic outlook, could lead to results entirely different than currently forecasted by the financing model.

Staff will work to mitigate these risks as part of the negotiations with the development team.

Question 3: What, if any, consideration has been given to leveraging the parking decks to facilitate park and ride? (Councilmember Akmon)

Response: With city owned decks, we are able to establish or use as a park and ride if appropriate. It would need to be done in partnership with AAATA and potential UM if desired. The option is being explored as part of the approval process.

Question 4: Assuming the full development is realized (1,000+ units of housing along a transit corridor), what tandem upgrades to multimodal transit are being included as part of this plan? For example, increased level of service for the Ride on this route, redesigning State St near Eisenhower to improve the safety and comfort of people walking and biking, etc? (Councilmember Akmon)

Response: Other than the design of the decks and surrounding area to support transit and multimodal access there are no significant improvements to the State and Eisenhower corridors included in the project.

Question 1: What is the most likely scenario for this project if the city decides against funding one or more of the parking structures? (Councilmember Mallek)

Response: The options for the developer include, adjusting the size and design of the project, seeking other financing options for the site which may impact the design and/or use mix, or the developer could choose to not pursue the project.

Question 2: The proposed Arbor South development project includes a 150-key hotel. Why is a hotel being built instead of additional housing? (Councilmember Mallek)

Response: This question is also best directed at the development team, however, there is a continuing need for hotel use in the City, the TC-1 district allows hotel use by-right and the commercial portion of the development helps increase the TIF collected allowing for the necessary value to pay down the cost of the public infrastructure.

Question 3: Staff notes that to facilitate the development, the City is being asked to commit to acquire and develop in phases three parking decks which would be funded by issuing, in three separate issuances, limited tax general obligation bonds (\$146M est.).

- a. What is the anticipated cost of acquiring the land for these proposed parking decks? Would the land be purchased at market rate?
- b. What is included in the estimated \$146 million cost?
- c. What is the total estimated cost of the parking structures, inclusive of construction costs and bond issuance and financing costs for the city?
- d. It is my understanding that general obligation bonds count against the City's overall debt limit of 10% of state equalized value. By taking on this bond obligation for the proposed Arbor South project, would the city approach anywhere near that 10% level and thus hinder possible other city initiatives in the future? (Councilmember Mallek)

Response:

- a. What is the anticipated cost of acquiring the land for these proposed parking decks? Would the land be purchased at market rate?

Response: Land costs are estimated to total \$11.4M, which represents the market rate.

- b. What is included in the estimated \$146 million cost?

Response:

<i>Construction Proceeds:</i>	<i>\$128.4M+/-</i>
<i>CAP / Fees</i>	<i>\$14.0M+/-</i>
<i>Cost of Issuance*</i>	<i>\$3.6M+/-</i>

- c. What is the total estimated cost of the parking structures, inclusive of construction costs and bond issuance and financing costs for the city?

Response: The total cost as summarized above is an estimated \$146 million, subject to change based on actual costs of financing. The estimated total principal and interest costs over the payback period(s) for the three parking structures is \$234 million, which is subject to change based on final financing terms.

- d. It is my understanding that general obligation bonds count against the City's overall debt limit of 10% of state equalized value. By taking on this bond obligation for the proposed Arbor South project, would the city approach anywhere near that 10% level and thus hinder possible other city initiatives in the future?

Response: As of June 30, 2024 the City has \$904,768,680 of debt margin available:

Legal Debt Margin Calculation for Fiscal Year 2024

Assessed value of real and personal property	<u>\$ 9,978,186,800</u>
Debt limit (10% of assessed value)	\$ 997,818,680
Debt applicable to limit - Net direct debt	<u>93,050,000</u>
Legal debt margin	<u>\$ 904,768,680</u>

	Debt Limit	Total Net Debt Applicable to Limit	Legal Debt Margin	Total Net Debt Applicable to Limit as a Percentage of Debt Limit
2015	\$ 544,734,050	\$ 115,624,000	\$ 429,110,050	21.23%
2016	587,315,552	111,919,000	475,396,552	19.06%
2017	664,362,240	108,284,000	556,078,240	16.30%
2018	686,875,930	103,060,000	583,815,930	15.00%
2019	726,197,693	119,183,000	607,014,693	16.41%
2020	791,747,775	112,790,000	678,957,775	14.25%
2021	838,444,077	105,893,000	732,551,077	12.63%
2022	912,221,924	113,842,057	798,379,867	12.48%
2023	942,237,543	105,579,000	836,658,543	11.21%
2024	997,818,680	93,050,000	904,768,680	9.33%

Further limitations may be applicable depending on the type of debt issuance.

Question 4: Staff notes the TIF is expected to generate approximately \$304M over the 30-year payback period.

- a. What general items, and their approximate costs, would be reimbursable with these funds?

- b. Is the city the only entity that would receive the TIF revenue under this proposal?
- c. If eligible brownfield costs are paid off early (prior to the passing of 30 years), as is estimated in this case, what happens to the funds from those excess years after eligible costs are repaid? If the funds remain with the city, are there restrictions on their use? (Councilmember Mallek)

Response:

- a. What general items, and their approximate costs, would be reimbursable with these funds?

