



The City of
Ann Arbor

A NEW APPROACH TO --- ECONOMIC DEVELOPMENT

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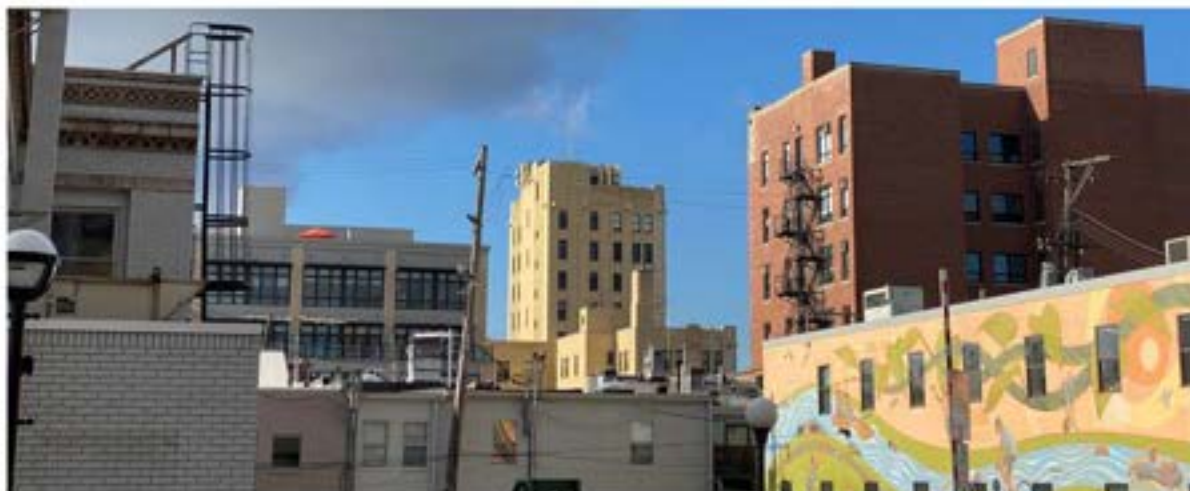
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PREFACE



Earlier this year, city officials began having conversations about what we need to do to improve the performance of our economic development processes. For many years, members of the development community have perceived and quietly lamented an intermittent anti-land-development posture from the City Council and a corresponding ambivalence to timely development review that it has invited from the organization. With an increased emphasis on housing development from the community and the Council, and a housing market that is getting more and more expensive, pressure to address this issue has mounted.

As part of an effort to improve the city's processes, staff procured a new permitting platform called Energov aimed at streamlining and automating parts of this work. As we began to implement the platform, however, it became clear that there were more existential issues that needed attention to make additional meaningful improvements for residents and customers of the city. For instance, is it the review staff's mission to proactively support housing development when possible, or merely to ensure technical compliance with the city's development guidelines when a project is proposed? When there are conflicts between the city's technical requirements for development—for instance sustainability of development is not always supportive of affordability, and solid waste requirements can sometimes conflict with store front activation and the amenity zone in downtown—who resolves those conflicts, and how? Also, many of our development processes require quite a few public hearings—but are these adding value to the development review process, or

merely performative measures that frustrate community members and favor the status quo? To wit, if we are proposing to change these engagements how will we ensure valuable community input? These are questions of values, philosophy, and resources that needed a much deeper analysis.

At the same time, the Economic Development Corporation (EDC) of Ann Arbor started to have similar conversations that resulted in a simple request of staff: Do a stakeholder engagement regarding our land development processes and bring forward recommendations for improving them. In the fall of 2022, the city recommended and the EDC supported a proposal to do something much more comprehensive. The city would pursue an investigation along four paths. First, an evaluation led by internal staff aimed at recommending changes to our existing land development processes and approaches to economic development. Second, the stakeholder engagement to put feedback from customers and residents at the forefront of our thinking. Third, an analysis from a third-party consultant to review land development powers and strategies that are at our disposal, but that Ann Arbor is not utilizing. Fourth, a third-party review of economic development powers and strategies that our peer cities nationwide are utilizing, but that Ann Arbor may not be. Together, these inquiries would flow into a final combined report that would provide a comprehensive analysis of our economic development processes and a strategy for making meaningful improvements. Thus, the report you have before you.

The city hired Carlisle Wortman Associates to lead the review of land development powers and strategies that are at our disposal in Michigan, and we asked Ann Arbor SPARK to lead the best practices review of our peer cities nationwide. The city's community engagement team led the stakeholder engagement. All three of these reports are attached to this main report. While each of them informed the main report, there are some suggestions and strategies within them that we would recommend and prioritize, and some that we may not for various reasons. But they are included in their entirety for the benefit of the Council, city leadership, staff, and community members. At points we will cite specific suggestions or provisions of these reports, at other points the content of these reports more generally informed our recommendations. But they are an integral part of this project, and we offer our sincere thanks to those who contributed to them, especially Heather Seyfarth, Michelle Bennett, Ben Carlisle, Richard Carlisle, Greg Holcombe, Matteo Passalacqua, Paul Krutko, Phil Santer, Melissa Sheldon, and Nick Joblonski.

This document is presented in a few distinct sections. First, the main report, which is a narrative explanation providing some history of the

key issues related to economic development in Ann Arbor and detailed exploration of why our final recommendations emerged. Following that, the main report ends with a summary of the recommendations with action steps for the Council and the staff. Third, attached as appendices are the consultant reports provided in their entirety.

Frequently throughout this report the term “economic development” will be used to describe the property development process. Economic Development is a hard term to define universally. For some, it means business retention and expansion activity where companies are encouraged to invest in a region, and create jobs, sometimes in exchange for tax incentives. But for the purposes of this report, we will mean something much broader than that. In many communities, economic development also means placemaking, or using the power of the government to create spaces where people want to live, work, and recreate whether they be privately owned or publicly owned. It also means land development, for housing or for the attraction of employers and jobs. It can also mean support for small businesses and entrepreneurs. While we mean the term broadly, throughout this report we will mostly be talking about the land development process since it is the most active engagement the city organization has with the local economy, and also the area of the city’s economic development activity most in need of attention.

It is also important to note that the city has a comprehensive land use plan update underway. We will be steering clear of questions related to zoning and land use planning so they can be addressed in the land use plan process unburdened by this report. Similarly, there are other topics that might be covered by the comprehensive land use plan, and we will attempt to steer clear of them as well. But it is inevitable that there will be some overlap, and in those cases staff will work to combine direction given as a result of this report with the process of the land use plan.

The intent of this report is to catalyze an effort for improvement within the city government. It is not to lay blame or to accuse any person or office in the city. In fact, the stakeholder engagement we did makes it clear that from the perspective of the development community one of our strengths is the people we employ in the city. “Staff is competent and good natured,” the report states, and “they are typically respectful and helpful.” For those of us who work with this staff day-in and day-out, these words could not ring any truer. Our message for all parties is clear: We must be honest about our performance to have a real shot at improving it. At the same time, the work that springs from this report will be done together, and the successes will be shared.

Finally, there are many members of the city staff who contributed to

this report whether they are aware of it or not. Over the last year I have entertained many conversations with our knowledgeable and professional staff. Some of these conversations were specifically framed around seeking advice and guidance for this report, some of them were for my own benefit in understanding the city's goals, programs, and history regarding economic development. I want to especially thank Milton Dohoney, Jr., Derek Delacourt, Brian Steglitz, and Kevin McDonald for their engagement. I also want to thank Brett Lenart, Hank Kelley, Skye Stewart, Raymond Hess, Nick Hutchinson, Amy Ponsock, Jennifer Hall, Missy Stults, Atleen Kaur, Stephen Postema, Marti Praschan, Maura Thomson, Paul Krutko, and Mayor Taylor and the members of City Council who I spoke with during the drafting of this report. Whether you knew that our conversations would end up informing important parts of this work or not, the engagement from each of you has been very much appreciated and helpful.



EXECUTIVE SUMMARY

Land development in Ann Arbor is not a given. Developers choose where to invest their money and their time based on many factors, and it often doesn't just boil down to dollars and cents. Communities that welcome investment, that have a strong vision for how to incorporate new housing and other uses into their neighborhoods, and that commit to efficient development processes often receive more attention from people and companies who have a passion for building communities than other places do. Ann Arbor has values that over the years we have tried to impart on the land development process, though in piece-meal fashion. The first and most important recommendation of this report is to formalize those values into council-adopted direction through resolution and eventually into our unified development code. We recommend that this direction embody four main values in land development.

First, that we prioritize housing development at all income levels in support of affordability. Social science and economic research shows clearly that housing will not become affordable in a community unless housing needs are met at all income levels. The city should keep its commitment to aggressively subsidizing truly affordable housing, but should expand its focus to include permitting and promoting housing

development across the income spectrum.

Second, Ann Arbor should support placemaking initiatives as much as is feasible through the acquisition and disposition of real property and interests in real property—purchase options, rights of first refusal, and similar arrangements—to help shape the creation of walkable neighborhood business districts across the city. This is especially true in areas such as Lowertown and other existing neighborhoods, but with the creation of the TCI zoning districts the city is beginning an ambitious placemaking campaign in many parts of the city. Using these tools will help accelerate the development of these districts into walkable, bustling neighborhood centers.

Third, the protection of the tax base in Ann Arbor should be a critical priority for the Council. Hosting the University of Michigan has many economic benefits for the city, as the university is an economic engine that is particularly recession resilient. However, the university's continued acquisition of taxable land is having a tangible and worrying impact on the city's general fund. University acquisitions since the year 2000 are costing the city \$2.4 million annually, and counting. The city and the university must find common ground on a plan for further university expansion, and for protecting our tax base. The city should also plan for the acquisition of real property or interests in real property to protect prescribed uses in the comprehensive land use plan.

Finally, fourth, the City's A2ZERO carbon neutrality plan calls for the city to create a more sustainable built environment in Ann Arbor. That means supporting neighborhoods that are sufficiently built for walkability, built structures that are energy efficient and all electric, and promoting multi-modal transportation wherever possible. The reality is that achieving these goals means also encouraging land improvements as these sustainability improvements can only be made through redevelopment efforts. Therefore, we must prioritize the redevelopment and transformation of inefficient structures and unwalkable neighborhoods.

These four values should be adopted by the City Council as priority directives, more important than any other competing city interests, and preeminent in our consideration of process improvements and changes to city ordinance. This prioritization is incredibly important because right now many of the city's various review criteria for land development compete with each other and hold veritably equal weight in the site plan process.

This leads to our second major recommendation, which is that the site plan and land improvement processes in our development review should be more separated than they are now. We require detailed engineering and proposal submission at the site plan stage, which is abnormal when compared to most of our peer cities. The site plan is supposed to be a mostly conceptual

proposal for a local government to determine if the development meets with zoning requirements and is allowable after environmental review. However, in Ann Arbor we tend to hold site plans until other approvals that are only tangentially related to the site plan itself are given. We need to sever this cord, and turn our site plan process back into what it is in our peer communities—a conceptual approval of a development that green lights more detailed engineering and review.

In service of these goals, we are recommending the creation of an economic development office headed by an economic development manager who will report to the city administrator. This office will supervise the land development process in our city, working with staff to resolve complicated issues and providing a direct interface with developers who are working through our processes. They will also seek out opportunities for the strategic acquisition of property and property interests to further our land development goals. There are other important goals, such as working directly with SPARK to reach business retention and attraction deals, and to support small business development in the city, which we explore in this report.

We also strongly recommend an amendment to section 14.3(a) of the charter, which requires that all transaction for property or interests in real property, including leases and development agreements, come before the Council and receive eight votes to pass. To be clear, the Council should still be deeply involved in important property transactions in the city. But the requirement that all interests in real property, including purchase options and rights of first refusal, come before the council regardless of their size, makes it practically infeasible for the city to pursue these development tools or participate in effective site assembly efforts. Additionally, while the city changed its ordinances several years ago to allow site plans to be approved administratively or by the planning commission, all development agreements related to these site plans still come to the Council because of this provision of the charter. We recommend that development agreements should follow the same approval path as their corresponding site plans. If this provision of the charter were amended so that only land purchases, sales or leases above \$75,000 came to the Council for approval, and development agreements follow the same approval path as their related site plans, our land development processes would become significantly more efficient and strategic. We recommend that under no circumstances should agreements for property transactions require eight votes.

There are also important improvements that can be made to our public engagement processes around site plan approvals. Our engagements right now are poorly timed, are not very effective at including public voices in the

process, and ask the public to weigh in on topics that we may not be able to change because of allowances in the zoning code or requirements in city ordinance. Additionally, our current engagement requirements add as much as six weeks to the approval timeline for site plans without any real corresponding value for the community or for developers. If we are going to invite the public into these processes—and we absolutely should be—we need to make sure their time is well spent, and their voices are effectively heard.

There are also single points of failure and thin staffing throughout the organization that cause delays in the review process for developments. By single points of failure, we mean that there are important review areas in the city that must weigh in on a development where there is only one qualified staff member to do the work, and so when that staff member is out sick, on vacation, or swamped with other work, the work stops or slows considerably. There are also many areas in the organization where staffing is very thin, and staff are overwhelmed by the growing amount of work that is coming through our economic development processes. We recommend that the Council direct a staffing plan to solve these problems to be presented with the FY25 budget.

Finally, there is a roster of technical changes to city ordinance that will help create efficiency in the development review process, from alterations to the matrix of developments that require administrative approval versus planning commission approval, to fast tracking for developments that meet our affordability or sustainability goals, to changes in utility upsizing requirements. These technical changes are discussed at length and provided as recommendations.

Making our development process more efficient, and bolstering our commitment to achieving public policy outcomes through land development, starts with stating the city's values for housing development at all income levels to support sustainability, pursuing opportunities for placemaking, protecting and expanding the tax base, and working toward sustainability in the built environment. With this clear direction, we will propose investments in the organization to lead on these efforts—the creation of an economic development office, strategic investments to address chronic understaffing and single points of failure in our operations, and critical process changes in pursuit of efficiency and better public engagement.

These are programs and initiatives that are commonplace among our peer cities. Without them, Ann Arbor is an extreme outlier. But with them we can gain important abilities to guide the future of our community and built environment to achieve our most meaningful policy objectives.

OPPORTUNITIES, PAST AND PRESENT

On a late July afternoon in 2013 one of the most enticing underdeveloped pieces of property left in the City of Ann Arbor went up for sale. The site was designed in the style of a mid-century office park with pastoral, sparsely landscaped fields, ample parking, and a sprawling brick building wherein was housed a manufacturing facility owned by Edwards Brothers Malloy, a nationally well-known book maker. The 185,000 square foot building was nestled with its low profile on 16.7 acres of rolling green fields. Its entry into the real estate market tantalized local developers with visions of a veritable labyrinth of multi-family homes, mixed-use buildings, and mid-rise developments.

