

WATER STREET FREQUENTLY ASKED QUESTIONS

(Updated October 10, 2005)

1. What is the Water Street Redevelopment Project?

The Water Street project is a large-scale urban redevelopment project initiated by the City of Ypsilanti. In the 1980's, the City's Economic Development Corporation recognized that the 40 acre area east of downtown, south of Michigan Avenue, and along the Huron River, was in need of improvement. Aging infrastructure, deteriorating and vacant buildings, and an inappropriate mix of land uses characterized the area. In 1999 the City received a \$200,000 grant from the U.S. Environmental Protection Agency that allowed the City to conduct environmental testing, commission a market study to determine an economically viable reuse for the site, and develop design plans. The market study and design plans (based on the City's Master Plan and accompanying public workshops) called for a new mixed-use urban residential neighborhood fronting on a new riverfront park. The environmental testing revealed that there were limited areas of environmental contamination due to the history of industrial and auto-related uses on the site. The City then successfully leveraged the EPA grant into an additional \$7.7 million in other grant and loan funding sources to initiate and implement the project. These other sources assisted the City in assembling the property to start readying the site for redevelopment by a developer.

2. What are the goals for the project?

The project is intended to achieve several goals for the City. The Water Street project will transform a blighted, contaminated area into a new vibrant urban neighborhood. The City recognizes that to improve the City's financial outlook, redevelopment of underutilized areas is needed. The Water Street project provides the ideal opportunity for tax base enhancement given it's location on the Huron River and location adjacent to downtown. The project will also include a new riverfront park that will link to Riverside Park to the north and Waterworks Park to the south. Due to the City's high rental rate, the provision of new owner occupied housing opportunities will assist the City in increasing homeownership throughout the City. This new housing will also increase the City's population which has been declining over the past few decades. These new residents will provide the needed customer base to assist in the revitalization of the downtown business district.

3. What is the City's role in the project?

The City's role in the project is to assemble all the land (this includes the purchase of 35 properties from 24 different property owners) and provide

financial support to prepare the site for development. The City is near finalization of all land acquisition, and has started the demolition and environmental clean up processes to ready the site for redevelopment for the first phase of the project. In the future, the City may contract with a private developer to complete demolition, environmental clean up, geotechnical work, and public infrastructure such as park development and other site preparation activities. The developer's role will also include the construction of commercial space, residential units, and associated infrastructure.

4. Who is the developer and how were they selected?

In late 2001 the City selected Biltmore Properties Corporation as the preferred developer with whom the City would first attempt to negotiate a development agreement for the Water Street Project. In November of 2004, the City ceased discussions with Biltmore Properties as the parties were not able to reach agreement of the terms of a development agreement.

In 2005, the City of Ypsilanti issued a Request for Development Proposals to solicit purchase offers and development plans for the project. The City received no proposals based on this request, but did receive letters from 3 development companies, Crosswinds Communities, Morningside Group, and the Finch Group that indicated their interest in a direct negotiation to purchase and develop the site.

It is anticipated that City staff will recommend one or more developers to the Developer Selection Committee for a full qualification review. The Developer Selection Committee is comprised of representatives of the Planning Commission, Historic District Commission, Brownfield Redevelopment Authority, and Downtown Development Authority, as well as City staff members. The Developer Selection Committee was formed by the City Manager to advise him in his eventual recommendation to the City Council. It is anticipated that the City Manager will recommend one or more developers to the City Council by the end of 2005.

It is anticipated that after the City Council selects a developer to exclusively negotiate with, a 6-12 month period will be necessary to finalize purchase/development agreement negotiations, site planning work, and permitting work.

5. What will the development include?

It is anticipated that the development will include a new riverfront public park, attached condominiums on the interior, and a mixed-use area of residential and commercial along Michigan Avenue. The scale and configuration of the project is

intended to follow principles of New Urbanism (i.e. dense urban patterns, pedestrian scale, high quality design, etc.) and is in line with the State of Michigan’s Land Use Leadership Council recommendations for Smart Growth.

6. What are the City’s funding sources?

The City has secured a variety of funding sources to support project implementation including state and federal grants and loans, as well as bond financing. The taxes generated from the new project will be collected to pay off the bonds as the project moves forward. This type of financing is referred to as tax increment financing (TIF) and is a common financing tool for municipalities. Because of the availability of TIF funds, the project will be self supporting and will not require General Fund support. This is important given the City’s financial constraints. The City will continue to apply for additional state grant and loan funds to support the project. The following table summarizes funding sources to date.

| | Type | Amount | Use |
|--|--------------|---------------------|---|
| Funding Sources to Date | | | |
| EPA Brownfield PILOT Demonstration Program | Grant | \$200,000 | First phase of environmental testing, conceptual planning |
| MDEQ Clean Michigan Initiative | Grant | \$3,728,000 | Land acquisition and related costs |
| MEDC Community Development Block Grant | Grant/Loan | \$3,050,000 | \$1,050,000 Grant, \$2,000,000 Loan to support administrative costs, relocation costs, design/engineering, environmental studies, attorney and legal fees |
| Capital Improvement Bonds (3 issues) | Bond | \$13,100,000 | Land acquisition and related costs, demolition, environmental & geotechnical remediation |
| Land Revolving Fund | Cash | \$600,000 | Land acquisition and related costs, administrative costs |
| Michigan Economic Development Corporation Core Communities Grant | Grant | \$170,000 | Public Infrastructure |
| Washtenaw County Greenways Initiative | Grant | \$150,000 | Riverfront greenway development |
| SE Michigan Community Foundation | Grant | \$100,000 | Riverfront greenway development |
| Michigan Department of Environmental Quality | Grant/Loan | \$1,000,000 | \$500,000 grant, \$500,000 loan to support demolition, environmental clean-up, and geotechnical remediation |
| | TOTAL | \$22,098,000 | |

