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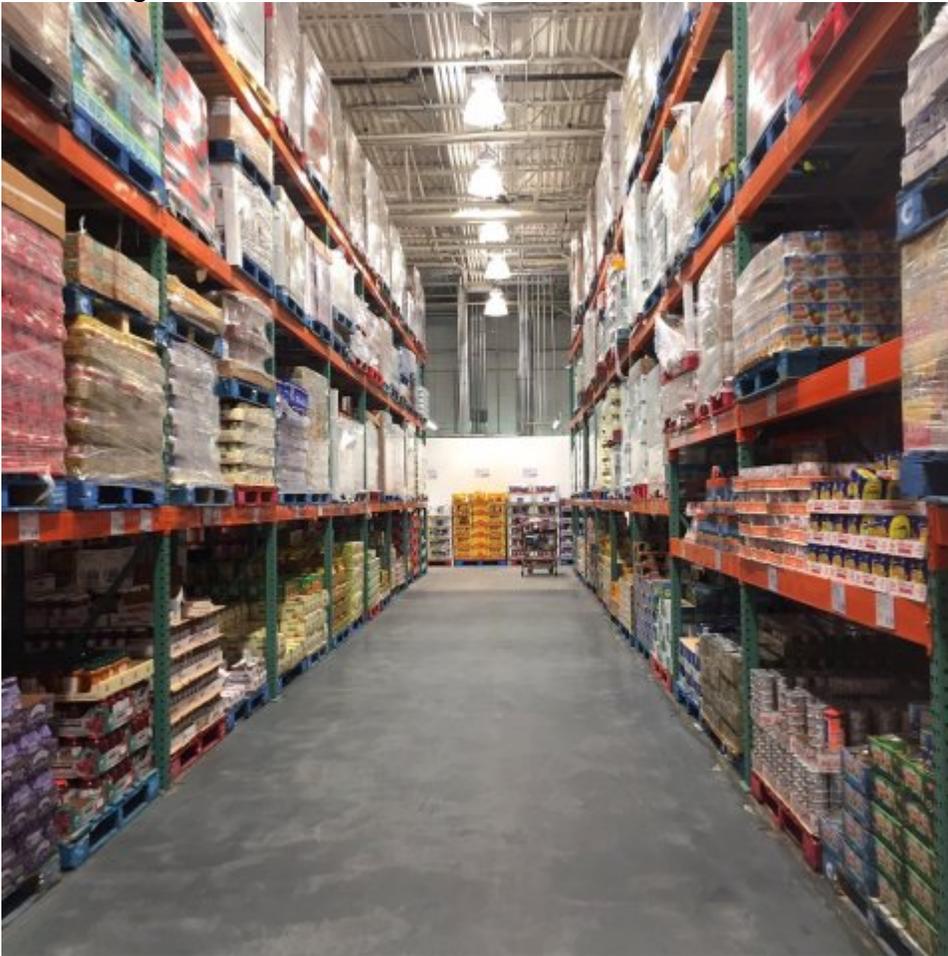
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## Council Approves Costco Plan with \$1.5M Tax Subsidy <sup>[1]</sup>

Wednesday, December 7, 2016, 7:00 am

**By:**

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*Above: interior of a Costco store in New York state.*

At its regular meeting last night, East Lansing's City Council approved the site plan from Costco to construct a new store at the southeast corner of Saginaw Highway and Park Lake Road and also approved a plan to give back to the developer up to \$1.5 million in new property taxes that will be generated by the development. While there was much debate on the details of these issues at Council's meeting last night, Council ultimately voted 5-0 on all of the decisions related

to the project.

The project still needs to go through a number of additional governmental approvals before it can be constructed, including with Meridian Township and the Michigan Department of Environmental Quality (MDEQ). But the approvals of the site plan and a tax increment financing (TIF) deal by East Lansing's Council mark two major achievements for Costco's developers.