That the parcel was even put up for sale came as a surprise to many, including the company's CEO John Edwards. Just three years prior the company received a tax abatement from the City of Ann Arbor to help fund a \$5.5 million investment in the production facility, upgrading its capacity and increasing its footprint of workers. But in the intervening years the book making industry's turn toward digital print accelerated and Edwards Brothers Malloy had to adjust. "It's a very difficult decision to make," [1] Edwards told the Ann Arbor News that summer. "My grandfather built the State Street plant." But with two large production facilities in the



county, they decided to close the Ann Arbor location, move their employees to their Jackson Road facility outside of the city, and plan for a different future. "Our digital operation is growing at a 20 percent clip, so that is where we need to be investing..."

As soon as word spread that the property would be listed for sale, suitors came calling [2]. Developers were effusive to the Ann Arbor News, with one describing the property as "A choice site and one of the few remaining in the city, certainly of its size," while another called it "A great apartment site....This is the last big piece that is left, especially on State Street." Another developer told the paper that it was "A prime site for redevelopment." Joe Upton, of Edwards Brother Malloy, reported that "We've been approached by a couple of developers with a variety of options that they're considering," only one day after the property was announced for sale.

From the city's perspective, this site was primed for more intense uses that would better serve the corridor. The South State Street area plan, [3] which had been incorporated into the City's master planning documents, called for a mix of housing and office noting that the parcel sits along a major transit thoroughfare and in a part of town where additional housing was badly needed. Though understated, the plan makes the opportunity this parcel presented quite clear: "Because of South State Street's concentration of high-activity uses, proximity to downtown and the highway, and lack of conflicting land uses, the corridor offers a unique opportunity to address community priorities..."

Even with the housing crisis in its infancy, the city was still feeling pressure to do more to develop affordable housing. In 2010, the same year the Edwards Brothers tax abatement was approved, the City Council vacated the entire Housing Commission board and set the organization in a new direction after an outside review found the organization was floundering and facing a "potential collapse" without immediate intervention [4]. Intervene the city did, as the new board hired current executive director Jennifer Hall who reorganized the commission and led its removal from a federal watch list for "troubled" housing agencies. By 2012, the commission was financially stable but facing an increasing demand for affordable housing that was about to skyrocket. "That is definitely our biggest crisis, I would say, that we're in right now," Hall told the Ann Arbor News, "the inability to invest in our own properties" to keep up with housing demand [5].

In this environment, the opportunity that the Edwards Brothers Malloy property presented was known to be unequaled at the time. With the right development partner, it would have been a transformative project for the south State Street corridor, an opportunity to add significantly to the housing

stock for both market rate and affordable units, and an opportunity to increase the taxable value of city land.

But the excitement over the potential of this site was to be short lived. Just after Thanksgiving, Edwards Brothers Malloy announced a sales agreement with the University of Michigan. With an aggressive offer of \$12.8 million—estimated to be double fair market value for the property in its existing condition—the University succeeded at pushing aside other interested parties.

As these acquisitions have gone for most of Ann Arbor's history, this might have been the end of the story. However, one important hurdle needed to be cleared before the University could complete the transaction. In 2010, when the City granted the last tax abatement to Edwards Brothers Malloy a provision was added to the agreement granting the City the right of first refusal should the property owners accept a sales agreement for the property at any point during the period of the tax abatement.

Clauses like this one are rarely employed by the City of Ann Arbor. But in 2010, the departure of Pfizer and relocation of their employees had cost the city a significant amount of general fund revenue and forced Ann Arbor into a round of layoffs and budget cuts. Coming off the heels of the University's subsequent acquisition of the Pfizer campus, the city was becoming desperate to protect the taxable value of its land. Just a year later when Edwards Brothers Malloy came calling for help, city staff inserted the right of first refusal provision into the agreement as a precautionary strategy to prevent the university, with its tax-exempt status, from consuming such a valuable parcel. Now that an offer had been formally tendered, the City Council had 60 days to decide what to do—either purchase the property and attempt to develop it, or let the University purchase it, develop it into a use inconsistent with the master plan, and take it off the tax rolls.

The Councilmembers were underwhelmed by the choice [6]. "I don't think we have the money to buy it, and I don't think we have a buyer to turn it over to," said one member. Another member seemed to warm to the idea of university ownership, admitting that "I'm not at all surprised the university would be interested given the fact that it's pretty much surrounded by the athletic campus" [7]. On the other hand, other councilmembers lamented the continued decay of the city's tax base, with the university's acquisition threatening to cost nearly \$200,000 in annual real estate tax revenue. One member, at a loss for direction on how to proceed, told the Ann Arbor News, "I don't have any idea really how it's going to transpire."

Briefings were held in closed session to discuss the transaction with Council. The attorney's office provided advice. City staff weighed in, some cautioning against the transaction, others encouraging it. The council

deliberated and debated for a month on whether to exercise the option.

As the 60-day window closed, the City Council ultimately decided to take no action on the acquisition. The purchase option expired, the university took control of the property, and Edwards Brothers Malloy began their move to their Jackson Road facility.

Today, the parcel contains athletic fields and a parking lot. It generates no tax revenue.

* * *

There seems to be a quiet, but pervasive consensus among real estate professionals and housing advocates that the city erred in passing on the Edwards Brothers Malloy property. Ten years later, as the housing crisis has worsened, we may be able to squint our way back through time and see a different outcome where we commit to the property and aggressively develop housing along a range of affordability thresholds. Indeed, today it is easier to see the benefits outweighing the costs of that investment. But given the real choice they were facing blame would be misplaced if it were laid on the Council.

Because of the terms of the right of first refusal clause, the city had to match the university's price which was well above the city's appraisal of fair market value. That made the economics of a subsequent development deal more difficult and at that moment the Council could not rule out the possibility that had they acquired the property they would have had to subsidize its development to the tune of several million dollars,

even if it was exclusively market rate housing. The City of Ann Arbor, like many cities in Michigan, is perpetually cash poor because of the effects of Proposal A and the Headlee Amendment—initiatives championed by anti-tax activists that prevent a sustainable rate of growth in local real estate taxes. Losing a few million dollars on the transaction would not have come without real pain for the city. Though, it is worth noting that the appraisal the city sought for the property was for its worth in its existing or demolished condition, rather than for a higher use. A more complete appraisal might have changed the economic calculus. It is also true that the city was not gripped by

Ann Arbor employs practically none of the tools that our peer cities employ to engage in economic development proactively.

the same housing crisis it is today, and though pro-housing activism has a long history in Ann Arbor, residents were not clamoring for more housing development the way they are now.

Additionally, while there was significant interest from local developers, the city is also burdened by a poor track record of disposing of properties in the pursuit of development. At the same time the Council was debating the purchase option on the Edwards Brothers Malloy property, it was also struggling through a process to develop the old YMCA lot in downtown—a process that ten years later is still ongoing. Historically, the city is not good at acting as a developer nor does it move particularly fast when working with private developers on large and complicated proposals.

It may also be tempting to judge the university for the slow but constant drip of properties they have acquired over the decades, including this one. Each of these properties are taken from the tax rolls and have made the city's financial health more and more tenuous as time has gone on. However, the university's public mission is different than ours and we cannot become frustrated with them when they pursue it. The City of Ann Arbor has historically been unwilling to invest resources in protecting our tax base and proactively investing in housing development. Given this reality we cannot expect the university to do it for us. If it is a priority for the city, then we need to make it a priority through our actions rather than rely on the charity of our other institutional partners.

With greater functionality, expertise, and a strategic focus on economic development from within the organization, this acquisition and so many others that have passed the city by might have turned out differently. For instance, the city might have sought an exclusive purchase option on the property rather than a right of first refusal so the parcel could have been acquired at a price much closer to fair market value. Property owners are generally less interested in options that deliver more control to outside parties. But given that it would have been offered as part of a large-scale tax abatement, the price might have been right to negotiate for it. The city probably also should have sought an appraisal at the property's intended use, rather than its existing use. The gap between the university's offer and the appraised value likely would have been smaller. If the city had a fund already capitalized for real estate transactions the financial risk to the general fund would have been mitigated. The city could have also acquired the property and attempted to flip it to the university in exchange for some other concession like a PILOT agreement for the property, a commitment to develop student housing, or a land swap for another strategic parcel. The financial risk to the city would have been, in reality, very small if the abatement agreement had been better

structured, if the city were better capitalized to acquire interests in real property, if the transaction was accompanied by a commitment to follow an efficient land development process, or if a creative deal were pursued with the university to facilitate a better outcome for the city.

This imaginary organization that could have pulled off this transaction isn't so imaginary in most other cities that are the size and impact of Ann Arbor. In fact, through a review of a dozen other peer cities nationally, we found that every one of these communities pursues land acquisition as a development strategy—but Ann Arbor does not. The City of Ann Arbor, both then and now, has no office dedicated to economic development. There are no staff whose primary job it is to acquire and dispose of property for the benefit of development. There are no funds capitalized for this purpose. The organization does not prioritize efficient development processes, either for itself or for private property owners. In these facts, we are an extreme outlier.

Undoubtedly, there are staff with expertise in economic development, but at best their portfolios are only fractionally dedicated to it and only when opportunities float the city's way—the organization is not structured or resourced to create strategic development opportunities. We are purely reactive, not at all proactive. This reality lends itself to poor strategic outcomes for the city time and time again. For these reasons, the Edwards Brothers Malloy acquisition was a fait accompli before it even came to the Council. The city government was simply not prepared for such a large and complicated land transaction. But to achieve our public policy goals, today and in the future, we must be.

With this in mind, the entire affair is an excellent case study for how the city is deficient in its approach to property development and it provides a roadmap for how we should consider improvements to the city's economic development functions. Several key themes emerge from this example.

First, the city does not have a strategic vision for economic development. There is not now and there never has been a general directive for the city to prioritize housing development, placemaking, or tax base enhancements as a focused strategy. Neither is there a universal directive to acquire property, or interests in real property, for strategic purposes. The city does not have an overarching office or person who supervises the property development process from beginning to end. Instead, we have departments that historically have been siloed from each other and work only in varying degrees of coordination. There has never been any real direction from city leadership on how our policy objectives related to land development should be prioritized when there are conflicts, and there is even a lack of clarity on what of the city's policy directives should be considered a development standard

and what should not. In other words, we have no vision or strategic direction on how to prioritize land development.

Second, underpinning the Council's skepticism about owning the property was a lack of confidence in the city's ability to develop the land. We tend to burden the properties we own with the weight of heightened expectations for what we can achieve through them—sustainability, affordability, transportation, solid waste management, the tree canopy, etc.

It starts with the organization's values and our policy priorities, which for land development purposes have, over the span of many years, been unclear.

On the one hand, the city's ambitions should be lauded. On the other hand, our aspirations also seriously complicate development and have done so time and time again throughout our history. This reality exists both for city owned properties and for privately owned properties that are working through our site plan and land improvement processes. To maintain these high standards and hold to our public policy objectives when it comes to property development, we

need to be extremely efficient in all other areas of land development. In this report, we present recommendations for doing so.

Third, a chronic lack of revenue has caused the city to underinvest in ourselves to such an extent that we do not have the capacity to efficiently manage major transactions or many simultaneous large development projects well, whether they be for city owned or privately owned parcels. The Edwards Brothers Malloy affair highlights important facets of this deficiency. We had no funds capitalized to acquire the property and so the city had legitimate concerns about what impact the deal could have on the general fund. Our lack of investment in economic development staff meant that the city was not prepared for the opportunity, strategic mistakes were made in the structure of the tax abatement deal, and all options were not as robustly explored with the Council as they should have been. There are other issues that we will explore related to this lack of resources, including a lack of staff capacity throughout the development review process such that there are multiple single points of failure, a lack of organizational oversight of the development review process overall, and instances of staff burnout, all of which cause work to slow or stop at inconvenient times.

Finally, fourth, Ann Arbor employs practically none of the tools that our peer cities employ to engage in economic development proactively. This

makes us an extreme outlier in that we have ruled out using basic and necessary powers that could otherwise help shape the future of our city for the better. We rarely employ tax abatements, for instance, even though most of our peer cities report that using tax abatements to incentivize sustainability is the most important tool they have at their disposal to encourage carbon neutral or reduced carbon building standards in the built environment. We do not proactively engage in the acquisition of interests in real property, even though all our peer cities do in some form (though, we have exercised reversion clauses and repurchase options from time to time when we sell city-owned property, notably with the Y Lot). We don't have an economic development manager, even though all our peer cities have staff dedicated to this function. There is a cascade of examples where our operation falls short of our peers.

These themes should come as no surprise to those who regularly participate in our property development process, and to those who are otherwise exposed to them. It is worth noting that there are real strengths in the city organization as well, certainly in the community's progressive view of development standards and in the people who have been assigned to do this work on a day-to-day basis. There is a level of commitment to protecting the public interest and providing good customer service that is notable and laudable among our staff. We have good people doing good work here.

So where is the disconnect? It starts with the organization's values and our policy priorities, which for land development purposes have, over the span of many years, been unclear. We need to explore the strategic importance of engaging in economic development. Why do it at all? We know that we are inefficient in terms of time. But what does an efficient economic development program do for the city and for the community? What are the real benefits that would accrue to residents and to taxpayers if we took this program seriously and really invested in it? The benefits are many and should be considered existentially important to the future of the City of Ann Arbor.



THE STRATEGIC IMPORTANCE OF PROACTIVE ECONOMIC DEVELOPMENT

*Supporting Housing Development at all
Income Levels in Pursuit of Affordability*

Four years ago, the Michigan State Housing Development Authority (MSHDA) conducted a statewide needs assessment to see how each region and significant community in the state was meeting its demand for housing [8]. It was a major undertaking, the first statewide assessment completed since the housing bubble burst in the late aughts. Ideally, it would guide funding decisions related to housing development supported by the state government for years to come.

The findings for Ann Arbor were sobering. MSHDA found there was a housing shortage at nearly all income levels either in Ann Arbor or in its immediately surrounding communities. While the greatest need was for affordable low-income housing, middle-income housing was also in short supply, and upper-income housing was in short supply in Ann Arbor's first ring communities too. In short, the demand for housing in Ann Arbor far outstripped supply in nearly every corner of the market. In the intervening years since the statewide housing study was first

published, the economic conditions that contribute to the housing crisis have only gotten worse. There is every indication that Ann Arbor is in a more dire situation now than it was in 2019.

The Ann Arbor Association of Realtors publishes monthly reports on the state of the housing market, tracking transactions, sales prices and a roster of other data for home sales in the Ann Arbor School District [9]. Their September 2023 report is revealing, showing that housing prices are at an all-time high having quadrupled for townhomes and condos since 2011, and nearly tripled for single family homes in that same time. The number of units listed for sale every month continues to trend down to historic levels, and the Housing Affordability Index is at an all-time low (meaning that the number of homes affordable to median income buyers is dropping). This situation is the result of a lack of housing supply, and despite the housing development that is taking place in Ann Arbor we are not keeping an adequate pace to stabilize housing prices, let alone lower them. To be clear, housing development as a strategy to affect affordability is a long-term strategy, not a short-term one. But over time it can stem the tide of housing price increases and stabilize the housing market.

