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Ask ELi: Expected Benefits and Costs of the Center City District Project? [1]

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By:
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Above: A rendering of the planned Target store along Grand River Avenue.

As part of our public service journalism, ELi runs a regular feature called Ask ELi to Investigate [2]. Readers submit questions [3], and our reporters try to obtain answers. If we think the answer will interest more than the reader who submitted the question, we publish it.

Last week, in response to news [4] that the Center City District [5] financing had been completed, a reader wrote in to ELi:

I see you quoting regularly the dollar amounts from the lease that the city expects to gain from the project?parking, air leases, etc. Are there projections for what kind of other revenue (say, sales tax) the project might bring in? Was there ever a comparison between the amount of revenue the old stores on Grand River were bringing in versus what might happen with the Target, et al that are scheduled to go in? Just a thought that popped up here recently.

While it would be impossible to cover every detail of this project, we provide here an overview of what seem to be the key points in terms of expected benefits and costs to the City of East Lansing.

First, a little background:

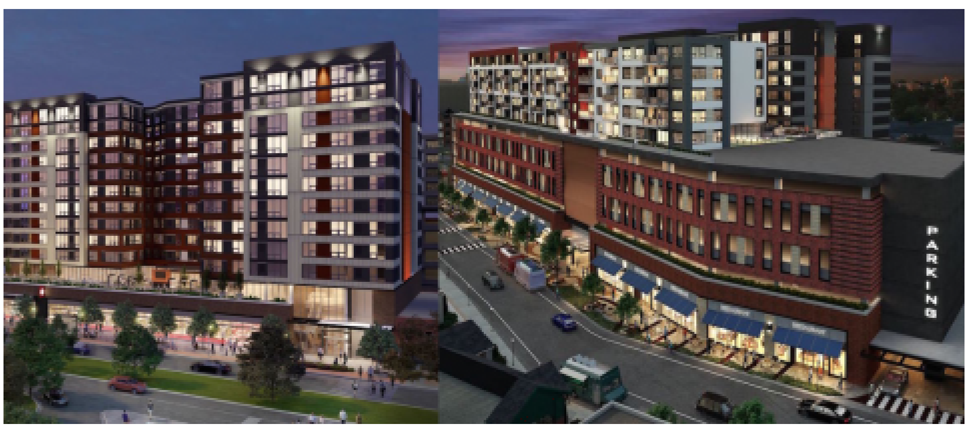
If you already know this background, you can skip this section!

The Center City District project is a very complex public-private redevelopment deal. The parties to it include (but are not limited to):

- the developers, a legal entity called HB BM East Lansing, LLC, made up of principals from the local Ballein Management company and Illinois-based Harbor Bay Real Estate;
- the City of East Lansing, which owns the land on which half of the project is being built and which has agreed to devote 30 years of taxes from the project area to the project?s costs;
- East Lansing?s Downtown Development Authority (DDA), which is devoting income derived from taxing properties in the development area to help to pay for the project.

The project is being constructed partly on private land along Grand River Avenue where commercial buildings were recently demolished. Those properties belong now to HB BM East Lansing, i.e., the developers.

The project is also being partly constructed on public land along Albert Avenue, namely what was surface parking Lot 1.



Here?s what is being constructed:

1. On the private land along Grand River Avenue, a 12-story building with a small-format Target store [6] on the ground floor and 273 market-rate (student-aimed) apartments above that. The developers will own this property, shown above left.
2. On the public land along Albert Avenue, on the ground level, new retail space fronting Albert Avenue, shown above right. This will be owned by the developers via a 49-year-lease of public land, renewable for 49 more years. (If Council had decided to sell the land, the City Charter would have required approval [7] of voters. A land-lease means Council

could approve the project without approval of voters.)