As noted in more detail below, Councilmembers named a number of reasons for why they agreed to the property tax deal, including that they hope the store will create about two hundred relatively well-paying local jobs. Costco estimates the store will generate an annual payroll of \$8 million. Councilmembers also said they expect the store's construction to draw additional development to the area that will in turn generate more property taxes.

Councilmembers also noted that the site, which involves wetlands and unstable soil, presents many challenges to development and failed to be developed under two previous plans, which were for large residential complexes. Costco's developer Ted Johnson told Council, "This is a very, very difficult site to develop." He compared the viscosity of the soil to toothpaste and said it will cost a million dollars to remove soil, including peat, from the site, and another two million dollars to bring soil in, treat the soil, and create pylons. He said they could have picked an easier site but have committed to this one.

Through an annexation agreement, Meridian Township currently lays claim to some of the taxes generated by this property, and Meridian has previously indicated it would not agree to a TIF deal of more than \$1 million. East Lansing's Council last night agreed (again) to adhere to Meridian's previously stated limit. This means that Meridian Township will benefit from relatively more taxes sooner than East Lansing, if the project is built. How exactly this will work in terms of the TIF structure was not made clear and is expected to be worked out in additional legal agreements with Meridian Township.

A great deal of debate at the meeting occurred around the question of how many bicycle parking spots should be provided. Code calls for rack-parking for 50 bikes at a development of this size, but Costco's representatives insisted that they only needed eight for customers. Mike Unsworth spoke on behalf of the Tri-County Bicycle Association <sup>[2]</sup> during public comments to support the requirement for 50 spots. The bicycle association had previously written to East Lansing and Meridian <sup>[3]</sup> to ask them to adhere to the legally required accommodations for bicycles and pedestrians.

But in response, Costco's developer told Council that he and his colleague "will be fired" by Costco if Council were to require 50 spots. Councilmember Shanna Draheim replied that she thought ample bike parking was needed in part to encourage people to see biking as a reasonable option for shopping and employment at the store. Mayor Mark Meadows noted that East Lansing was recently named a bike-friendly city <sup>[4]</sup> and suggested that had to be taken seriously.

Ultimately Council decided to require that twelve external (shopper) and eight internal (employee) bike parking spots be provided at the outset, with an increase of up to 50 total if a need develops. Thus 50 spots are technically required but only twelve bike rack spots will actually be required at the outset. (Meridian Township has not yet approved this idea.)

Representatives of the neighborhood closest to the project had asked for an earthen berm to be constructed to help shield residents from having to see and hear the commercialized area from their homes. They also have asked for extensive plantings to be used as a shield. The developer representing Costco indicated that they will do what they can to accommodate the neighbors, but said that the Michigan Department of Environmental Quality (DEQ) does not to allow much change to the part of the property that will be preserved as wetlands. So, because of the DEQ putting limits on changes to parts of the property, it is unclear at this time exactly what accommodations will be made to address these neighbors' concerns.

The citizens who came to speak to Council on the project generally cautioned against a generous TIF package, particularly because of the relatively solid financial position of Costco and relatively precarious financial position of the City of East Lansing. Earlier in the meeting, the annual financial audit of the City was presented, showing that the City's debt position has become worse than last year, as had been expected, with retiree-related debt now totaling about \$120 million, up from about \$106 million two years ago [5]. By contrast, those citizens who wrote to Council [6] before the meeting supported the project and the TIF proposal.

The TIF agreement reached at last night's meeting was proposed by Councilmember Shanna Draheim. While the developer had asked for a TIF of \$1.8 million, the TIF agreement passed caps the total give-back at about \$1.5 million, extending up to 15 years, as Draheim proposed. (Whichever limit is reached first—the total amount or the total years—would end the tax give-back.) During the period of the TIF payback, taxing entities including the City of East Lansing would get 39% of the newly generated taxes and the developer would be reimbursed with up to 61%. After the TIF ends, property taxes will cease to be used to reimburse the developer.