*Market rate
housing
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and housing
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The emphasis in City Hall has been on developing affordable housing first—a commitment the city should keep. To be clear, developing housing at all income levels means maintaining a strong investment in subsidizing affordable housing development wherever feasible. But it is worth considering what effect the development of housing at all income levels may have on housing prices for low- and moderate-income buyers and renters. Social science researchers and economists have struggled over this question for years, but researchers are now achieving consensus that market rate housing development improves affordability and housing access for all.

Recent research shows that market rate housing development creates “migration chains” where individuals tend to move-up to marginally more expensive housing in a chain of events that ultimately creates housing availability in a cascading effect down the economic scale [10]. The effects of this, and the price reductions it can create, are meaningful, reducing rents and rates of eviction [11], segregation [12,13] and homelessness [14,15]. In 2019, the Lewis Center for Regional Policy Studies at UCLA released a report that provided a literature review and a series of working papers titled

The Effect of Market-Rate Development on Neighborhood Rents [16]. In it, the researchers directly take on the tenets of housing supply skepticism, drawing on dozens of recent research studies that convincingly show more supply in the housing market lowers housing prices overall.

Among the important research conclusions, the report shows that new market-rate development does not come at the expense of affordable housing development because truly affordable housing must be subsidized in some form, and the amount of funds available for subsidy is often the far more limiting factor than the supply of land. There is also a strong argument that increasing the supply of market rate housing makes the overall price of housing lower, thus lowering the amount of funds needed to subsidize a single affordable unit and allowing more affordable units to be developed overall. In other words, private market-rate development makes public affordable housing dollars go farther. In Ann Arbor there is an additional benefit. As more market rate housing is developed, and the tax base is improved, more revenue can be generated for the affordable housing millage too. Not only would our affordable housing dollars go further with more market rate housing development, but there would be more funds generated as well.

The researchers also found that new market-rate housing does not create an induced demand effect, whereby new development increases housing prices because of the endogenous amenity effect on the land. Instead, the authors show convincingly that the economic impact of increased supply on controlling price far outpaces any power to increase costs through the land improvement, and the effects are localized with the largest impact on units within 250 meters of the new building.

Further, the risk of people being displaced from their homes actually fell by 17.1% in the vicinity of new housing development, as opposed to areas of cities with less housing development. This is counter-intuitive because many people consider new development a bellwether of gentrification and housing displacement—a vanguard of change in neighborhoods. However, the authors make the convincing argument that what causes displacement is higher housing costs, which is instead caused by inadequate housing supply. The economic and social contours of gentrification are far more complicated, but the causes of displacement appear not to be and in an environment with rapid increases in housing costs, such as Ann Arbor, the addition of more market-rate housing may actually be a stronger force for stabilizing a neighborhood than the strategy of limiting or denying such development.

Perhaps the most interesting part of this research is the detailed discussion on migration chains and how they are affected by new housing development. As new housing comes online at market-rate or at above market-

rate prices, it causes cascading vacancies down the economic scale as homebuyers or renters vacate existing properties and move into marginally more expensive properties. Researchers at the Upjohn Institute [17] showed that in communities with robust housing development, the addition of 100 new market-rate units causes 70 below market-rate housing units to become available, and 40 units to become available in a community's lowest income neighborhoods. What's more, the effects of these migration chains are more

Communities that are developing property to serve all income levels are having a greater impact on stabilizing housing prices overall.

robust when there is greater supply of housing across the income spectrum. Stated differently, communities that are developing property to serve all income levels create stronger and more impactful migration chains, thereby having a greater impact on stabilizing housing prices overall.

These lessons are important to consider for Ann Arbor. If the Council wishes to prioritize actions that stabilize housing prices over the long-term, then more should be done to

make housing development at all income levels more efficient and more prevalent in the community. This includes identifying process changes and investments in the city organization that can ensure timelier review of site plans, development documents, and permits—topics that are a focus of this report. But it also means that the city should take a more serious role in proactively engaging housing development at all income levels. Strategically acquiring property and disposing of it for the purpose of housing development or placemaking is a normal function of cities, but not one that the City of Ann Arbor has pursued to great effect in its history.

The city should not interfere in the development of parcels that are already marketable, and developable, and that left without government intervention would be built in ways that meet our planning objectives and public policy goals anyway. Neither should we directly subsidize market-rate housing development—that is in most cases not a good use of taxpayer dollars. We should not endeavor to compete with developers. But there are parcels and places where the city's direct intervention could be helpful. Land that is important for placemaking or where opportunities exist to enrich walkable business districts that heretofore have been unexplored by the private market might be of interest to the city. Strategically located parcels that if not for the city's intervention are likely to become tax-exempt would also be important

targets for city intervention. Site accumulation for specific goals, such as a transit-oriented development around a potential train station or the development of affordable housing outside of the city's downtown core may also be priorities. Properties that have sat vacant from speculation, or that have the potential to sit vacant from speculation, should also receive attention from the city. The objective of the city should not be to hold a large portfolio of assets, but to aide in the transaction of property to achieve our policy goals through development. This is not business activity; it is mission driven activity and it must be conducted with a strategic purpose.

Consider the city's approach to affordable housing development. Resolution R-19-138 directed staff to explore the development of affordable housing on a series of parcels owned by the city, mostly in and around the downtown. This resolution has been a notable guidepost in the city's efforts to develop housing. While the resolution does not bind any of these parcels to a specific type of development or level of affordability, the direction is clear that we should develop housing that offers "mixes of unit types and rental levels" and that the city should "optimize the number of affordable units for those who make up to 60% of the Area Median Income (AMI)."

Since its passage many have noted, however, that committing these downtown parcels—among the most valuable in the city—to affordable housing development is not the best strategy for maximizing the number of new affordable housing units the city is building. A strategy of selling or developing some of these properties at market rate and investing those proceeds in properties elsewhere in the community where property values are cheaper would likely result in much better affordability outcomes for the community. With the benefit of the large proceeds from selling the downtown parcels, the city would be better capitalized to develop and subsidize more overall housing elsewhere. A market-rate development downtown, where heights are higher and massing is more favorable, could create greater migration chain effects and would have a greater impact on stabilizing housing prices overall. Finally, exchanging the tax-exempt status of a city-owned affordable building downtown for one outside of the downtown would have important revenue benefits for the city, not just for the general fund but for our special purpose millages including the affordable housing millage which can be reinvested in future affordable housing developments. To be sure, not all affordable housing development should be moved out of downtown. Income diversity in housing is important in all neighborhoods, and people with lower incomes deserve to live downtown just as much as anyone else. It is also true that the Housing Commission is recommending some market rate housing tradeoffs downtown in pursuit of these very outcomes.

The problem is the city is not positioned to provide these options to the Council proactively. We own very few parcels in the city, and we have an interest in even fewer. We could sell many of our downtown parcels for market rate, but for what specific development and where? Without a wider staff dedicated to pursuing purchase options or rights of first refusal, or purchasing properties outright that could be of strategic importance to the city, we are not creating strategic opportunities for land development. Instead, we are waiting for them, and that approach can take a very long time to succeed if it does at all.

There are no actual choices on the table for the council to make in terms of selling one property off in the downtown and exercising an option for another outside of the downtown that can better maximize value, and so the calculation has up to this point been made to keep things simple and take advantage of the land we already own. Given the city's current limitations, developing these parcels in the downtown as affordable housing is probably the optimal strategy. But with a functional economic development office that is engaged full-time in creating better strategic options for the Council, a different approach in which staff optimized the city's real estate assets in service of greater affordability outcomes would create more opportunities for affordable housing development, and more opportunities to pursue tradeoffs that optimize our real estate assets in service of affordability.

The amount of housing development in Ann Arbor has increased significantly in the last decade. But it is also true that not enough housing has been developed to stabilize prices and have an impact on affordability. If the City Council wishes to prioritize these objectives, then we need to make meaningful changes to our development processes and regulations, and we need to more proactively engage in the acquisition and disposition of property for the purposes of housing development. But we also need to create an organizational imperative that housing development at all income levels is a priority, and the staff need to work to pursue more housing development wherever feasible in service of our wider affordability goals.

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Placemaking as Community Building

Heading north out of downtown, just over the Broadway Bridge, you might notice the old brick building with soaring glass windows to your left as you go by. Built in 1905 by Detroit Edison, this historic structure and its surrounding property has housed an electrical substation for nearly 120 years. As the city has grown, so have its electrical needs, and in an effort to keep pace DTE Energy is decommissioning the substation this year and moving its capacity to a larger, newer facility.

The property is quite unique for Ann Arbor. It is one of the only developed parcels in the city bordering the river that is not residential land, part of a campus, or railroad and it may be the only parcel along the river—save for the under-construction West Broadway development—that is suitable for use as retail or restaurant space. The possibilities for this property are intriguing and the transformational impact its redevelopment could have on the Lowertown neighborhood is exciting to contemplate.

Lowertown, so named because of its proximity to the river (and in distinction to what used to be referred to as “the Upper Village” at Main and Huron), is one of the oldest business districts in the city [18]. The area wasn’t incorporated into Ann Arbor until 1851 but was platted twenty years prior and its first building was constructed in 1832 by Anson Brown. This building, 1001 Broadway, is still there today and is likely Ann Arbor’s oldest standing structure. As the neighborhood grew, a mix of retail and manufacturing buildings cropped up along Broadway, and eventually residences were added down Wall Street, Maiden Lane, Pontiac Trail, and the Broadway offshoot to the east of Plymouth Road. It was a bustling commercial area through the end of the 19th century.

Thereafter, however, Lowertown suffered a series of unfortunate transformations that have essentially wiped the old village off the map. The city’s 2009 master land use plan identified two key factors in Lowertown’s demise [19]. First, the opening of rail service in Ann Arbor meant that goods from that point forward would primarily be transported via rail instead of the river, thus making Lowertown somewhat obsolete as a manufacturing and shipping hub. Second, the growth of the University of Michigan pushed Ann Arbor’s economy away from manufacturing which shuttered many of Lowertown’s buildings, but also as the university expanded its footprint in Lowertown housing and retail suffered.

Today, the neighborhood has several successful new and legacy businesses, hosts a portion of the UM medical campus, and is at the tail end of construction on a transformational housing development at the Beekman on

Broadway. These are all positive assets for the neighborhood. But it is a far cry from its bustling past, and does not resemble the same kind of successful, walkable business district the city hosts in other parts of town. The 2009 Master Land Use Plan summarized the neighborhood's challenges as, among other items, a "lack of community and neighborhood identity," "a residential neighborhood that is gradually being converted into university uses," and "large surface parking lots that minimize community activity."

Placemaking is the intentional creation of destination spaces to create human activity and attract private investment.

What the city has known for some time, as reflected in our land use planning documents, is that Lowertown desperately needs investments that will assist with placemaking—the intentional investment of resources to create quality buildings and spaces, public amenities, streetscapes, and other places that are desirable and attractive to people. It is the intentional creation of destination spaces to create human

activity and attract private investment. One of the top identified challenges with Lowertown is its lack of identity, and that is a placemaking problem. While Lowertown is a prime example of this need, it is also worth considering that each of the new TCI corridors is also an exercise in placemaking being pursued from a purely regulatory approach. As these zoning districts come online, it is worth considering what actions the city might be able to take to spur the types of developments that help create identities and the destination placemaking that we wish to see in these future neighborhoods.

One such placemaking opportunity is the old Argo substation building, with its history and location perched over the Huron River. As discussions with DTE progressed around planning for the transition of this facility, the city inquired what plans they might have for the site. DTE entertained a conversation where the city asked for the property to either be redeveloped or sold to the city so we could redevelop it. DTE's response was that they would keep our request in mind, but the property is a long-term hold for the company and their plan is to retain it in case it is needed in the future. This unique, historic site with transformational potential for the Lowertown business district will instead sit vacant for years to come.

It is tempting, again, to judge DTE for this decision. But it is important to remember that neighborhood revitalization is not their primary mission, just as it is not the University of Michigan's either. There is, in fact, only one

public entity whose charge it is to facilitate good land use and placemaking in Ann Arbor—the City of Ann Arbor itself. To emphasize a point that bears repeating, if we are not going to prioritize investments that will help the city to protect land uses and have real leverage to encourage development that meets our public policy objectives, we cannot expect others to take these objectives seriously on their own.

Effective placemaking can be transformative for a neighborhood and for a community. It is also something that Ann Arbor is not completely unfamiliar with. In 1979, when the Michigan Theater was under private ownership, the city council intervened at the urging of Mayor Louis D. Belcher and purchased the property [20]. Forty-four years ago, the City of Ann Arbor saved this theater and provided a critical assist to the fledgling Michigan Theater Foundation, who at the time was not sufficiently capitalized to buy the building. Today, the Michigan and State theaters are hallmarks of the State and Liberty corridor. It is difficult to imagine our city without them. This is a rare example of placemaking activity in Ann Arbor's past, but it is such an exceptional example of success that the question should be asked whether the city should be organized and resourced to try to repeat it elsewhere in the community.

Becoming sufficiently capitalized and organized to participate in real estate transactions like the Michigan Theater would provide new and important powers for the city to support its neighborhoods and invest in its future. In Lowertown, had the city attempted to gain some form of interest in the Argo substation property a century ago, we might have the leverage to achieve a more active use for the property now. The city might be interested in protecting our community's oldest building to ensure that it becomes a hallmark just like the Michigan and State Theaters have in our downtown. By pursuing a portfolio of property interests in other parts of the city, some of which might be of interest to the university or DTE, we could create the opportunity for voluntary deal making with our institutional neighbors that would incentivize the redevelopment of the land these entities own in Lowertown. Envision, for instance, that the city acquired the Edwards Brothers Malloy property and as part of a deal to sell it to the university an agreement was reached to build student housing in Lowertown rather than the vast amount of activity-sapping parking garages and parking lots the university owns there now. While this would have condemned the South State Street property to the same fate, at least the city could have used the property to achieve important public policy goals elsewhere in the form of more badly needed housing and an opportunity to further strengthen the Lowertown neighborhood with more active land uses. There may also be opportunities for

the city to directly acquire interests or title on land in the neighborhood for the purpose of guiding private development toward higher uses and keeping the existing parcels on the tax rolls, contributing productively to city revenues.

With a robust economic development office, strategic land development opportunities could be cultivated over time to give the Council options for stimulating smarter growth. Without it, however, we will continue to be bystanders as third parties influence our important corridors and neighborhoods in sometimes unfavorable ways that undermine placemaking. The fate of Lowertown, with its old village mostly replaced by parking lots, vacant historic structures, and tax-exempt land, may be a vision for what other parts of Ann Arbor could look like in the future without more robust action by the city. It is a fate we should desperately attempt to avoid.

With a robust economic development office, strategic land development opportunities could be cultivated over time to give the Council options for stimulating smarter growth.