3. That retail space will essentially be built as part of a new parking garage on that land. Above the ground floor there will be four floors of parking, shown above right. The parking garage portion of the building will be owned by the City.
4. Above that, the developers are contracted to construct five stories of ?active senior? (age 55+) rental apartments, totaling about 92 apartments, shown above right. The developers have to build this because Council passed a law requiring that big downtown developments like this devote at least 25% of housing units to senior housing, owner-occupied condos, or some other non-student-oriented housing. The developers will own this property via the same lease of public land.

All new City property taxes from this project will be diverted to pay for the public infrastructure, including the garage, for 30 years:

City Council decided that it would help make this project work by devoting 100% of legally-divertible new local taxes from this project to pay for the cost of the public infrastructure for the maximum amount of time allowed by law: 30 years. This is done through a tax increment financing (TIF) plan.

This means that about $56 millions of new taxes on this property are not going to go to the local entities that would otherwise get them (including the City of East Lansing, CATA, LCC, etc.). Instead, those new taxes will go to pay for about $24 million that will have to be spent building the parking garage and other public infrastructure and to cover the interest costs of laying out all that money.

What income is expected for the City from this project?

Our reader writing in assumed that sales tax from the Target and other new retail spaces would come to the City. But sales tax goes to the state, not local entities. As noted above, the project won?t be putting new property taxes into the general fund of East Lansing for thirty years.

So, what income can the City expect from this project? Back in June, here is what City staff projected [8] for City Council in terms of revenue for this project:

Ground lease	$200,000
Debt Millage	$17,000
DDA Millage	$37,000
Personal Property Tax	$25,000

Brownfield Fee	$15,000
Net New Parking Revenue	$128,000
Total	$422,000

The ground lease payments are for the developer?s use of public land to build and own the Albert-side retail and the senior housing. That will start at $200,000 a year once the project is completed, and will go up by a set increment each year.

?Personal property tax? is a funny term for tax the City puts on material goods owned by commercial entities in the City; the figure of $25,000/year is an estimate.

The net new parking revenue is an estimate of how much more net per year the parking garage will bring in compared to what Lot 1 brought in. (Lot 1, shown below before demolition, was the most lucrative parking area in the City, by a wide margin, bringing in about $750,000 in gross revenues per year.) This parking figure is really a guess, and parking garages have been major money-losers for the City historically.

What we know from materials obtained through the Freedom of Information Act is that in this new garage, each parking space will cost the City about $33,000 to construct, not counting interest on the funds laid out. The developer is set to bulk-lease 318 of the garage?s 620 spaces at a steep discount, paying between $65 and $80 per month.

Parking fees from City-owned lots and garages go into the City?s parking system. Those fees won?t go into the City?s general fund to help pay for things like emergency services, upkeep of roads and sewers, or pension debt. So, by one way of looking at this, that amount might be set to $0 if what we?re interested in is what the City?s general fund will obtain.

Now let?s look at three elements that should certainly be reset to ?zero? in that chart.

The chart lists ?debt millage? of $17,000 per year. This refers to taxes paid by all property owners in the City on voter-approved millages, for things like the Aquatic Center. When making the chart back in June, City staff apparently assumed this property would be paying those ?debt millages.?

But in fact, that debt will be wiped out before the Center City District project is finished, so it won?t be paying the City for that. So that number should really be $0.

What about the ?DDA millage? of $37,000 per year? That?s money that the DDA ordinarily would obtain via a kind of property tax on a property in the downtown district. This project is expected to start generating, when complete, about $37,000 a year in DDA millage.

But, as it turns out, in the final deal, this DDA revenue was pledged along with other newly-generated local taxes to pay back the cost of building the public infrastructure. So that money won?t be coming to the City?s general fund; it?ll be going to pay back the cost of the parking garage. So that figure also should be set to $0 for purposes of figuring out what the City will obtain in general fund revenue from the property.

Finally, the ?Brownfield Fee? is supposed to be a fee a developer pays equal to the cost of City staff managing a TIF plan. In other words, if the City is being honest with the developer about what it costs to manage the Brownfield Plan, it will gain no revenue from the Brownfield Fee because the fee will cover what the plan is actually costing the City to manage. So that should really be considered a $0 net gain for the City.

