# PLANNING, BUILDING AND DEVELOPMENT

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City of East Lansing
PLANNING, BUILDING
& DEVELOPMENT
410 Abbot Road
East Lansing, MI 48823

(517) 319-6930
www.cityofeastlansing.com

**MEMORANDUM**

**TO:** George Lahanas

**FROM:** Lori Mullins, Community and Economic Development Administrator

**CC:** Tim Dempsey, Director, Planning Building and Development

**DATE:** June 6, 2017

**SUBJECT:** Key Terms of Center City Development Agreement

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As you know, the City Attorney and City staff have been working on the Development Agreement for the Center City District redevelopment project. Several business issues related to that agreement have been discussed with the development team and this memo summarizes the status of those negotiations.

Ground Lease:

The City will continue to own the 58,769 SF parcel at 200 Albert Avenue and will lease it to the developer for a total annual payment of $200,000. The lease will commence upon issuance of a certificate of occupancy and will terminate forty-nine years later. There will also be one forty nine year extension option. The City will also own a 620 space parking structure and certain office and maintenance facilities that together will be a condominium unit within the new development on this site. The City will pay no rent for these public spaces in the development.

As context for the value of the ground lease payment, we can look at the 2013 appraisal that was completed for the City related to Parking Lot 4, next to Dublin Square. The appraisal showed that the lot was worth $37 per square foot at that time. If that square foot value was applied to Lot 1 and it increased at 2.5% per year from 2013-2020 then Lot 1 would be worth approximately $2.6 million in 2020 when the lease payments begin. If the ground lease for a large development like this is based on a cap rate of between 6% and 7% of the value of the property, then the ground lease should be between $156,000 and $182,000 per year. $200,000 per year exceeds that range and therefore we would conclude that the proposed lease amount is a good value for the City based upon this analysis.

Brownfield Tax Increment Financing:

The redevelopment project will result in a $125 million investment in our downtown that will help to achieve several of the City's goals including diversifying the housing stock by adding ninety-one active adult apartments, adding a grocery store to the downtown, improving our public infrastructure and adding new local jobs. Brownfield Plan #24 includes reimbursement of $24,389,518 for public improvements including the parking structure, utilities, public space improvements, etc. With interest, fees and the State revolving loan allocation, the total cost eligible for brownfield reimbursement is $58,396,973. The Plan request reimbursed over 30 years from 100% of the capturable millages. The Brownfield Reimbursement Agreement and the Master Development Agreement will further describe that the reimbursement will be available to reimburse the bonds issued for public improvements.

The City will continue to receive the base tax revenue, the new revenue from the debt millage, revenue from the DDA millage and the Brownfield administration fee. These items together will result in approximately $105,000 in annual revenue to the City. The City will forgo approximately $460,000 in annual revenue as part of this Brownfield Plan, which is offset by the previously mentioned sources, new revenue from the ground lease and parking revenue. Personal property taxes (PPT) collected from the retailers will not be captured by the Brownfield Plan. Based upon PPT revenues estimated by the City Assessor, we have estimated that project will generate $39,000 in personal property tax revenue in the first year after construction is completed. Values for personal property typical fall rather quickly and it could be expected that the assessed values would stabilize at about two thirds of the initial values after about three years, therefore $25,000 is being used in the overall estimate of new revenue at the end of this memo.

Brownfield Revenue Bond:

The Brownfield Redevelopment Authority will be asked to issue non-recourse bonds that will be payable only by the tax increment revenue derived from the Center City District Brownfield Plan #24. The amount of the bonds will not exceed $24,389,518 which is the total amount of eligible costs associated with public improvements in the Plan. These bonds are necessary to finance the public portions of the project.

Water and Sewer Capital Connection Fees:

The developer will pay a fixed amount of $660,000 for the water and sewer capital connection charges associated with the project. All other inspection fees and charges will be paid by the developer in accordance with the schedule of fees approved by City Council.

Parking Agreement:

The Developer will lease 318 spaces in the new parking structure annually. The 174 spaces associated with the market rate apartments will each be leased for $80.00 per month and the 144 spaces associated with the senior housing (116) and grocery store (28) will be leased for $65.00 per month. These rates will adjust annually at the lesser of 1.5% or the rate of the Consumer Price Index. This reflects an annual savings of approximately $73,000 to the development. The City's parking system will also benefit through increased revenue from the new parking structure. The net parking revenue from this lot is expected to be approximately $665,000, $128,000 more than the current Parking Lot 1 net revenue of $537,000.

Construction Parking:

The Construction Containment Plan provided by the Developer as an exhibit of the Development Agreement will provide that the construction workers for the project will be instructed to park in the City's Division Street Parking Ramp and the during the construction of the project the contractors and sub-contractors shall pay not less than $360,000 in parking permit fees to the City. During the construction period, Parking Lot 1 will be closed and visitors will be distributed in surrounding parking lots and garages. It is anticipated that the gross revenue that the parking system receives from that lot will drop by approximately 30% for two years, resulting in a loss to the parking system of $378,000 over the two year construction period. The new revenue from construction workers is projected to cover about 93% of that loss.

Total Net New Annual Revenue to the City:

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|---|---:|
| Ground Lease | $200,000 |
| Debt Millage | $17,000 |
| DDA Millage | $37,000 |
| Personal Property Tax | $25,000 |
| Brownfield Fee | $15,000 |
| Net New Parking Rev. | $128,000 |
| **Total** | **$422,000** |