Protecting the Tax Base and Expanding our Opportunities

The only way that Michigan communities like Ann Arbor stay financially solvent is through regular and steady growth of the tax base. Because of the requirements of Proposal A and the Headlee amendment, property tax revenue growth city-wide cannot exceed the lower of the rate of inflation or 5% annually (not including new building), which means that large short-term spikes in taxable value cannot be fully realized in the city's budget. By state law, we must cut our millage rate to accommodate the increase—this is known as a Headlee rollback. However, the same smoothing out mechanism does not apply when taxable values plummet. Losses get realized all at once when, for instance, a major employer leaves town (such as Pfizer) or real estate values decline suddenly (such as the real estate crisis in the late aughts). After a major devaluing of property, it can take years for property tax receipts to recover to their pre-loss levels. Moderate, regular, and steady growth of the tax base, however, is the best way to ensure city services remain intact and that the city can deliver on its important commitments to the community.

With this in mind, the protection and growth of taxable land values is an existential issue for our community. Expansion of the tax base is not subject

to Headlee rollbacks, and new investments in property from the private sector help to backfill losses related to the deleterious effects of Headlee on revenue from existing properties. In addition, as land is purchased by tax-exempt organizations the value of that land and the revenue lost from it is deducted from the calculation of a Headlee rollback. But that is because the property is no longer generating any revenue at all—it is a total loss to the city's budget. The only way to recover revenue lost from tax exemption is for new construction to take its place. Without it, existing property owners become more and more burdened to shoulder the cost of city services.

Since the year 2000, the University of Michigan has acquired 88 parcels of land in the city. Some of these parcels are well known to the community. The Pfizer campus, for instance, the Fingerle Lumber property, and the Edwards Brothers Malloy property were reported and publicly discussed actively at the time of their purchase. Others that were smaller parcels or in locations far outside of the downtown have received less fanfare. But the total impact on the city budget of these transactions has been significant. Annually, in 2023 dollars, the city is losing \$2.4 million from university acquisitions of land dating back to the year 2000. Cumulatively, these acquisitions have cost the city more than \$25 million in tax revenue. This is almost twice the size of Ann Arbor's annual road paving budget, enough money to tear down and replace two fire stations, or enough money annually to almost double the size of the planning department.

The closing of the Pfizer campus was a particularly difficult event for the city, causing massive budget cuts and layoffs from the loss of property tax revenue. At its peak, the Pfizer campus provided slightly under \$4 million just to the City of Ann Arbor, and more than \$14 million to all taxing authorities including personal and property taxes. So how can the university's total effect on lost revenue be a relatively paltry \$2.4 million? After Pfizer had already announced their intent to close their facility they challenged the tax assessment of the property, seeking to lower their tax bills in 2008 and 2009 so as to avoid the multi-million-dollar assessments they were otherwise obligated to pay [21]. As a non-residential property the use of the land is factored into its tax assessment, so if a property is vacant the value of it drops significantly. Knowing this, the City opted to

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settle the tax appeal rather than challenge it and agreed to a new tax assessment that cut Pfizer's tax bill in half, or what is estimated in 2023 dollars to be \$1.8 million annually at the time of the university's purchase of the property.

The real question in accounting for this tax obligation is whether the university is responsible for that tax devaluation or not, and the clear answer is that they are not. The city settled with Pfizer on the tax assessment, and Pfizer's decision to vacate is what ultimately devalued the property. Those are factors beyond the university's control and had they not acquired the properties we still would have experienced a significant loss in revenue.

On the other hand, if a private party had acquired the property the tax values almost certainly would have rebounded. Additionally, a portion of the Pfizer campus was greenfield land that could have been developed into other uses. The potential for growth in real estate value on this property was significant, and so then was the potential for growth in taxable value. If the property was marketed and reoccupied without alteration, at a minimum the tax revenue it generates just for the city would be north of \$5 million annually today. But if the property was further developed with high value uses, the tax revenue for the city could be several million dollars above that annually. That analysis involves a lot of variables that cannot be completely attributed to the university's acquisition. However, it is an important point that the university acquisitions of privately held parcels across the city cut off opportunities for growth in meaningful ways for the city, and therefore create an opportunity cost for further development of the city's tax base. The \$2.4 million figure should be considered a conservative estimate, and factoring in lost opportunities for development and tax base growth the actual impact on the city's budget could be considerably larger. There can be no doubt that the university's slow but constant acquisition of property has hurt the city's budget and the organization's ability to deliver essential services to the residents of the City of Ann Arbor.

Without the city strategically seeking interest in real property, it will not be possible to influence these acquisition decisions and protect the tax base. Repeating this theme again, a fully resourced and staffed economic development office could prospectively research and seek property interests for the city, using them as pieces in structured deals with prospective property buyers to promote our public policy objectives. Rights of first refusal can be exercised or waived in favor of commitments to build housing. Purchase options can be exercised or waved in favor of placemaking opportunities. Property we own can be utilized to protect taxable values into the future through development. The purpose of exploring these opportunities is to provide real strategic options to the Council in making these important

decisions and in crafting deals with the university or other interested parties to make sure that the city's strategic priorities are being protected and advanced.

To be clear, the university has been a positive influence on the city, providing an economic engine that has bolstered our quality of life and economic stability for decades. The most recent university estimates are that its research activity alone contributes nearly \$100 million [22] of business activity to Washtenaw County (roughly on par with the contribution of the

Through the acquisition of property interests, we can create a better environment for creative deal making with the university.

Ann Arbor Municipal Airport) and directly supports the employment of nearly 18,000 people in the region. The university's total employment in the region constitutes more than \$5.3 billion [23] of payroll—good paying jobs that are more likely to persist through an economic downturn. But, it is also true that the quality of our community benefits the university. Being located in the city with the highest quality of life in America [24] helps the university attract research

talent and students, which in turn fuels their status as the top ranked public research university on the continent. The city's future and the university's future are intertwined in ways that often go unacknowledged. They rely on our success just as much as we rely on theirs.

With this in mind, we would caution against a reflexively oppositional approach to university expansion. Helping the university achieve its goals to promote research and educational activity in and around our community will bolster their positive economic impact on Ann Arbor. However, the city should find opportunities to encourage better land use decisions by the university, and to find ways to protect and improve the taxable value of our land as much as is feasible. We also encourage the university to take the city's land use objectives more seriously as they acquire property, take it off the tax rolls, and build into uses that contradict the community's vision. Through the acquisition of property interests, we can create a better environment for creative deal making with the university, helping them to meet their important objectives while also promoting housing development, placemaking opportunities, and protecting the tax base to keep the city government solvent. It is possible to both support the university's long-term success and protect the city's vital interests in a much more meaningful way than is being achieved now, and we should endeavor to do so.

Prioritizing Sustainability in the Built Environment

In 2020, the city adopted its A2ZERO Climate Action Plan, [25] which called for a roster of changes to how the city operates, builds, and moves in the name of making our community carbon neutral by 2030. There is no doubt that the provisions of this ambitious report must, necessarily, impact our approach to land development. With the City Council's endorsement of this plan that spring, it became a clear objective of the city organization to "significantly improve the energy efficiency in our homes, businesses, schools, places of worship, recreational sites and government facilities." Further, the city has also endorsed an initiative to "reduce the miles we travel in our vehicles by at least 50%." Taken together, the vision crafted in this report is one centered around a walkable and bikeable city with newer, energy efficient buildings bundled together in bustling neighborhoods. It is a sweeping reimagination of our built environment.

There is an unspoken directive in this report, but its implication is clear. For buildings to become more energy efficient, they must be invested in or redeveloped. For our transportation system to become significantly more multi-modal and less car dependent, our housing must become denser with a focus on the development of walkable amenities like pharmacies, grocery stores, restaurants and shops that contribute to the creation of ten-minute neighborhoods [26]. Put another way, to achieve the A2ZERO plan, we must welcome and promote land development under new sustainable development guidelines. Indeed, the final draft version of the report made these objectives clear. However, provisions of the report were amended at the direction of some members of the City Council at the time and the following language was removed:

INCREASE THE DIVERSITY OF HOUSING ALLOWED BY RIGHT

This action focuses on allowing more housing, up to four-unit residential buildings and Accessory Dwelling Units (ADUs) by right, in all areas of the City. This action was identified numerous times as a way to reduce greenhouse gas emissions, diversify housing options, and address affordability concerns. Overall, this action focuses on increasing the walkability and livability of neighborhoods while creating more accessible housing to a wider array of community members.

Vision for Increasing the Diversity of Housing Allowed by Right

Ann Arbor neighborhoods grow slightly while maintaining their character and charm. Ann Arbor begins meeting its goal for reducing single occupancy trips by half while making notable progress toward providing more accessible and affordable housing.

DEVELOP MIXED-USE NEIGHBORHOODS

Helping residents walk and bike to places of their choosing necessitates having the proper infrastructure in place as well as having the places they desire going within walking and biking distance. This action focuses on updating the zoning code to allow mixed-uses in residential neighborhoods so that things such as bakeries, grocery stores, breweries, coffee shops, etc. can be accessible in nearly all of our neighborhoods. This increases walkability and reduces vehicular miles driven.

Vision of Developing Mixed-Use Neighborhoods

More errands and entertainment are accessible by foot and bike thanks to mixed-use zoning, which has allowed us to maintain the integrity of Ann Arbor's neighborhoods while adding in amenities that enhance quality of life.

It is our recommendation that the current City Council adopt these provisions by resolution and direct an addendum to the A2ZERO report outlining strategies for their implementation.

Given the clear implications of the A2ZERO plan on our land uses and transportation network, it is imperative that we prioritize changes to the land development process to stimulate investments in energy efficiency across our city. The first and most important effort the city can undertake in pursuit of this objective is to state clearly that sustainability is one of our four critical priorities, in equal measure to affordability, placemaking, and tax base protection. Stating this clearly will cause many developers to rethink their projects to accommodate our goals. We are seeing this already in Ann Arbor with a spate of recent projects promising complete or near complete electrification [27,28,29,30,31]. This will not prompt all developers, perhaps not even most. But it is important to send a clear message to those who are interested in investing here that we will expect our top public policy priorities to be reflected in their projects.

Fully pursuing this directive will require updates to the building code that mandate energy efficiency. Michigan currently uses the 2015 version of the construction codes, including the International Energy Conservation Code (IECC). State law also prohibits municipalities from adopting different building codes—there is a statewide standard mandated by the Michigan Department of Licensing and Regulatory Affairs (LARA). However, the state mandated code is two versions out of date and the 2021 version of the IECC includes significant energy efficiency improvements. Additionally, there are optional annexes for net-zero residential, commercial, industrial, and mid-to-high rise buildings and alternative energy systems. The Whitmer administration is pursuing these updates in earnest, however there has been considerable opposition from lobbying groups related to the construction and real estate industries that have

posed challenges. Until these changes are adopted, the only real options the city has at its disposal are voluntary inducements to incentivize the choice of sustainable building.

Among these potential strategies, there are some options that could be particularly effective. Notably, as the comprehensive land use plan is drafted, legalizing multi-unit housing in more parts of the city would certainly induce some housing development. Creating zoning districts that encourage clustering of multi-unit housing in specific areas in combination with multi-use retail and commercial structures is critically important. The Council is already pursuing this initiative with the TC1 districts, however we should endeavor to integrate these zoning principles more comprehensively into our zoning ordinance. Legalizing more types of housing in our zoning code is critically important to achieving our sustainability goals.

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In our review of peer communities, we asked specifically what other cities were doing to stimulate sustainable development. The results were not particularly encouraging. Most of our peers reported that without changes to their building codes, options were extremely limited. However, several of our peers reported that they offer tax abatement incentives to promote energy efficiency and electrification. The challenge with tax abatements is that cities don't want to subsidize a sustainability investment that was likely to be made anyway. Instead, incentives should be designed so that they cause projects that achieve desirable public policy objectives. It is also important to note that municipalities in Michigan do not have the power to craft tax abatements for purposes other than investments in industrial or commercial facilities, and so to properly pursue this strategy we would need to seek an amendment to state law. With this in mind, we recommend that the city invest in research to determine if a policy like this would be effective, and if we find that it would be then we should consider seeking changes in state law that would allow revised tax abatement powers to provide incentives to developments that provide both electrification with adherence to the 2021 energy efficiency related building codes and also provide a meaningful level of affordability.

There are other recommendations discussed later in the report including offering fast-track site plan approval for developments that meet our public policy priorities, eliminating traditional level of service analysis for

developments and replacing it with a multi-modal level of service, and altering the approval matrix in the Unified Development Code to allow for easier approval of low- and mid-rise multi-unit residential development. Finally, in accordance with the directives of resolution R-23-192, city staff will be providing a separate memo that further explores opportunities to incentivize electrification in land development beyond what is discussed in this report.

Synthesizing a New Policy Directive in Support of Land Development in Ann Arbor

The argument for a more proactive approach to economic development in Ann Arbor is bolstered by the pursuit of solutions for four urgent problems facing the city. First, the development of more housing at all income levels to meet the critical housing shortage in the city is essential to any effort to get housing costs under control in the long term. Robust housing development at all income levels is the best strategy to impact housing affordability. Second, the city can be much more effective at placemaking activity with a more engaged approach to acquiring interests in real property. Whether it's in Lowertown, or any of our newly minted TC-1 districts, there are opportunities to guide the development of land to meet the city's vision and encourage further investment of private dollars. We should be building an economic development operation that is ready to meet those needs. Third, the protection and expansion of the city's tax base is a critical imperative if the city is to remain solvent and able to provide a high quality of city services into the future. Finally, fourth, the pursuit of the ambitious goals provided in the city's A2ZERO Climate Action Plan. For these reasons, it is imperative for the city to take a more proactive role in shaping the use and development of strategically important parcels in Ann Arbor.

It is our strong recommendation that the City Council adopt via resolution an overarching policy direction that the city support housing development at all income levels as a means of supporting affordability, that we engage more directly in shaping placemaking opportunities to create and protect destination neighborhoods throughout the city, that we take proactive steps to protect and expand the taxable value of our land, and that in pursuing these goals we take every feasible or legal action to pursue sustainability in the built environment in Ann Arbor. These goals should be preeminent above all others as this prioritization is critical to improving the process of land development in Ann Arbor.



THE PROCESS OF LAND DEVELOPMENT IN ANN ARBOR

*Moving from Concept to Design: The Site
Plan and Land Improvement Processes*

The review, permitting, and approval of property improvements and construction in Ann Arbor can be an extensive process for development professionals. In some ways, it is detailed and demanding by design to encourage better building standards and desirable policy outcomes through property development. But in other ways our processes can become long and burdensome, and this adds cost to projects. When the city causes costs to increase on housing development, and on the development of places for people to work and recreate, we need to consider whether those cost are being incurred for a good purpose or not. Is the cost strategic, or is it trivial to the city's public policy objectives?

Throughout this report we have emphasized the importance of supporting new housing development at all income levels in service of affordability, engaging in strategic placemaking, protecting the tax base, and pursuing sustainability. While a more engaged government program to acquire property interests in pursuit of these goals is important, a co-equal recommendation is to better support the private development of

property as well because private sector owners and development professionals will do exponentially more building in Ann Arbor than the city government will. Therefore, our development review processes must be strategic in how we support our public policy goals and efficient in that we only support added cost and added time in pursuit of those goals. We cannot afford to be uncoordinated or redundant during review periods because if we are we will be forcing costs onto property owners and developers that will come at the expense of our policy objectives—fewer proposed projects, less affordability, or lower energy efficiency, for instance.