7. How much will it cost the City?

As activities such as environmental remediation and demolition have not been completed, final costs are not yet available. The following table shows what has been spent through August 2005.

| | Spent to Date | Sources |
|---------------------------|---------------------|------------------------------------|
| Project Activities | | |
| Land Acquisition | \$12,822,000 | Grants, bonds |
| Demolition | \$259,337 | Grants, bonds, loans |
| Environmental Remediation | \$1,089,178 | Grants, bonds, loans |
| Geotechnical Remediation | \$46,050 | Grants, bonds, loans |
| Park Development | \$0 | Grants, bonds |
| Administrative Costs | \$3,316,500 | Grants, loans, Land Revolving Fund |
| TOTAL | \$17,533,065 | |

8. How will the City determine the price of the land?

The price of the land will be negotiated as a component of the development agreement. The City fully anticipates that it will take a loss on the land. This loss is a result of the high cost of property acquisition through condemnation, as well as the fact that the City is buying improved property (i.e. property with buildings and other improvements) and then turning it into a vacant parcel to sell.

9. The Ann Arbor News recently reported the project was \$10,000,000 over budget. Is this true and how does the City plan to deal with cost increases?

The project is not \$10 million over budget. From the project's early stages, the City has continued to estimate what public costs will be for the various project components that the City is responsible for including land acquisition, demolition, and environmental work. The \$15 million figure cited in the articles was an early estimate for land acquisition, demolition and clean-up but did not include administrative, legal, and consultant costs. However, approximately 2 years ago, a new cost item was added to the budget for geotechnical remediation once it was discovered that the site was covered with fill material (non-native soil) which cannot support new construction. The estimated costs of addressing the fill are currently estimated at \$5,000,000 - \$7,000,000, however, alternate site configurations may be explored to reduce these costs as the City engages a new developer. The City's Downtown Development Authority (DDA) TIF and Development Plan for the Water Street project, which was adopted in 2001, identified up to \$30,700,000 in various project costs for the City.

10. What is the timeline for the project?

The Planning and Development Department predicts that work will commence in late 2006 or 2007. Depending on the final site plan configuration and market forces, complete development could take several years.

11. Did the City “buy out” Biltmore Properties?

While the City had no contract with Biltmore Properties, both parties negotiated in good faith for a multi-year period. During the course of this negotiation, both the City and Biltmore conducted studies, research, and plans for the Water Street Project area. The City of Ypsilanti and Biltmore agreed to the purchase and sale of due diligence material (i.e. market study, engineering studies, architectural studies, geotechnical studies, etc.) owned by Biltmore that the City deemed valuable to future developers. During the negotiation period Biltmore Properties expended approximately \$1.4 million on studies, designs, investigations, and other costs.

13. How much did this purchase cost?

The City purchased this material for \$725,000. This purchase price is comprised of a deposit of \$175,000 (paid from the Water Street Land Revolving Fund), 4 annual payments of \$52,500 each (to be paid from land sale proceeds), and \$340,000 of funds which are contingent upon the successful development of the Water Street Project and the satisfaction of any annual City debt in support of the project. It is anticipated that this contingent payment will come from Tax Increment revenues captured on the project through the DDA Tax Increment Financing and Development Plan.

14. Are the City’s financial troubles related to the Water Street Project?

No. The financial challenges that face the City are largely due to the combination of Proposal A , the Headlee Amendment, and large amount of tax-exempt land in the City, which in combination limit it’s ability to grow its tax base through increases in property value. This situation has been intensified over the past decade due to less than the prescribed funding under Act 289 (fire protection funding for state facilities such as Eastern Michigan University) and recent cuts and reductions to state shared revenues. The City’s general fund has not been used to support the Water Street project to date, nor is it anticipated to do so in the future.

15. Is the project too expensive? At what point should the City cease to implement the project?

There are multiple goals for this project (see FAQ #2), one of which is long term tax base enhancement. The City has made a significant investment in the Water Street area including property purchase, demolition, and environmental remediation. In order for the City to receive a return on this investment, the property must be sold and developed in order for tax base enhancement to occur.

16. Will the income tax that was previously being considered adversely affect the Water Street Project?

In short, no one knows for sure. Adding an income tax to an already high property tax burden is an issue that faces the Water Street Project as well as the balance of the City equally. In an August 2 Ann Arbor News story Nancy Merdzinski, executive officer of the Ann Arbor Area Board of Realtors, said she did not believe a city income tax would have an effect on the real estate market in Ypsilanti, because Washtenaw County has enjoyed a strong demand for housing for a number of years. Most agree the alternative cuts in city services or receivership would negatively affect the Water Street Project and the city as a whole much more than a city income tax. For more information please visit the "City Income Tax" link on the home page.

12. How do I get additional information?

Contact the Planning and Development Department at (734) 483-9646.