TO: Mayor and Council

FROM: Milton Dohoney Jr., City Administrator

CC: Derek Delacourt, Community Services Area Administrator
Joseph Giant, Economic Development Director
Marti Praschan, CFO
Mariah Walton, Deputy City Administrator

SUBJECT: City of Ann Arbor July 28 Council Work Session
Kline's Lot & 415 West Washington Proposals
City Council Questions & Staff Responses

DATE: August 21, 2025

Councilmember Briggs

Question: In addition to the answers that Council posed on Monday, can you please share the entire proposals for the potential developers selected as finalists on both sites?

Response: With this transmission staff has provided the key information on each of the finalists. If for some reason you still are seeking additional information please reach out to the City Administrator.

Councilmember Disch

Question #1: Regarding bid C for 415 W Washington, which listed the following contingencies: City delivers 1) environmental remediation; 2) floodplain mitigation, and 3) Treeline Trail and public realm enhancements

Please specify how the bidder defines "public realm enhancements."

<u>Response</u>: Redevelopment of this site pursuant to the Planned Unit Development (PUD) approved by Council in 2023 would not be financially feasible without some type of public participation in the cost of TIF-eligible activities. Without TIF, extraordinary development costs would need to be absorbed into the land sale price and ultimately the rental rates, pushing rents to levels that the market could not support.

Bidders were not required to itemize which public realm enhancements (or other public infrastructure items) would be incorporated into the project or reimbursed by the City. That level of detail is not typically required in an open call for proposals. If identified as the preferred bidder, the City would anticipate further negotiations to determine what level of TIF reimbursement, if any, is necessary to support the project. Generally, however, public realm and public infrastructure items, whether located on public or private property, are typically eligible for Tax Increment Financing (TIF) reimbursement.

Regardless of the selected bidder, it is anticipated that negotiations will take place regarding the potential incorporation of TIF to support site remediation, the construction of the Treeline Trail, and other desired public infrastructure improvements.

<u>Question #2</u>: Please provide separate estimates for the costs of each one of these items, and please indicate the likely funding sources in the City budget to pay for each one of them.

<u>Response</u>: Initial estimates for the identified items are as follows:

- Remediation: $2-3 million
- Treeline Trail: $750 thousand – 1 million
- Floodplain Mitigation: Staff does not expect an additional cost for floodplain mitigation as the site design conforms to the requirements for construction

We also expect discussion around other TIF-eligible activities that may arise through City staff review and due diligence conducted by the development team, such as improvements to Washington Street and its interface with both this site and the YMCA.

It is anticipated that these items would be financed upfront by the developer and reimbursed over time through tax increment generated by the project.

<u>Question #3</u>: How many of these items are TIF eligible?

<u>Response</u>: All of the aforementioned items are typically TIF-eligible.

<u>Question</u>: Please estimate the cost vs. benefit to the City of assuming the cost for TIF-eligible aspects of the project vs. deferring tax revenue and having the bidder front the capital for those costs.

<u>Response</u>: It is important to clarify what is meant by the City "assuming the cost." For example, this could conceivably mean that the City would pay upfront through the General Fund, which presents major challenges, most notably the limited availability of discretionary funds, and the inefficiency of relying solely on City funds rather than leveraging revenues from other underlying tax units (as TIF allows).

Alternatively, the City could issue a TIF bond. However, this would essentially convert the project into a Public Works initiative, delaying closing until City-led activities on the site were complete and requiring coordination and sequencing between City-controlled and developer-controlled construction teams. This would also shift environmental risk to the City, which is particularly problematic in this instance. The City is considered a "responsible party" for the environmental contamination and would not be permitted under regulatory rules to perform the remediation directly.

Given the logistical, regulatory, and risk-related challenges of other approaches, City staff would only recommend financial participation if structured as a TIF reimbursement, as opposed to upfront funding through the General Fund or another City source. The primary drawback of structuring participation as a developer reimbursement is the likelihood for higher interest rates compared to a City-issued bond. However, reimbursement for interest is a negotiable deal point, and staff's responsibility will be to recommend financial participation only to the extent necessary.

<u>Question #4</u>: Regarding Bid A, would it be possible to have written confirmation from MSHDA that this project would be competitive for LIHTC funding despite being located in a floodplain? Could staff experienced in this area estimate how likely the bidder would be to compete successfully for that funding through the MSHDA process? Does this bidder have prior experience working with MSHDA to develop affordable housing?

<u>Response</u>: Staff discussed the potential use of Low-Income Housing Tax Credits (LIHTC) with the development team, who demonstrated clear expertise in affordable housing and had conducted extensive due diligence on the site. However, it remains uncertain whether the site would fully qualify for LIHTC. The team noted that regulatory exceptions might be necessary, and obtaining definitive clarity could realistically take 4 to 12 months.

More critically, environmental remediation and the integration of required PUD components/infrastructure increase development costs by several million dollars. An all-affordable project would generate nominal tax revenue (i.e. no "TIF") and insufficient cash flow due to capped rents, making it difficult to finance these additional costs. Consequently, the project would face a significant financial gap with no clear resolution. Even if LIHTC proved applicable, these broader site-related and financial barriers pose a more fundamental challenge to feasibility.

It is important to note that any project on the site would still be required to include a minimum of 15% affordable units or provide a payment-in-lieu to the Housing Commission.