Ann Arbor has very detailed and progressive development standards in a number of import review areas that simply necessitate more time and greater staff involvement to properly enforce. To be clear, we are not recommending that these development review standards should change. But we do need to come to terms with the effect that these higher end standards have on the entire development process. Our flood plain ordinance is detailed and more restrictive than is commonly found in other cities. Our landmark tree ordinance requires the protection of nearly 50 tree species, mitigation when these trees are removed, or fees-in-lieu when they cannot be replaced. Our solid waste requirements in the downtown are detailed and can be uncompromising so the city can ensure efficient use of limited alley space, receptacles that are easily serviced by the city or its contractors, and proper containment of waste. Our sidewalk amenity zone requirements in the

Technical design standards should be engaged in service of these goals and we should not be trading them for less strategically important objectives.

downtown limit what activities are acceptable in this part of the right-of-way, which influences design of building layouts and site plans. Our lighting ordinance has very specific lighting standards for properties, including color specifications, the angle of fixtures, a requirement for shades and coverings, and other standards that require an in-depth review. We have preferences for affordability, energy efficiency, and aesthetic design that while they may not be adopted into

city ordinance as development review standards, recent history has shown that the city favors developments that prioritize these amenities. We try to achieve a lot through property development and the level of review these standards require makes for a longer and more detailed process.

It is worth repeating that we are not recommending changing these

standards. The identity of this community is rooted in environmental protection, social justice, and technocratic solutions to complex policy problems. These development standards need to be in line with the community's values and we would not recommend changes without an in-depth community engagement process, such as the comprehensive land use plan, or absent the thoughtful direction of the Council.

Maintaining our commitment to these standards, however, means that we need to be extremely efficient in all other aspects of the development process. Requiring repetitive cycles of design and engineering revisions, requiring public hearings on technical issues where compliance is ordinance driven and public comments in conflict with the ordinance cannot even be adopted, or interpreting development requirements beyond what is actually written in ordinance and forcing design revisions to accommodate—these factors add costs and delay approvals in undesirable ways. If the objectives underpinning our development processes are to support housing affordability through development, engage in strategic placemaking, protect the tax base, and support sustainability, then the technical design standards should be engaged in service of these goals and we should not be trading them off for less strategically important objectives. There must be a priority.

Related to this concept, our review of peer cities provided an important recommendation for Ann Arbor to reconsider the relationship the planning staff and the Planning Commission have with the land development process and other city departments. In American cities, there are three main divisions of review for a major development: Site plan approval; Land Improvement permits (sometimes called “below ground” improvements, or the “civil plan” review); and Building permits (sometime called “above ground” improvements). These processes are intended to work toward the final goal of a built property with a valid certificate of occupancy. While these three processes start in order of site plan, then land improvement permits, and then building permits, and they are finally approved in this order too, they occur simultaneously throughout the process.

The site plan approval process is an exercise to determine whether the concept of the development meets with zoning and design requirements. There is usually also a limited review to make sure that land improvement assumptions are correct, for instance utility connections are planned reasonably, the development isn't in a floodplain, or the curb cuts are reasonably placed, etc. This is not a review that requires a broad array of full engineering drawings up front. There are some engineering designs required for the building, but it usually is a conceptual review with notes back to the developer indicating acceptance of the preliminary design or acceptance of the

preliminary design with conditions for specific changes that will be realized as further iterations of the development are reviewed later in the process. Once the site plan is approved, the project is essentially greenlit for more detailed engineering designs on a broader array of review areas and an in-depth technical evaluation from city staff.

The land improvement process is where the technical details of the development are negotiated and approved. At this stage, detailed engineering drawings are prepared, technical advisors are brought in to evaluate the site and create specific work plans for how the land and building will be prepared for construction, utility interconnections are planned in detail and approved along with any corresponding improvements to the publicly owned utility system that may be required, placement of curb cuts and transportation improvements are engineered and approved, solid waste servicing plans are negotiated and approved, and other similar requirements are finalized. The site plan approval gives you the basic design and layout of the development, and this is essential for creating a general guideline and design scope for the more detailed engineering. One approval must come before the other so that projects iterate from less detailed proposals to more detailed proposals and design obstacles are solved progressively through the review process.

Finally, the inspection process comes in the later stages of construction through final completion of the project and ensures that the actual site and building follow the site plan, the technical requirements of the land improvement permitting process, the international building code and the fire code. If the building meets these standards, then a certificate of occupancy is issued and the building can be opened for business or occupancy.

It is important to keep the site plan process, the land improvement process, and the inspection processes all separate because separating them keeps the process iterative and breaks it into digestible steps that help to keep a project moving at pace toward completion. Think of this process as a funnel, where at the beginning—during site plan—the proposals are less detailed, subject to greater variation, and the number of outstanding issues is larger. But as the project moves through the funnel, designs get more detailed, the number of outstanding issues shrinks, and the variability of the project gets smaller. Once you reach the end of the funnel, you have a complete project. This process of narrowing issues progressively keeps the project moving forward, where approvals earlier in the process set a narrower scope for design decisions later in the project in a way that limits the potential for major, costly

*An approved
site plan is
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budget.*

changes in the proposal the further you progress.

In this way the property development process is analogous to the financial control process the city government employs when it is budgeting and spending public dollars. When the city spends public tax dollars we engage in a three-part process. First, we program the funds through the adoption of an annual budget. Second, we use the budget document to plan and executive the expenditure of funds in detail within the established limits. This is the process where competitive bidding is done, work scopes are finalized, and contracts are approved. Finally, after funds are expended, we audit these transactions to ensure that our expenditures were done in compliance with the budget and with city ordinances and policies. You start with a more general proposal at the beginning and work within its confines to create detailed spending plans, complete projects, and ensure accountability at the end.

So it is, also, with land development. The site plan approval is essentially a space and dimension budget. It is a general overview of the development plan, and it sets limits to provide guidance for how a building and property are to be laid out. Once it is approved, then detailed engineering can be developed based on the limitations and guidance from the site plan, just like we would when we are bidding and contracting for work in the city budget. By iterating the process out, a city can prevent scope creep in the design and

We create an opportunity for scope creep from the land improvement side, whereby a site plan approval can be delayed while staff and the developer discuss tactical details of the development that are only tangentially related to the site plan itself.

engineering phase and get better outcomes in the land improvement portion of the development by setting firm limits and guidance in advance. Expectations are clear, and work is planned more effectively throughout the process.

In Ann Arbor, we have evolved a process where the site plan review and an in-depth engineering/land improvement review are essentially joined together to create an omnibus project approval up front. This is one of the single biggest factors that slows down the development review process, and

changing this is one of the strongest recommendations of this report. We require up-front, in-depth planning or engineering for technical review areas that might affect the site plan, most notably for transportation engineering, solid waste approval, for flood ordinance compliance, and for several other review areas. When a developer is getting ready to submit a site plan, the planning team pulls together a review team including personnel from planning, and staff from systems planning, engineering, the utilities, and solid waste as needed to advise on the project, discuss required site plan information, and discuss the plan review process.

This marriage of processes has one advantage. It does lower the risk that a project with an approved site plan might have to be sent back for an amended site plan when major engineering issues are discovered later in the process. However, this also has some major disadvantages. First, by meshing the site plan and the land improvement process together, as we do, we are creating an opportunity for scope creep on the land improvement side whereby a site plan approval can be delayed while staff and the developer discuss tactical details of the development that are only somewhat related to the site plan itself. This causes delays in site plan approval and fails to set proper limits and guidance for the land improvement review process.

Second, it separates the site plan review process into two different service areas in the city and there is no overarching supervision between them to make sure that projects are handed off properly, timelines are met between the teams, and that the process is generally managed efficiently. When there are disagreements between technical review areas on a site plan, or when there are delays, often property owners seek relief from the city administrator's office for the personal intervention of the administrator or the deputy administrator. This is not an efficient arrangement, and the administrator or deputy administrator should not be intervening in individual development reviews to try to resolve disagreements, slowdowns, or developer objections. It is simply not good process.

Third, for many projects site plan approval is a key threshold in getting financing approved. By adding more detailed engineering reviews to the site plan process we are extending the timeline for site plan approval, and this can add stress to the approval process developers have with their financial institutions. This creates circumstances that are probably unhealthy for our development environment. Notably, during our stakeholder engagement we were told by development professionals that usually only very well capitalized development companies try to do business in Ann Arbor because they are better able to bear the up-front design and engineering costs before financing is approved and they are better able to carry a project through an extended site

plan review process with the city. While it is impossible to quantify the extent to which this happens, we have received ample anecdotal feedback that smaller companies, newer companies, and many minority- and women-owned development companies tend not to favor working in Ann Arbor for this reason. It is a reminder that developing property in Ann Arbor is a choice, and some companies choose not to either by not investing in the city at all or by keeping their properties underdeveloped.

Fourth, by extending the site plan approval process and creating stress for developers around the approval of financing for projects, the city is attempting to create a point of maximum leverage for itself to achieve compliance with our development standards. But, in fact, we may be doing the opposite. By complicating the site plan approval process, we are creating leverage for the city but we are also not creating good relationships with property owners and developers who are experiencing long delays and repeated rounds of revisions that may be unnecessary. That does not create fertile ground for deal making and creative problem solving. Additionally, the city likely loses no leverage by more readily approving site plans with contingencies and separating the land improvement process because if an existential issue is revealed during engineering review at a later date the possibility of sending the development back for an amended site plan approval is a meaningful enough incentive to motivate the developer to find a good solution within the existing site plan. We lose no leverage, we likely gain good will, and we create a better environment for achieving meaningful agreement with the city's requirements from developers.

A recent example of this involves a building that is being proposed in the downtown. The parcel where the building would be is not particularly large and the block it would be on does not have an alleyway. That makes planning for solid waste service a challenge. In the pre-submission process the city suggested that the main floor of the building could be redesigned so that three quarters of it would be dedicated to a drive through lane that would serve solid waste needs and other transportation needs. This would minimize curb cuts and protect the amenity zone on the sidewalk, both of which are important for pedestrian safety. The developer reacted poorly to this suggestion and contacted the administrator's office right away.

From the technical review staff's perspective, they were only spit-balling solutions for a complicated site and did not intend to suggest that this drive-through design option would be a requirement. The developer, likely under some stress because of the already prolonged site plan review process and sensing a direction from the staff that they didn't like, might have elevated the issue prematurely—that is a matter of perspective. However, in meetings

with the administrator's office the city staff made their feelings clear that the main floor drive through was probably the best engineering solution. The administrator's office encouraged staff and the developer's engineering team to bring a more flexible approach and brought everyone back to the table to hash out a solution. A more elegant design is currently being explored to mitigate the transportation issues the site presents, and a solution for solid waste centered around partnering with the neighboring building to share a dumpster is being worked out. But, even in this solution there is disagreement. The solid waste staff would prefer a dumpster sharing agreement to be memorialized in an easement, the developer would prefer a license agreement.

This prevented the site plan from being heard by the planning commission for months, even though a solution is sitting on the table ready to be implemented in one form or another.

Is every city objective equal in weight, or are some more important than others? How are these tradeoffs articulated in our codes?

This example is instructive for several important reasons. The site plan approval has been delayed for months for reasons that are only tangentially related to the site plan itself. While it is possible that an engineering solution to these issues could have required radical changes to the site plan, it is evident that it did not. These delays were avoidable.

Additionally, it is an example of how the extended review process for site plans puts developers in a bad position and causes complaints to the administrator's office and sometimes to the Council because of it.

As we encounter those complaints, though, it is important to recognize an important fact: The staff were right on the merits. A pull-through lane on the first floor of the building probably was the best engineering solution for the transportation challenges posed. An easement to memorialize a solid waste agreement is more durable than a license agreement. These facts are true, and therefore it is easy to support the staff's approach because they are doing exactly what we have asked them to do by faithfully pursuing the public policy objectives they are responsible for—the integrity of our transportation systems and solid waste management. But the question must be asked whether these concerns are important enough to override the city's other more existential objectives. Is every city objective equal in weight, or are some more important than others? How are these tradeoffs articulated in our codes?

If the city has a priority for pursuing housing affordability through development, engaging in placemaking, protecting the tax base, and sustainability in the built environment, then it is imperative that the organization come to terms with the idea that where a development is allowable under the zoning ordinance, and permissible after environmental review, we should approve the site plan of a development and simply do our best to meet our other competing objectives. Any other approach jeopardizes and complicates housing development and affordability, placemaking, tax base improvements, and sustainability. This is why it is so critical for the organization to set priorities for what our core public policy objectives are related to land development.

In the case of the aforementioned development, while a drive through lane that utilizes most of the street level foot print might be the best engineering solution to meet our solid waste needs, it is undoubtedly a poor use of space in the downtown where an activated street level is essential to maintaining the integrity of the pedestrian experience and the health of our most important business district. This should be a higher priority given the location. In other words, the best engineering solution might not be the best overall solution on a given property.

With so many aspects of the development review packed into the site plan process, they all have equal weight and equal standing. When some of these review standards come into conflict with each other, it can take a great deal of time and negotiation among staff to work them out, burdening developers and slowing down the approval process. These are also instances where an economic development manager can play an important role, helping guide staff through a prioritization process, provide advice, and when needed make the ultimate decision on how to solve conflicts between city priorities based on Council policy guidance.

In addition, separating as much of the land improvement review from the site plan review as possible can provide clarity and efficiency in the process. To be sure, there must be some overlap. But as one staff member said to the administrator's office, "I have worked all over the country and Ann Arbor is the only city I know that requires a transportation engineer to review a site plan. Everywhere else, a planner with transportation expertise reviews the site plan." Detailed engineering is submitted by the applicant later in the process. It is a fair point worth considering.

Looking at one of our closest peer cities, Grand Rapids, it is easy to see the difference between their transportation review for site plans and ours. Under their zoning code, the staff review the following issues related to transportation to decide whether a site plan is sufficient to move forward in the

land development process:

a. Driveways are located to minimize conflict with traffic operations on abutting streets and the number of driveways is the minimum needed to provide reasonable access to the site. b. The width of streets and driveways are appropriate for the existing and anticipated volume of traffic. c. The arrangement of public or common ways for vehicular and pedestrian circulation respect the pattern of existing or planned streets and pedestrian or bicycle pathways in the area. d. Off-street parking and loading areas are provided with particular attention to the effects of noise, glare, and odor on adjacent properties in the proposed development. e. Safe, convenient and well-defined vehicular, bicycle, and pedestrian circulation within and to and from the site is provided. Driveways, streets and other elements are designed to promote safe and efficient movement within the site and at its access points. f. Pedestrian pathways connect to transit stops or stations where practicable. g. Bicycle facilities shall be planned to ensure that conflicts between cyclists, vehicles, and pedestrians are minimized to the greatest possible extent [32].

