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As Lotsa Pizza Shutters, Council to Revisit Center City Project Deal ^[1]

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By:

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Even while demolition proceeds apace at the Center City District project site in East Lansing, with the developer now bringing in big equipment for the start of construction, uncertainty remains around the project for downtown businesses and in terms of city finances and financial risk.

Yesterday the State News broke the story ^[2] that Lotsa Stone Fired Pizza has decided to close and ?remain closed for the next two years, or until construction is complete? at Center City because of lack of parking caused by the construction project. (More on the parking problems below.)

And, late yesterday, ELi learned that City Council will again be revising the Master Development Agreement with the developer at Council's meeting next Tuesday evening. This is apparently in order to accommodate the developer's inability to meet the financial guarantee terms specified in the existing agreement. Those terms have been designed to protect the City from significant financial risk.

Parking causing stress for downtown businesses:

ELi is hearing from downtown businesses that the lack of parking caused by this project is already causing problems for them. About his restaurant's closing, Lotsa Pizza's Chief Operating Officer Anthony DiGangi told the State News yesterday, "With the construction in the area there's no parking. There is literally no parking for people behind us anymore."

Lotsa Pizza is located on Grand River Avenue near Abbot Road and backs up onto Lot 1, which is now closed for the Center City project. Lotsa Pizza's management originally came out strongly against the project, saying it would cause their restaurant problems during construction, but ended up endorsing it. In May 2017, the establishment hosted a public event ^[3] held by the developers to promote the project.

To try to mitigate problems to downtown businesses during construction, East Lansing's Downtown Development Authority (DDA) is paying a marketing firm \$20,000 to try to help businesses stay open and alive. The PR firm has created a campaign, East Lansing Buzz ^[4], whose mascot is a bee.

City staff told the DDA in August that the idea behind the bee mascot was that the project "stings at first but in the end is all honey." Each day, a parking meter downtown is capped with a bag with a bee logo indicating that that parking meter is temporarily free. The idea is to draw consumers downtown looking for the free parking meter.



The City is also pushing the statistic that "94% of the city's parking remains available." This includes four downtown parking garages on Grove Street, Charles Street, Division Street, and below the Marriott Hotel, which reopened a few months ago after extensive renovation.

According to City-issued press materials, the new parking garage to be constructed on Lot 1 as part of the Center City project is expected to be complete in late 2018 and will have about 600 new spots, about half of which will be discount leased to the developer for use by its residential and commercial tenants.

City Council to revisit the question of financial guarantees:

ELi has previously reported [5] that the developers, Ballein Management and Harbor Bay Real Estate, were having problems [6] putting up the financial guarantees required by the City in the Master Development Agreement. The City had been insisting on the developer providing financial guarantees to ensure that, if the project started and the developer folded, the City would have access to enough money to finish the public infrastructure, including the new parking garage. The City didn't want to be stuck with a half-built structure.

In late October, lead developer Mark Bell claimed he was "walking away" [7] from this project because the City wouldn't budge on the requirement for the financial completion guarantee, and Bell couldn't get it in place. Mayor Mark Meadows confirmed [7] that that was the problem holding up the start of the project.



Then, suddenly, demolition started anyway. Through a Freedom of Information Act (FOIA) request, ELi learned [5] that, *originally*, City development staff had apparently taken the position with the developer that financial guarantees for both the demolition of Lot 1 and public infrastructure construction completion were needed before demolition could begin.

But the City ultimately allowed the developer to start demolition [5] a few weeks ago with a guarantee for only the *demolition* phase of the work; this guarantee would cover only "restoring" the lot to "grade and gravel" of the surface; it would not return Lot 1 to a functioning parking lot.

Supposedly construction itself would wait until Bell and colleagues got the completion guarantees in place. This week, seeing major construction equipment being moved in, including pile-drivers, we started asking Mayor Mark Meadows and City Manager George Lahanas two days ago whether this meant the developer had given the City performance guarantees for the construction phase.

Late yesterday, City Planning Director Tim Dempsey responded, saying Lahanas had asked him to do so. Dempsey answered, "That will be forthcoming next week as Council, the DDA, and BRA [Brownfield Redevelopment Authority] will be considering an addendum to the MDA [Master Development Agreement]."

This news means City staff will be asking for some change to the development agreement on this point. Dempsey also indicated that the "contract costs for the garage and public infrastructure" are about \$24 million.

Asked last night by ELi what is going on, City Councilmember Ruth Beier said that the matter of the performance guarantees, as coming back to Council next Tuesday night, was still in negotiations, so she could not say.

Beier did volunteer that she expects Council also on Tuesday to be addressing the failure of the development agreement [5] to require the developer to provide \$360,000 in parking fees to the City to help make up for the loss of income from Lot 1. According to City staff, Lot 1 had been bringing in about \$750,000 per year in gross revenue to the City's coffers before it was closed.



Beier did not say whether the revision of the development agreement would also address the differences between how the lease for the public land had been described and how it turned out in final approval from Meadows on behalf of the City. ELi reported [8] on what happened with that.

City staff has now scheduled emergency meetings of the DDA and BRA for this coming Thursday, which will be two days after the Council meeting to consider amending the Master Development Agreement. This is apparently so that the DDA and BRA can also deal with whatever changes are made to the agreement by City Council. (The DDA and BRA are parties to the agreement, so they must sign off on changes along with City Council.)

Costs mounting:

Under the tax increment financing (TIF) deal made between the City and the developers, 100% of the new taxes generated by the project will go to reimburse the developer for 30 years to pay for the public infrastructure.

Still, City Council and staff say the project will ultimately be a money-maker for the City because of new net income from the parking garage, the lease of land to the developer and so on. The

estimate has been, if everything goes as planned, that the development will be a net gain to the City of about \$400,000 per year.

But in the short-term, this project is mounting up costs to the City at a time when Council is talking about significant budget cuts ^[9] due to a looming financial crisis, following the decision by the City's voters to reject a new income tax that would have created a new source of revenue.

The total of these project-related costs to City taxpayers is unclear, in part because City staff has not provided ELi with requested information about the costs. Here's what we have been able to ascertain:

- Loss of revenue from Lot 1; how much this will ultimately come to will depend on whether people who would have parked there pay to park elsewhere, whether the construction workers use other lots, how long the project takes, etc. Until this lot was closed, it was the City's most lucrative parking facility.
- Public relations campaign; as noted above, the DDA is spending \$20,000 of its revenues from taxpayers on this campaign.
- Parking vouchers; in an effort to help downtown businesses survive, on October 10, Council voted through what is estimated to cost about \$70,000 in free parking vouchers for downtown businesses to give their customers.
- Cost of barriers, signage, etc.; we have been unable to ascertain from the City who is paying for these construction-related costs and whether, if it is the City, the City will be reimbursed.
- Cost of staff time and legal and consultancy fees; amount unknown, but the legal and consultancy bills would be expected to come to many thousands of dollars.
- Cost of moving the sculpture out of Lot 1; City staff says the sculpture, called L5 and Beyond, has been moved to a Department of Public Works lot, but has not answered questions about who is ultimately paying for the move.



What's happening with the sculpture?

That's another point of uncertainty. According to Wendy Wilmers Longpre, Assistant Director of Parks & Rec for East Lansing, "The sculpture is being preserved and will be relocated from Lot 1. At this time, we are evaluating the option of placing the sculpture in White Park, as part of a future park improvement project."

Says Longpre, "L5 and Beyond" was produced by Thomas E. Young and installed in 1976. It was the first sculpture in the City's art collection and unfortunately we don't have much information about the artist or the sculpture's message."

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