Here?s the chart redone with all this in mind, with the assumption that the parking revenue should be counted:

Ground lease	$200,000
Debt Millage	$0
DDA Millage	$0
Personal Property Tax	$25,000
Brownfield Fee	$0

Net New Parking Revenue	$128,000
Total	$353,000

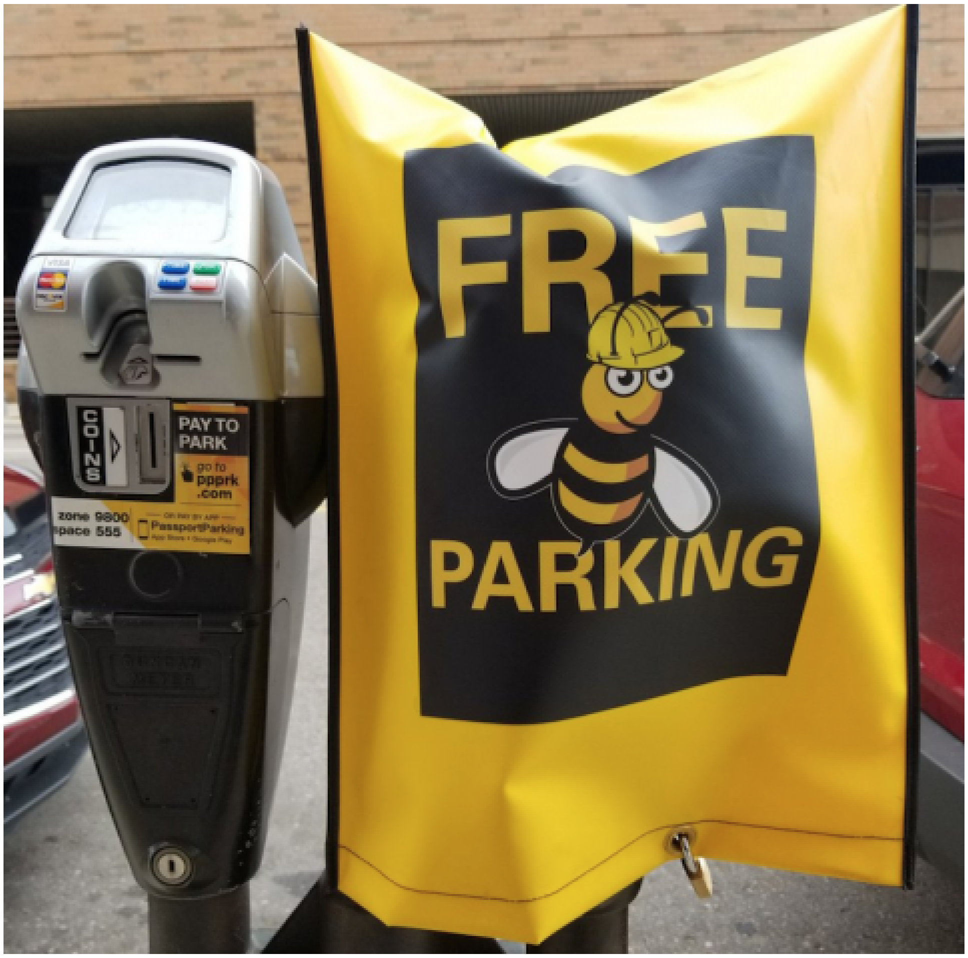
When Council approved this deal back in June, the idea among Councilmembers of getting the income from this property up to about $420,000 was based on the notion that that income would at least cover what it costs the City to provide services to the people living in Center City apartments, estimated to be 557 people.

Since the June estimate, by our reckoning, the estimated annual income has dropped to about 84% of what had been stated as an expectation by staff when Council approved the plan. This means the project can no longer be expected to cover the costs of providing City services to its residents.