The review standards fit into one paragraph, at no point are engineering designs required, and the entire submittal for transportation is reviewable by a planner rather than an engineer. In Ann Arbor, by contrast, our transportation review standards for a site plan are extensive. The following are only an excerpt of some of the requirements for site plan review:

- 1. Existing traffic volumes passing on all streets abutting the proposed SEU or Development during the peak hour. Traffic from other new and proposed SEUs and Developments in the area should be considered.*
- 2. Existing peak hour turning movements of vehicular and non-motorized traffic at all public street intersections within a minimum 200 feet of the proposed SEU or Development, or those intersections that may be impacted by the proposed SEU or Development.*
- 3. Projected peak hour generation rate and peak hours of generation for the proposed SEU or Development.*
- 4. Projected peak hour traffic movements as a result of the SEU or Development.*
- 5. A capacity analysis for impacted intersections.*
- 6. A statement of the total impact the projected generation will have on the existing level of service as determined and certified by a registered engineer.*
- 7. A sketch plan showing all existing Driveways to public streets within 200 feet of*

the proposed SEU or Development and all on-street parking or loading areas.

8. Proposed Site access Driveways with a determination if a deceleration lane or taper is necessary based on current City warrant analysis standards, a determination if a left-turn by-pass lane is necessary based on a warrant analysis, and a sight distance study at the Site access Driveway [33].

Our design review guidelines for site plans require, for any development assumed to produce more than 50 vehicle trips during peak times, sealed plans prepared by an engineer and extensive drawings, models, and a level of service analysis. This is a very burdensome standard for a site plan, which is supposed to be a conceptual space and dimension budget for a proposed development.

Looking over the Grand Rapids code, their site plans require a dimensional plan for the building and other notable elements on the property, a basic environmental review, and the above excerpted transportation review. Their entire roster of site plan requirements as defined in their zoning ordinance can fit on one page. The list of site plan requirements in our zoning ordinance is more than a dozen pages long, and we require detailed plans for a wide range of technical review areas that normally belong to the land improvement or civil plan process. We are overburdening the site plan review process and in so doing, we are unnecessarily slowing the approval of site plans for major development projects. Additionally, by creating scope creep between the site plan and land improvement processes, we are inviting opportunities for staff to disagree on issues tangentially related to the existential question of whether the development should exist or not—whether it should be built at all—which contributes to delays.

A more reasonable approach would be to start the land improvement reviews during the site plan review process, but only hold the site plan until the planners are reasonably confident that any further technical review work is unlikely to require major changes to the site plan. In other words, we shouldn't hold site plans until final approval is given for transportation engineering, for flood plain, for solid waste, or for other similar review types. Once planners deem it likely that a site plan, in concept, is unlikely to require major changes under our ordinances then it should go before the planning commission for approval.

Once planners deem it likely that a site plan, in concept, is unlikely to require major changes under our ordinances then it should go before the planning commission.

There will be circumstances when a site plan will require some technical amendments during the land improvement review process. Anticipating these instances, the planning commission should approve site plans with more flexibility for planning staff to administratively approve non-major amendments if needed later in the process. Right now, most amendments to the site plan must go back to the planning commission for approval. Changing this threshold moves the site plan approval process back to what it is supposed to be in the first place and what it is in most of our peer communities—an approval of the concept of the development rather than an approval of the detailed designs related to a development. This arrangement will allow projects to continue moving forward but give public services staff and community services staff the flexibility to make amendments as needed to accommodate the city's objectives. Further, because of the charter provision requiring that all agreements for an interest in real property go before the City Council, if a site plan is amended then the development agreement must be amended too and sent back to Council for approval. To bring our processes in line with best practices, and truly separate the site plan and land development processes, we must repeal or fundamentally alter this portion of the city charter.

If a project is not in a floodplain, is not downtown, is not along a complicated transportation corridor, or it does not interact meaningfully with any of the city's solid waste franchise agreements, then the land improvement review is relatively simple and the changes suggested above would likely not accelerate site plan approval by very much—perhaps only a week or a few weeks. However, for more complicated projects with more challenging sites the timeline for site plan approval could be improved significantly—perhaps by months—and therefore the efficiency of our land improvement review would improve as well.

Inviting the Community into Effective and Timely Public Engagement

There are other changes to the site plan approval process related to public engagement that would greatly improve it. To be sure, site plans must be publicly available for comment and feedback by the community. There is real value in this and it is important. We are not recommending that major developments become administrative approvals only, with no public vetting. However, the amount of engagement currently required for a site plan is dizzying, and these required engagements add an extensive amount of time to the approval process as well as overburden the planning staff who are responsible for detailed compliance with the Open Meetings Act (OMA).

Further, inviting the community into public engagement activities that are ineffective—they are timed poorly, they ask the wrong questions, or they invite discussion on topics that are unlikely to see change—frustrates the public and erodes confidence in the government. There is a “sweet spot” for public engagement where the public is sufficiently notified and where there are meaningful feedback opportunities that can add value to projects. Past this point, when engagement is exhaustive and redundant, government processes can easily bias decision making toward the status quo, overburden staff with little added benefit, and frustrate community members. In an environment such as Ann Arbor, where residents are clamoring for meaningful improvements to affordability, sustainability, and quality of life, we should endeavor to find that sweet spot in engagement and not miss in either direction. The current matrix for engagement does indeed miss.

For a large development in the city’s downtown, there are four public hearings or meetings required before the planning commission votes on the site plan approval. For smaller projects outside of the downtown, there is a public notification required, a public hearing, and a public meeting at the Planning Commission. Yet, the planning staff who oversee these meetings report that at many of our public engagements the feedback has not resulted in meaningful changes to a site plan. In addition, these engagements are redundant, and create false expectations in the public that plan amenities that are specifically allowed by zoning or required by ordinance can be changed.

The first engagement a site plan must undertake is part of our Citizen Participation Ordinance, which requires that developments either, if it is a larger development, hold a public meeting with neighbors surrounding the project or, if it is a smaller development, simply provide notification of the project via postcard with information on where residents can learn more. This process must occur before submission of the site plan but must necessarily occur after the site plan documents are prepared so residents have something to look at and engage with. This extends the site plan approval timeline for developers, usually between a couple weeks and a month, but these meetings and notifications almost never result in meaningful changes to a project proposal.

When site plans are considered, the kind of comments that could result in major changes to the site plan—in height, in setback, in number of units, etc.—are the kind of changes that conflict with the city’s vision for a property as articulated in the zoning and so they are unlikely to be adopted at this stage absent direction from the staff or the Planning Commission. With this in mind, there is an important question to be asked as to whether it is fair to invite the public to participate in an engagement that is extremely unlikely to result in

any meaningful changes. Doing so creates a false promise to the public and dilutes confidence in our city government. When we invite members of the public into decision making like this, we should make sure we are doing so in instances where the public can meaningfully effectuate change and have real influence.

There is value in this citizen engagement process, however, in that it is an important step in informing the public of coming projects and allowing them to learn from property owners and developers about their proposals. The public has a right to know about how their neighborhoods might change. But,

When engagement is exhaustive and redundant, these processes can easily bias decision making toward the status quo and frustrate community members.

since these meetings very rarely ever result in changes to a site plan proposal, and since the timing of this engagement delays the site plan submission, we recommend that the citizen participation requirements be moved so they can occur concurrent with site plan submission. If there are changes suggested by members of the public that can be incorporated into the plan, staff can review them and provide them in comments back to the applicant to be incorporated in a site plan revision during the staff review

process. We believe that altering the citizen participation process in this way will time the engagement concurrently with the staff review and make it more effective. It would also shave two to four weeks off the timeline for site plan approval, but only if this change is made in conjunction with changes to the design review board process.

Figure 1. Current Public Engagement Processes for Major Developments Downtown



The Design Review Board was created to provide feedback to site plans in the downtown that are not in a historic district and that propose an increase to floor area. The feedback is supposed to be based on the design review

standards that the city adopted in 2011 [34] as part of the creation of the D1 and D2 zoning districts. Meetings of the design review board are administered to be compliant with the Open Meetings Act (OMA), which means they must be publicly advertised in advance, staffed, and minutes must be provided afterward. At these meetings developers, property owners, and their design consultants come to meet with the board. The board members are charged with suggesting revisions to developments based on the documented standards in the design review guidelines. Applicants pay a \$1,500 fee to have their developments considered by the board, a fee and hearing which are mandatory under city code.

The value of the design review guidelines is indisputable. They encourage the creation of architecturally interesting buildings, with high quality pedestrian elements, and attractive public spaces. However, the utility of the Design Review Board is debatable. This is another requirement that comes before site plan submission, and so it delays review of the site plan documents and extends the overall approval timeline. Since the feedback from the board must be based on the documented design review standards, which developers have already consulted and incorporated into their projects, the review from the Design Review Board rarely uncovers missed opportunities for favorable design changes. Additionally, the design review standards are voluntary. Applicants have no obligation to follow the recommendations of the board, and while a project that runs completely afoul of the design review standards may receive a less favorable reception with planning staff or at the planning commission, there is no scoring or threshold of compliance with the design review standards that complicates or aids a project. Finally, as these meetings are held in compliance with the OMA, city planning staff must notice and advertise them, prepare agendas and packets, attend them, compile minutes from them, and document the comments of the board members into cohesive feedback for applicants. This is a substantial commitment of time for each project that goes before the Design Review Board—several hours for each meeting per staff member—and this is time that is taken away from a planner actually working on a site plan review and seeing it through to completion, which is what their focus should be. There are many reasons why the Design Review Board is inefficient and redundant to the process.

We recommend eliminating the Design Review Board and making a formal review of the downtown design standards a part of the staff review process. Under this proposed process, suggestions based on the design review standards would be provided by the planning staff or the Planning Commission and documented as formal feedback by the city for the developer to respond to. This will be just as effective as requiring a hearing in front of the

Design Review Board, but will be much more efficient and time sensitive for applicants and will save planning staff many hours in unnecessary work that could otherwise be spent on their main responsibility—completing technical reviews of site plans. Since applications for the design review board are required a month in advance of the meeting, and developers must wait for a report back from staff to incorporate the feedback into their site plan submission, eliminating the hearing before the Design Review Board could shave six weeks off the site plan approval process (this would be inclusive of time savings related to the suggested changes to the citizen participation process).

A final part of the public engagement process for site plans is the requirement that there must be a public hearing in front of the planning commission. To be clear, all site plans that are subject to Planning Commission review are reviewed and approved by the Commission as regular agenda items at a public meeting. That would not change under this proposal. However, the Planning Commission also incorporates a public hearing into the same agenda for each site plan. The notice requirements for public hearings are different under state law than they are for regular OMA covered meetings. Public hearings require 15 days of notice and advertisement, regular meetings require only 18 hours. What this means is that when a site plan is finally ready for consideration by the Planning Commission, the soonest it could be scheduled is two meetings away, or up to a full month later. Currently Planning Commission meetings have two public comment periods, one at the beginning of the meeting and one at the end, in addition to public hearings held for each site plan. Because of this, at the first public comment period at a Planning Commission meeting speakers are not allowed to address a topic that is featured in a public hearing later in the meeting. Therefore, a person who wishes to speak on a site plan at the Planning Commission currently has two opportunities to speak at the meeting.

However, if the public hearing were to be eliminated these site plans could be added to the agenda relatively quickly, but probably not less than a week or so before the meeting. The timing would be the same as regular agenda items at a City Council Meeting. What would happen in this scenario is the site plan would be added to the Planning Commission agenda and would be publicly discussed at the meeting. Members of the public would still have the ability to provide public comment on the site plan, the property owner and their team would still be at the meetings to answer questions, and the commission would still vote on approval of the project in public. Under this scenario, members of the public would still have two opportunities to speak on a site plan, the same as what they have now. In addition, it would also shave

two to three weeks off the timeline for the development review process.

Keep in mind that members of the public will have been notified of the site plan months in advance through the citizen participation process mentioned earlier, so there will be plenty of time for members of the public to learn about a project, ask questions of the developers, let their aspirations or concerns for the development ruminate, and communicate their feelings to the city either at the planning commission meeting or in advance of it. Eliminating the public hearing does not meaningfully shorten the amount of time the public has to become familiar with the project, nor does it prevent the public from coming to a planning commission meeting and speaking on the development should they choose to do so.

Figure 2. Proposed Public Engagement Processes for Major Developments Downtown



In addition to making the process more efficient, it would be a meaningful time saver for planning staff as well. It is estimated that eliminating the design review board and the public hearing for site plans could save the equivalent of 12 hours of planning staff work per month (four hours per meeting) by eliminating the need for scheduling meetings, posting public notice, preparing agendas, attending and administering the meetings, writing and posting minutes afterward, and providing staff support to the board members. This is not an insignificant amount of time, and it is time that would be dedicated back to getting site plan reviews done, being more responsive to applicants, and being attentive to our property development processes.

We estimate that the combined total of these changes to the public engagement portion of the site plan review process would shave, at a minimum, eight to ten weeks off the timeline for site plan approval. Combined with proposed changes to separate and properly scope the site plan and land improvement reviews by staff, the process for site plan approval could be shortened by at a minimum two and a half to three months, but at a maximum several months more depending on the complexity of the project.

Encouraging Better Project Submission from Engineers and Consultants

Separating the site plan and land improvement processes is an

important and needed change in our land development review. In most instances, it will provide greater leverage and flexibility for the city to pursue engineering changes to proposals, better compliance from developers, and faster site plan approvals. However, the risk this change poses is site plans may require amendments after they have already been approved if there are difficult to resolve engineering issues that are presented later in the review timeline. This is a normal part of land development in our peer cities, and it is something we should embrace in Ann Arbor. Doing so means making important changes and additions to our land development policies to promote a better quality of consultant plans and submissions up front and an easier process for amendments to site plans when they are needed.

More than half of the civil plan submissions that the city receives for land development projects are incomplete when they are first submitted. Unfortunately for staff, even though these submissions are incomplete and not fully reviewable, their submission still starts the clock on the city's timeline for providing comments back to developers. This can seriously complicate the review process for staff, and often when comments are submitted back to developers behind schedule it is because staff has had to spend a good portion of their review period chasing down needed documents, drawings, and comments from consultants. We need to do a better job making sure that developers are aware of their obligations to submit complete plans at the beginning of the review process, rather than progressively over time as their consultants complete the work. Sometimes developers submit these incomplete plans because they are simply eager to get the clock started and get comments back, and sometimes they submit them incomplete because they are genuinely unaware of the city's submission requirements.

We recommend changing our submission rules so that staff have the discretion to deem a submission incomplete and freeze the review clock until the needed documents are submitted. This should only be done in instances when the submission is deemed to be so deficient that a timely review by staff would be practically impossible. Smaller omissions should be corrected during the original review timeline.

We also recommend creating a straightforward development manual that is easy to read and understand for any audience. This would provide, in a relatively brief and plain language presentation, the basic requirements of what it takes to successfully develop land in Ann Arbor. Right now, developers may consult our zoning code, the downtown design guidelines, the city's standard specification (which are referred to as the "Orange Book" and is the technical manual for our engineering requirements on land development), and other sources to determine what their requirements are. But this is several hundred

pages worth of highly detailed and technical documents, and for developers or consultants who are unfamiliar with our processes it can be extremely confusing. A brief development manual that can advise on major issues and requirements may help head off many of the more prominent and complicating omissions from consultants that cause delays in the development review process.