Response: The \$304M in total projected capture over the 30-year life of the Plan. The current Brownfield Plan draft includes \$234M to the City of Ann Arbor for Cost of Issuing Bonds, Parking Structure Hard Costs, and Bond Interest. There is \$28M for developer reimbursement for demolition and environmental cleanup of the gas station (2M), Infrastructure improvements such as storm, water, sanitary, roads, utilities, landscaping, lighting (\$21M), and Design fees and Contingency, and Brownfield Plan and Work Plan Preparation fees (1M). Finally, there is \$14M in County Brownfield Authority Administrative fees and capture for the Local Brownfield Revolving Fund.

- b. Is the city the only entity that would receive the TIF revenue under this proposal?

Response: No, the developer would be reimbursed up to \$28M and County Brownfield Authority \$14M.

- c. If eligible brownfield costs are paid off early (prior to the passing of 30 years), as is estimated in this case, what happens to the funds from those excess years after eligible costs are repaid? If the funds remain with the city, are there restrictions on their use?

Response: Once the Brownfield Plan is approved, a maximum reimbursement figure is established. If all costs are paid off early, the Plan will terminate early, as well. There are no excess funds that could be provided to the City or developer. The City and County could amend the Plan in the event costs are reimbursed fully at an earlier date to include additional eligible activities.

Question 5: Staff notes that in support of the request for a Brownfield TIF, the development team is also proposing the establishment of one or more Special Assessment Districts, which would encumber the privately owned components of the project, to protect against a potential shortfall in TIF revenue during the lifespan of the project.

- a. Could you elaborate on how special assessment district(s) would work in this example?

- b. What level of protection could special assessment district(s) provide in this case? Asked another way, how much risk would they insure against?
- c. Are there other examples in Ann Arbor where the city has used special assessment districts? If yes, what was the outcome of using special assessment districts in those cases? (Councilmember Mallek)

Response:

- a. Could you elaborate on how special assessment district(s) would work in this example?

Response: The City establishes the district in concert with the bond(s) as approved and issued. The City assessor levies additional taxes on the property owner(s) sufficient to cover the deficit between the available TIF and the bond payment, ensuring that the City does not need to use general fund monies to cover a shortfall.

- b. What level of protection could special assessment district(s) provide in this case? Asked another way, how much risk would they insure against?

Response: It ensures against the potential use of General Fund money to cover bond payments.

- c. Are there other examples in Ann Arbor where the city has used special assessment districts? If yes, what was the outcome of using special assessment districts in those cases?

Response: There are many instances of the City establishing SAD's for known costs associated with projects. This is the first time staff is aware of a SAD being considered to protect against a potential future shortfall instead of a known expense.

Question 6: Staff notes that the City is being asked to operate the decks going forward and that the City will likely create a separate parking authority to manage and oversee these structures. Should the structures be completed before a parking authority is created and operational, how does the city anticipate managing the structures? (Councilmember Mallek)

Response: The City expects to contract with a qualified parking management/operational firm to manage the deck(s) until/if an authority is created. The city will maintain purview of pricing and operational decisions while providing direct supervision of the selected firm or group.

Question 1: Has the City ever supported a Brownfield TIF request at this level before? What is the largest plan we've supported to date? (Councilmember Briggs)

Response: The Village of Ann Arbor at 30 million and Broadway Park at 17 million.

Question 2: The staff memo notes that "there is sufficient water and sanitary infrastructure capacity to support the full build-out of the development. However, there will be little to zero remaining capacity in the receiving sanitary sewer trunkline for future projects of any significant scale." What sustainability measures are planned for this project, particularly those that would aid in water conservation and efficient use- such as graywater reuse and other strategies, In addition to housing, this project envisions a 150 key hotel. What are the water and sanitary needs for this portion of the development? (Councilmember Briggs)

Response: The project as proposed meets the City's requirements for water and sanitary sewer capacity and design. There are no sustainability items above what is required and defined by code currently proposed for approval. The applicant has indicated a willingness to partner with the City on the possible installation of geothermal at the site in support of the future SEU.

Question 3: The memo notes that a new parking authority would need to be created to build, manage, and maintain these parking decks. Is this parking authority envisioned to support the development of parking decks at other locations outside of the downtown? What type of planning has been done for this potential new parking authority? (Councilmember Briggs)

Response: No specific planning has been done to date.

Question 4: The memo notes that " Arbor South would be the first time the process has been deployed outside of the downtown. The use of parking revenue and TIF to pay for Arbor South parking structure construction, maintenance, and operation presents less risk to Ann Arbor than the construction, maintenance, and operation of downtown structures because downtown-related bonds are associated solely with parking revenue, a more volatile income stream than TIF." Can staff elaborate on the risk inherent in this project- beyond it carries "a degree of risk"? The downtown is comprised of many businesses, public institutions and spaces, and the University of Michigan. In other words, there are many reasons people might want to drive and park downtown. If this business plan is not successful, what other attractions beyond this development would help to fill these parking garages to generate revenue? Additionally, the public parking structures downtown serve many business owners, nonprofits, public institutions, and events. How many businesses are envisioned to benefit from the development of these parking structures? (Councilmember Briggs)

Response: The construction of the decks will directly serve the 1,000 new units of residential and the 85,000 square feet of associated commercial. The location of the decks serve as an optimal location for people commuting into the city to transfer to another mode of transportation before making the final leg of the journey into town. Staff does not have data on the specific number of businesses that will be served in the future

by the availability of parking. It will allow easier future expansion of housing and other uses if there is available public parking in the area.