If we take out the $128,000 for the parking revenue, understanding that will go to the parking system and not the general fund, the revenue to the City?s general fund from this project drops to $225,000, or about 53% of what was originally expected from this project. That is certainly not enough to cover the cost of providing City services to the people who will be living in the Center City apartments.

Unplanned costs accruing:

In addition, various costs have already been incurred by the City and DDA that were not planned when this project was approved. These include an estimated $70,000 in free parking vouchers for downtown businesses whose customers are put off by the construction. Council approved this months after the project itself was approved.



It also seems to include $20,000 in PR-related costs that had been spoken of as if it was going to be paid by the developer (to match $20,000 put up by the DDA). These funds now seem to be getting paid via the publicly-issued bonds, i.e., apparently ultimately through the use of public money. These funds are being used for the "East Lansing Buzz" campaign [9].

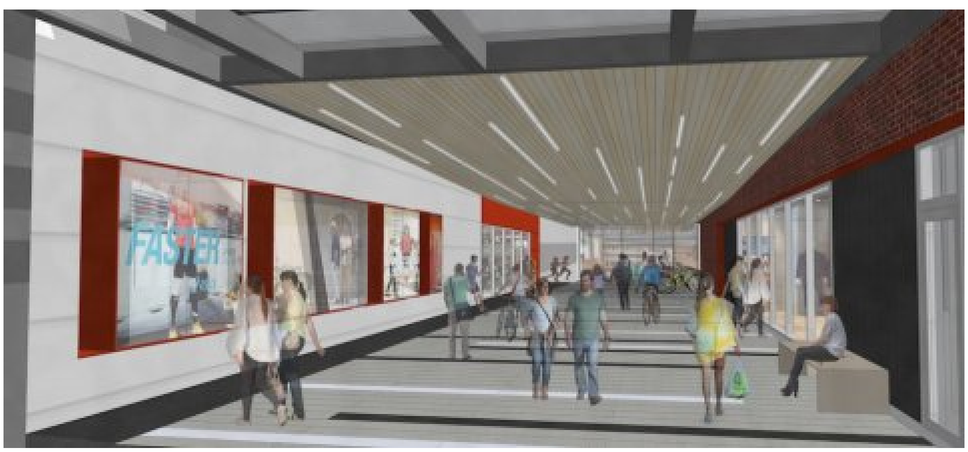
Benefits to the City beyond possible income:

City Council members, in approving this project in a 5-0 vote this past June, stated a number of reasons they wanted to support this project. These include attracting the small-format Target downtown with an urban-style grocery, providing high-amenity downtown rental housing to seniors, and increasing the density of residency downtown. The project is seen as promoting a walkable lifestyle.

Councilmembers also expressed enthusiasm for having a new parking garage on Lot 1 and for the redo of Albert Avenue. The design for that space, shown above, includes wide sidewalks with planters, benches, and the like. It also includes a large amount of public infrastructure reconstruction.

Unclear costs and benefits:

There are various elements of this project for which the costs remain unclear, at least to ELi. These include such things as how much the City will need to pay to upkeep and keep secure the covered walkway (tunnel) going from Albert Avenue to the back of the Target store, shown below.



We also don?t know how much parking revenue the City will lose during construction; the City arranged for the developer to be responsible for making sure the City earns at least $350,000 in parking revenues from construction workers during construction. But whether that will make up for what parking revenue the City is losing during construction depends on such things as how long construction lasts and whether the same number of people are still coming to downtown and paying to park elsewhere during construction.

It?s also unclear whether the City will ultimately gain or lose in terms of property taxes for surrounding properties; if stores go under because of the challenges caused by construction of the project, property values and then property taxes in the downtown area could fall. On the other hand, the redo could result in a ?rising tide? causing all properties in the area to become more valuable, increasing tax revenue.

ELi thanks Eliot Singer for his assistance with this analysis. Appreciate our nonpartisan, in-depth reporting? Step up to help [10] so we can commit to working for you in 2018.

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