The city can also do a better job of recognizing consultants who do good work during plan and engineering review. Some consultants come better prepared and know how to meet the city's standards than others, and in those instances civil plans are approved much faster. The city should consider creating an annual recognition for those companies that consistently submit plans that are approval ready.

Finally, the Planning Commission and Council should give more administrative flexibility to planning staff to amend site plans for non-major changes should they be needed after site plan approval is already given. As it is right now, most amendments to a site plan or a development agreement must go back before the Planning Commission or the City Council, and this creates an immense amount of pressure on staff and developers to make sure that their site plan submissions are prepared to perfection. This is one of the factors contributing to staff's insistence that detailed engineering be provided and reviewed during the site plan review process. We try at all costs to avoid triggering an amendment and reconsideration by the Planning Commission or City Council. This leads to slow approvals and inflexible design requirements at the site plan stage. If we want the city's processes to become more flexible and our bureaucracy to be less calcified, then our site plan approval should become more flexible and less calcified as well. It will alleviate a lot of pressure on the public services staff and allow for a more iterative review process throughout the development review timeline.

Eliminating Single Points of Failure and Making Review Processes More Resilient

We have repeatedly endorsed the creation of an economic development office headed by an economic development manager throughout this report. Part of their responsibility would be to supervise the review process for major land development projects. Right now, the technical review staff in planning and in public services are practically the first and only point of review for city ordinances and development requirements, which creates an extreme disincentive for creative problem solving or for deviating from the city's written development standards in any way when there are conflicts between the city's public policy objectives on a specific property. No one wants to be the

engineer, or plan reviewer, or other staff member who signs off on a design change that is necessary to get a project done but that might be perceived as deviating from the Council's or the public's expectations for a project. They don't want to be held to account individually by a member of Council or the public. Even further, no one wants to commit to a design change that could set a troubling precedent for future projects either. This fear can breed defensiveness and can drag out the development review process because when there are conflicts among staff about how to proceed there is currently no one who oversees the entire process and who can make decisions about what takes precedent and what doesn't—about what priorities are more important than others. The economic development manager would supervise these major projects, make decision on what design issues we can compromise on and what we can't in accordance with Council policy directives, and create a line of defense for the technical review staff so they feel more comfortable engaging in creative problem solving with developers knowing that there is a staff leader who will have their back when tough decisions need to be made. The value of this cannot be overstated in terms of improving our willingness to work cooperatively with developers to get deals done.

There is a related critical issue that plagues the development review process from beginning to end. The city has had a persistent and wide-ranging issue of understaffing our critical operational areas. Economic development is a glaring example of this, perhaps more so than any other operational areas in the city. We have single points of failure throughout the land development review process, inadequate staffing, and inadequate consulting services to deal with the deluge of projects the city is reviewing on an annual basis. By single points of failure, we mean that there are at many points in the land development review process a single employee who is trained to review development proposals on specific topic area. There is one transportation planner (though there are several engineers). There is one flood plain expert. There is one arborist, who also moonlights as our wetland area expert. There is one fire marshal. There is one real estate attorney. When any of these people are out sick, on vacation, or on FMLA, work on economic development in the city effectively stops—and given the number of single points of failure in the city,

Our economic development processes will never truly be efficient when our staffing in critical review areas remains so thin at so many points throughout the process.

this happens often. There is no one trained to step in to take the work on, and bringing on a new consultant to do it is so time consuming that it is often not worth the effort once the timeline for proper training is considered. Our economic development processes will never truly be efficient when our staffing in these critical review areas remains so thin at so many points throughout the process.

Even when we have more than one employee trained to do the work, staffing still remains thin. Take the Planning Department as an example. There are five budgeted planner positions, one of which is currently vacant from retirement and has been challenging to fill. Another position will, at the time of this writing, be vacant very soon from retirement. Nonetheless, we have four planners currently working for the city. One of those planners is mostly dedicated to administering the immense amount of work that results from our historic districts and the Historic Review Commission. Administering these responsibilities is a full-time job. Another planner is mostly dedicated to working on ordinance and policy revisions directed by Council and the Planning Commission. For instance, the new TCI districts required a herculean effort by planning staff to plan, design, and finalize. There are many other policy changes that have been directed by our governing bodies that require a planner to work on—removing parking minimums, altering the site plan approval process, removing the affordability premiums, and so on. These proposals all take real time and effort to research and prepare.

While all of our planners participate in site plan review, only two planners primarily take the lead on reviewing site plans that get submitted to the city. But they don't just review site plans. There are a number of site compliance reviews that require their attention, including working with building inspection on punch list items related to construction and inspection, and certificates of occupancy. There are conceptual plans where developers meet with staff before the pre-submission process to work out concepts for site plan designs. The pre-submission process and active review of site plan submissions are also numerous and time consuming. Planners manage annexations, land divisions, rezonings, street vacations, zoning variances, and review building permits for zoning compliance. At the time of this writing, in early November 2023, the planning department is managing 110 active projects. So far in 2023, the planning staff will have reviewed more than 2,400 projects not including policy and ordinance changes or any work related to the historic districts. It is an overwhelming amount of work, even when the department is fully staffed.

In addition to this deluge of work, the public meeting requirements placed on the planning staff are immense. Planning staff must appear at the

Planning Commission, the Design Review Board, the Zoning Board of Appeals, the Historic Review Commission, and the City Council meetings. In total, staff appear at nine meetings a month. During the first and third weeks of the month, when City Council and the Planning Commission meet, it is not uncommon for the Planning Manager and other staff to work 40 hours by midweek, and to continue working for the rest of the week because the needs of the city are served by it.

This immense amount of work that flows through the Planning Department also flows through Public Services and Rental and Building

It is not uncommon for the Planning Manager and other staff to work 40 hours by midweek, and to continue working for the rest of the week because the needs of the city are served by it.

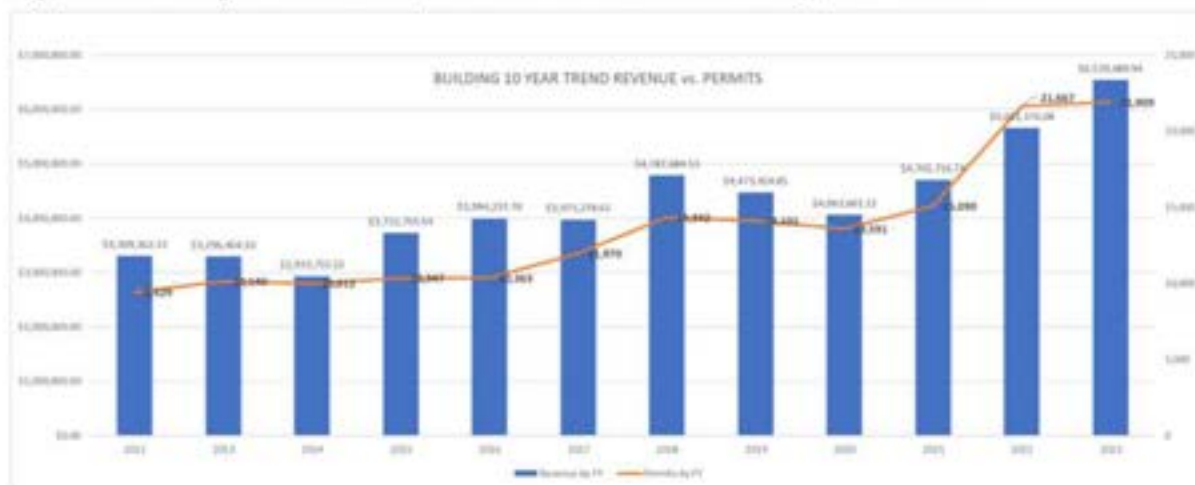
Inspection, with the same crunch for staff time and resources. This is a chronic problem across the organization, in so many offices. It is a product of a city organization that is cash poor and that has never really emphasized tax base development or protection as a strategic priority. We are staffed this way not because we are cheap, but because we are forced to as a result of extreme resource limitations. But a more proactive strategy to develop the tax base will benefit not just our economic development functions, but also our other strategic policy priorities that require the

investment of significant public funds—affordable housing, sustainability, reforms to public safety, and so many more important initiatives.

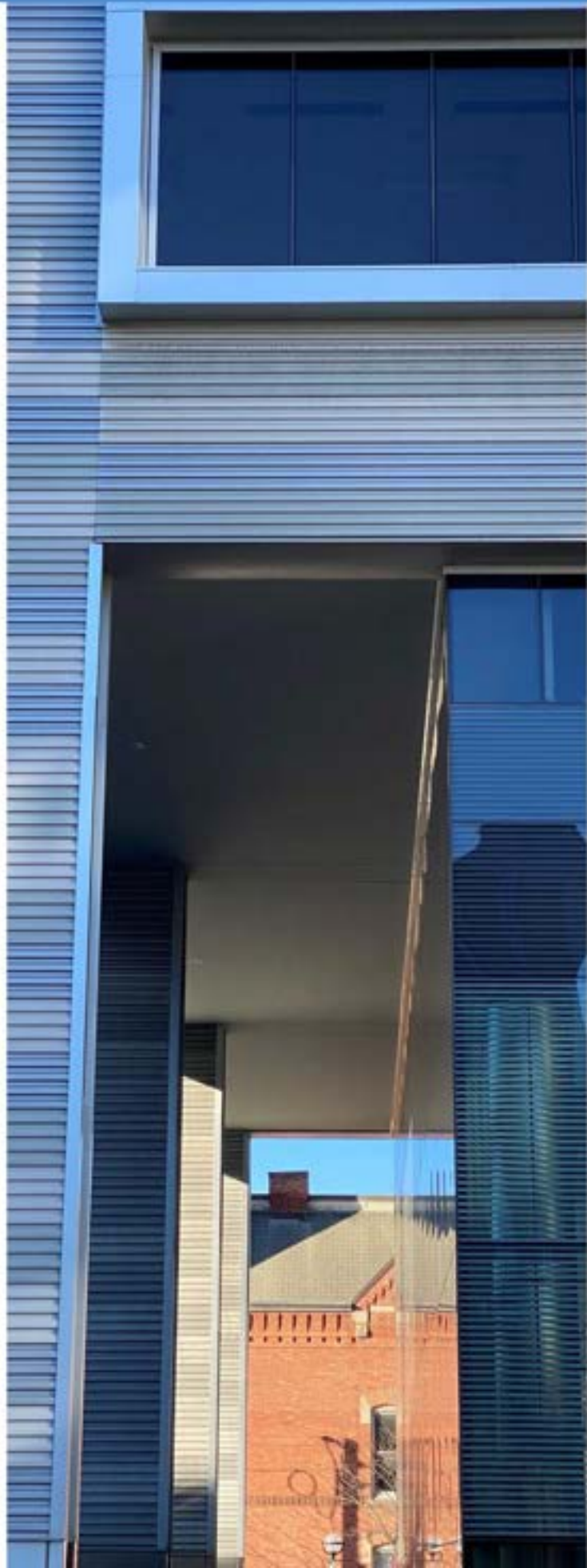
As over-extended as our staff are now with the immense amount of development review work that flows through the city, this situation will worsen in the coming years. Without serious attempts to address the housing affordability crisis at all income levels, housing prices will continue to rise precipitously. As housing prices rise, more and more parcels will become economically feasible for development and more development proposals will find their way to city hall. Additionally, the University's comprehensive land use plan promises extensive development along the north campus and at strategic locations near the downtown. While these developments are exempt from zoning compliance, they still must interact with our utilities, our streets, must account for wetland and flood mitigation needs, and other important requirements. They will require extensive review from public services staff to come to fruition. Additionally, as the public schools begin investing their one

billion dollar bond in capital maintenance of their facilities, similar development issues will arise that will require extensive attention from the city. The number of construction permits and the dollar value of permitted property improvements has doubled in the last ten years, but the organization's staffing has barely changed at all. The amount of work flowing through our land development processes is expected to continue to increase significantly in the coming years.

Figure 3. Building 10 Year Trend, Revenue vs. Permits for the City of Ann Arbor



It is our strong recommendation that the Council direct the city administrator to prepare a staffing plan to invest in our land development functions as part of the FY25 budget. We may not be able to hire all the needed position in one fiscal year, but a plan spread over several years will help guide investments in the organization that should help speed up the development review process and improve outcomes for applicants and the community. Additionally, many of the recommendations in this report are aimed at alleviating staff responsibilities for work that is redundant, transactional in nature, or unnecessarily burdensome. This is an attempt to close the gap in staff shortages from the other end of the spectrum—we do need to add staff, but we also need to be smarter about what activities we are requiring our staff to invest their time in so we can right-size their portfolios of work and unburden their time from activities that are not strategic and do not add real value to the land development process in the city.



GETTING TECHNICAL

Recently, a non-profit social service organization in Ann Arbor contacted the city about adding classroom space to their facility. This organization serves refugees who are resettling in America, helping to facilitate their introduction into the community, and space for community engagement and classes on how to live in a new country would help serve the mission of the organization.

As the organization began working through the pre-submission process with the city, however, the project began to unravel. Adding this amount of space to the building necessitated the addition of a new fire lane to the property, an important safety improvement to guarantee fire truck access should it ever be needed in an emergency. Adding the fire lane would have triggered a reconfiguration of the parking lot, a significant expense. The reconfiguration of the parking lot triggered a cascade of other requirements, including compliance with the stormwater ordinance, the city's lighting ordinance, and our ordinance requiring charging infrastructure for electric cars. What started as a relatively expensive project to begin with had ballooned into a completely unmanageable project that required a full site plan to be prepared and a series of unintended investments. The organization is working with the city

now to try to find a way forward, but a solution has been difficult to reach.

In another instance a few years ago, Ann Arbor SPARK approached the city about a life sciences company that was eyeing an office building to turn into lab space for their growing research and development operation. They found the perfect parcel, but there was a catch. They wanted to add a loading dock to the back of the building to facilitate deliveries for their lab space. The addition of the loading dock, however, would have triggered the requirement of a full site plan and compliance with a list of land improvement standards, ballooning the cost of the project. The city's hands were tied because these requirements exist in ordinance, and the company instead pursued space in one of Ann Arbor's suburbs that had a more flexible approach to property development. The addition of a loading dock to improve lab space or office space is a theme that has surfaced time and again over the years, but there is little the staff can do to waive these requirements without changes to the code.

Stories like these are not uncommon to the staff in city hall. There is a consensus among developers, as reflected in the findings of our stakeholder engagement, and among many members of the staff who are involved in development review, that the thresholds in our city ordinances for what triggers the various requirements of our land improvement policies are too sensitive and often create a cascading roster of requirements on property owners for what should be relatively simple and straightforward property improvements.

In each of these examples, the city's codified inflexibility jeopardized investments in our community that would improve the tax base, aide the delivery of important social services, or help put good paying jobs within the city limits. We recommend that the city should do a detailed review of the Unified Development Code (UDC) to determine how the thresholds for development review can be altered to allow smaller investments in properties to move forward without triggering other extensive land improvement requirements and without requiring a full site plan. This kind of detailed review was beyond the scope of this report, but it should be prioritized and ordinance amendments should be brought forward to the Council.