The property taxes on this land are expected to rise, post-development, from about \$8,000 to about \$49,000 per year. The TIF give-back will be used to reimburse the developer for several allowable costs, including the costs associated with improving Park Lake Road, as required by the Ingham County Road Department, and Saginaw Highway, as required by the Michigan Department of Transportation (MDOT). Councilmember Erik Altmann noted during the discussion that this meant that East Lansing was essentially paying for costs Ingham County Road Department and MDOT did not want to bear.

Tim Johnson, representing Costco, told Council that Costco could have legally asked for a bigger TIF but that the company only asks for what it absolutely needs. He said that \$1.8 million "is a lot to us regardless of whether we have a \$1 billion net worth." He said Costco has a national history of requiring almost no police or fire assistance, so that the store will not cost East Lansing taxpayers in that way. The store, he told Council, will have its own security personnel. He added that the way Costco packages products also reduces theft. He gave the example that if you buy an expensive pen, it comes in a very large amount of packaging to prevent theft.

Johnson told Council that Costco's profit margin is 10.22% while Home Depot's and Lowe's

are about 31%. He said the average wage at Costco is over \$23/hour because the company is socially responsible, including to its workers. He urged Council to consider "the trickle-down economics" of the proposed store.

Part of the discussion revolved around the problem of "dark store" assessment [7], by which big-box store owners manage to have properties assessed as if they were essentially vacant—that is, at a much lower rate than their occupied value. The State of Michigan is working on possibly addressing this tax loophole, because it results in the loss of at least \$100 million in statewide taxes every year.

The TIF plan for this store was conducted on the assumption of a "dark store" tax assessment, meaning that the plan is based on conservative financial estimates of tax generation. Additionally, the caps built in (about \$1.5 million and 15 years) means the financial exposure via TIF for the City of East Lansing and other taxing entities is specifically limited. If the property doesn't generate enough taxes to reach a reimbursement level of \$1.5 million in 15 years, the TIF will still end at that point.

Before the unanimous final vote on the tax deal, four members of Council explicitly explained their reasoning, with Mayor Pro Tem Ruth Beier as the sole exception.

Councilmember Susan Woods said the site was underutilized as a commercial site, that the taxes generated by the project would ultimately be significant, and that Costco would bring well-paying jobs. She also said that she is from California, and "I call Costco the Disneyland of retail. People want to come to Costco."

Councilmember Draheim said she thought the project would be "catalytic" to the area, and was therefore deserving of TIF in the amount she had proposed. Draheim also spoke about the importance of bringing a large, relatively generous employer and of building on a site that historically has gone underutilized as a commercial site.

Meadows agreed with Draheim's points, saying well-paying jobs were a "major consideration" for him. He appreciated that Costco did not ask for nearly as much TIF as the company could have; he estimated they could have asked for about \$8 million. Meadows said he found what was being reimbursed in terms of costs reasonable, and added that with the TIF, "we pay them back from money they pay us. That's how it should work."

Meadows said it already appeared likely that additional commercial development will be occurring along Merritt Road, which meets Park Lake Road near where Costco would be built. Additional development is also to be expected along Saginaw Highway and Park Lake Road, according to Meadows, as a result of Costco being built. This, he and Draheim noted, would ultimately generate more new property taxes for the City of East Lansing.

Altmann said he was supporting the plan "not quite as happily as my colleagues." He said the project was not without costs, including to the neighboring homeowners and in terms of loss of green space. But, he concluded, "This is a perfectly adequate response to the situation" before Council.

While Costco is purchasing about 65 acres for the project, only about 24 will be developed.

Approximately 36 will be covered in a series of conservation agreements. The Michigan DEQ has yet to approve the plan for the wetlands at the site, and various approvals and agreements will have to be worked out still with Meridian Township, MDOT, and the Ingham County Road Department. But for now, the project looks increasingly likely to happen.

**You may also be interested in:**

- [As Costco Plan Moves Forward, Details Emerge](#) [8]
- [Cosco Build Would Involve Road Changes](#) [9]
- [Costco Asks for \\$1.8 Million Tax Give-Back](#) [10]
- [Costco to Fill Wetlands if Permit Obtained](#) [11]

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