This is one example of several small technical changes that can be made to the city's ordinances that would add up to significant process improvements for the projects that interact with them. We recommend a series of changes to city laws, mostly through the UDC, that are aimed at speeding up the development review process and also focusing it more intently on our public policy objectives.

To start, there is one important charter amendment that should be pursued to give the city much more flexibility in dealing with agreements

related to property development. Section 14.3(a) of the city charter states, “The City shall not purchase, sell, or lease any real estate or any interest therein except by resolution concurred in by at least eight members of the Council.” This provision of the charter has two very important impacts on how the city deals with land development. First, this requires that all development agreements must go to the City Council for approval, and they require eight votes—even for site plans that don’t require Council approval or even Planning Commission approval. Development agreements are contracts between the city government and the property owner or developer that stipulate controlling ordinances, the approved site plan, and any other conditions or investments the developer will be agreeing to as part of the project like water main replacements, affordable housing, green spaces, transportation improvements and other amenities. Nearly every site plan has a corresponding development agreement. With recent changes to our UDC, site plans allowed by-right no longer go to the Council. But their development agreements do, which still slows down the development review process and can complicate development approvals. Additionally, most technical amendments that are needed to development agreements, even relatively minor amendments, must also be approved by the City Council. It is an extremely inefficient process. The approval process for the development agreements should mirror the approval process for the corresponding site plan.

This provision of the charter also prevents the city from effectively accumulating interests in real property. If the city were attempting to acquire several adjoining parcels of land for an affordable housing development, a new city facility, a new train station, or any other similar type of development, the most cost effective and efficient way to do so would be to negotiate purchase options on each parcel and then execute the purchase options at the same time once you know you have the right to purchase all of them. This is a smarter strategy than simply buying the parcels one-by-one because you may not be able to buy all the parcels you need, and then you will be stuck with a half-assembled site that may be difficult to develop. In the worst-case scenario, the city would have to sell off the parcels it did accumulate and even if they are sold at market rate, the lost tax revenue from the city’s period of ownership could put taxpayers at a loss overall on the acquisition. Additionally, when a purchaser is attempting to accumulate parcels for a site it is best to attempt to do so with discretion, otherwise the cost of the last few parcels will skyrocket well beyond market price as the last property owners hold out for the best deal. With the current charter language, any agreement for a purchase option must be approved by the Council with eight votes regardless of the cost of the contract. This makes traditional site assembly practically impossible for the

city.

If this provision of the charter were repealed or amended so that only land purchases, sales or leases came to the Council for approval, and development agreements follow the same approval path as their related site plans, the city could engage in site assembly through purchase options, rights of first refusal, and other vehicles that would create a privileged interest in strategically important property. Without this change, the city's land development processes will continue to be unnecessarily burdened by a convoluted process and the city will relinquish an important and strategic tool that could help direct property development to better meet our public policy objectives.

There are also important changes we would recommend to the approval matrix for development activities that is written into the UDC as Table 5.29-1. This table dictates what level of approval property developments require, whether it is new construction, building additions, or important changes to a property's amenities. Approvals are broken into four tiers: No formal approvals needed, staff approval, Planning Commission approval, and City Council approval. The only exception would be a site plan that is accompanied by a rezoning petition. No matter what is proposed to be built in these situations, they all go to Council. Otherwise, the land uses in the table are divided into residential with one to four dwelling units, residential with five or six dwelling units, residential with seven or more dwelling units, and all other uses including group housing, mixed use, non-residential and special purpose districts.

This division makes for some confounding cutoff points in our review process. For instance, an owner of a development with four dwelling units does not need to submit a site plan to have a parking area paved, but an owner of a development with five dwelling units does submit one which staff approves, and if the development has seven or more units the site plan must go in front of the Planning Commission for approval and have a public hearing. In other words, the length and complication of the city's land development review process escalates very quickly with only modest increases in the number of dwelling units at a property. This same pattern holds true for property owners wishing to add a large deck, patio or plaza, or for individuals who wish to build a new residential building that is allowed by-right anyway in a residentially zoned area. If the city adopts formal guidance that housing development at all income levels to help promote affordability is a priority, then this matrix should be amended to better encourage these objectives.

There is also an opportunity to prioritize some of our other public policy goals through the approval process by fast tracking developments that

meet our sustainability and affordability objectives. For instance, a modest residential development with eight dwelling units (still likely a low-rise building) that is allowed by right could have its site plan approved by staff rather than going to the Planning Commission if it is all electric or if it includes a notable commitment to affordability. This fast tracking of projects is unlikely to incentivize developers to alter site plans to include more sustainability and affordability. But it is likely to get more of these projects up and running faster and it will most definitely save the planning staff and other technical review staff substantial time over the course of a year. This is time they can invest in working on reviewing and approving other projects that may not align with our public policy objectives and therefore will require more focused time from staff and the Planning Commission to get them moving on the right direction and on the path toward approval.

This new approval matrix would, over time, impact our built environment in ways that could be meaningful in terms of promoting housing affordability, placemaking, tax values, and sustainability. We recommend that the City Council direct staff to prepare a new approval matrix for development activity that creates a larger separation between housing types that is perhaps more meaningful to the review process. For instance, rather than the division being between one to four, five to six, and more than seven dwelling units, the division should be one to eight dwelling units, nine to twenty-four dwelling units, and then twenty-five or greater. Additionally, we recommend fast track approval for by-right developments of any size that are all-electric or meet other important sustainability standards as recommended by the planning and sustainability staff, or that meet a minimum of 15% of units offered at 60% AMI or lower. Any rezoning petitions would continue to require approval from the Planning Commission and City Council, and any site plan that is accompanied by a special exception use petition would still go to the Planning Commission for approval.

There are other revisions that should be incorporated into the approval table as well. As noted earlier in this report, the staff need more flexibility to revise site plans when engineering and technical reviews for land improvement issues need to force changes. Right now, the approval table requires resubmitted site plans if a building needs to move ten feet. But this rigid limit is hard to scale—a building with eight units moving ten feet on a constrained lot might be a major change, but for a building with 300 units on a less constrained lot this change might not even be noticeable to anyone other than the architect after the building is completed. Site plans that change to add more than 10,000 square feet must also come back for a revised site plan approval, but this is a figure that does not scale very well either. A building that

starts at 10,000 square feet and doubles in size might need to be reconsidered. A building that is 250,000 square feet that adds 10,000 and is still within the by-right limits of its zoning probably doesn't. These thresholds need to be revised to create much more flexibility for applicants and staff to make needed revisions to site plans that don't change the fundamental character of the development.

The approval matrix also requires Planning Commission approval for things as pedestrian as adding a patio or deck, paving a parking area, the addition of outdoor storage, constructing or relocating a driveway, and other similar provisions. These are not changes that alter the fundamental character of a property, and therefore the approval matrix also needs to be amended to either limit the instances where a full site plan is required, or to allow staff to approve these site plans without taking the time and bandwidth of a full Planning Commission review and approval. We recommend the former.

Another important issue that complicates our development review process is the requirement to evaluate projects based on the level of service they create along our roadways. Level of service is an increasingly outmoded metric intended to estimate the amount of vehicle traffic that a development will add to the roadway, and to require the developer to cover the cost of making roadway changes or expansions to create the increased lane capacity. It is flawed in important ways, notably in assuming that developments must increase vehicle traffic rather than being designed in ways to decrease it, that building more lanes will improve traffic, and that models estimating traffic counts are even reliable for assuming what roads should look like decades in the future.

Our transportation staff are currently working on a revision to this portion of city ordinance that would change our traditional level of service requirement into a multi-modal measure, whereby developments would be judged based on their ability to reduce vehicle miles travelled through smart multi-modal design, public transit interconnections, and walkability. This change is unlikely to result in improvements in the time frame for development, but it will help the city to achieve important public policy objectives through the development review process. We recommend that Council seriously consider this revision to ordinance and adopt this important change.

There are numerous smaller revisions to city ordinance that could improve processes in limited, but still important ways. The city's right-of-way vacation process makes it very difficult for the city to sell or leverage properties that have been platted as right-of-way but have never been developed as alleys or streets. To be clear, there are vanishingly few instances

when the staff would recommend vacating and developing an actual road, and those transactions may require a decent level of public engagement. But paper roads could help aid in housing development from time to time in important ways. The right-of-way vacation process requires a public hearing, an approval from the Planning Commission, and an approval from the City Council, after a technical review from staff [35]. For a paper street that is unlikely to ever be developed, it should only require a recommendation from the city administrator and the approval of Council.

City ordinance currently requires the Planning Commission to approve single family annexations and zonings before they are sent to the Council for final approval. Council's review is required by state law, but the Planning Commission approval process is purely transactional—the zoning designation is correlated to the underlying zoning for the parcel in the comprehensive land use plan, and staff recommendations are based on this guidance. The Council is capable of deciding this issue based on this background information, and the Planning Commission does not need to add time and bureaucracy to the approval process with its involvement.

Similarly, city ordinance requires land division notifications to be mailed to any address within 300 feet of the proposed division. The notification, however, is unnecessary because these land divisions are required to be approved by the City Council under state law anyway and there are no other public hearings or meetings where residents could voice opposition or support. It is unfair to residents to invite them into a process where Council's decision cannot be changed and where their input cannot be considered. This requirement should be repealed.

Finally, when our civil plan reviewers look at proposals for utility interconnections they are required by city ordinance to approve water service line sizes that correlate to the approved housing density in the underlying zoning rather than the actual size of the development. Often, staff must require the water service lines to be upsized unnecessarily, adding costs to the project and frustrating developers who weren't anticipating this investment because their own consultants rightfully concluded that the existing water lines were sufficiently sized to supply the proposed building. We recommend altering our ordinances to give staff much greater discretion in the sizing requirements for water service lines.

Together, these important technical changes to city ordinance will create significant improvements in the city's land development processes, create important time savings for staff and for applicants, and help the city to achieve its public policy objectives through land development.

THINKING BROADLY ABOUT ECONOMIC DEVELOPMENT

This report has focused almost exclusively on the city's land development processes, mostly because this is the area of economic development where Ann Arbor is most deficient and where attention and resources can have the most positive impact on the community. However, there are other facets of economic development where the city can better demonstrate competency and achieve important and valuable outcomes.

Strengthening our relationship with SPARK should be a key priority of the city. It is important to note that SPARK is a regional business retention and attraction entity that works on behalf of Washtenaw and Livingston Counties. Its Washtenaw County activities are funded by a state-created Local Development Finance Authority (LDFA) that pulls funds from a portion of the increment of local school taxes and state education taxes levied within Ann Arbor's DDA district—city taxes are not deferred for SPARK. Additionally, the City of Ann Arbor pays \$80,000 to SPARK annually to help support their services. SPARK does an excellent job supporting emerging entrepreneurs, a large and growing startup and tech sector, and working to locate mature businesses in the region. However,



much of their retention and expansion activity brings jobs to Ann Arbor's surrounding communities rather than to the city itself. To be sure, Ann Arbor benefits from this activity. But it would benefit more in terms of tax base improvements, reductions in vehicle miles traveled, and placemaking if more large employers located within the city's boundaries.

There are many reasons why this is the case. Ann Arbor is site restricted in terms of the availability of land that can be used to build and house larger business operations, while suburban communities are much less restricted. The City Council has historically been skeptical of the use of tax abatements to fund business growth while many of our suburban neighbors are not. Ann Arbor's commercial property taxes are also relatively high. Among the dozen peer cities SPARK studied in their best practices review, Ann Arbor had the second highest commercial tax burden behind only Austin, Texas. Our suburban neighbors have relatively lower commercial property taxes, and therefore can compete more effectively for business retention, relocation, and expansion.

The most effective way to solve these issues is to create an effective economic development office under the administrator and hire an economic development manager who can work directly with SPARK and the LDFA on creating business opportunities in Ann Arbor. A robust economic development office could help participate in site assembly, stay abreast of relocation and expansion opportunities, and proactively seek retention and expansion deals. As these deals come together, the city should use its tax abatement power to not just support business expansion, but to support our other public policy objectives related to sustainability in development.

Additionally, one of the reasons why our tax rate is so relatively high is an after effect of Proposal A and Headlee on our tax structure. Properties only get reassessed at the point of sale or rehabilitation, meaning that it is only new, newly updated, or newly sold properties that are assessed appropriately relative to their actual market value. When land development processes are burdensome or slow, as they historically have been in Ann Arbor, fewer properties get redeveloped and tax rates must be set artificially high to keep revenue at a sustainable level. With more development comes broader improvements to tax base, and an opportunity to reset tax rates to be more competitive with peer and neighboring communities. An active economic development office that is engaged in land development will help the city achieve this outcome. Having this internal champion for development is a best practice found in all the peer cities we examined, and it is an essential step for improving land development, making stronger relationships with our partner economic development agencies, improving our business retention and

and attraction activities, and setting Ann Arbor on a more sustainable fiscal future.

Finally, there has long been discussion in Ann Arbor of creating a retail incubator or some other form of small business support for our community. The Small Business Administration has two offices in Michigan, one in Detroit which technically serves Ann Arbor, and one in Grand Rapids. But their location is not convenient to the city and there is an outstanding need to support the growth of locally owned businesses that aren't emerging startups, tech companies, and major corporations. The city's economic development office should grow to include these functions as well. At its most basic level, this operation could support small grants to local businesses to make investments, and provide assistance with business planning and proposal writing, seeking grant funds from other agencies or organizations, tax support, and other important services that many new entrepreneurs might have difficulty finding or paying for on their own.

CONCLUSION

Decades from now, when a different Council is at the table and different staff members are working with them to run this city, people will look back and ask what we did to improve Ann Arbor for them. Just as we have looked back in this report on notable instances in our history of missed opportunities to lead transformative housing developments, placemaking opportunities, to turn the tide of tax base erosion in our city, and to pursue sustainability in the built environment, those future leaders will look back on us prepared to make their own judgments.

What we are proposing in this report is a meaningful change in how Ann Arbor approaches economic development. But the reason we are proposing these changes is so we can undertake efforts that will make a serious impact on housing affordability in our city, so we can engage in the important work of placemaking in our existing and future business districts, so we can protect and expand the tax base and alleviate how cash poor the city government is allowing us to pursue the wide range of council's policy directives, and we are proposing these changes so that we can more readily



prepare the built environment in our city for a carbon neutral and sustainable future.

The first step in achieving these outcomes is for clear direction from the City Council that these priorities, or some similar version of them arrived at after deliberation and debate among the Council, will be preeminent in the administration of our land development processes. With this clear direction, we will propose investments in the organization to lead on these efforts—the creation of an economic development office, the capitalization of a land acquisition fund, and strategic investments to address chronic understaffing and single points of failure in our operations. We will pursue transformative changes in the process of land development in Ann Arbor, build stronger efforts to retain and attract employers, and provide assistance to emerging small businesses.

These are programs and initiatives that are commonplace among our peer cities. Without them, Ann Arbor is an extreme outlier. But with them we can gain serious abilities to guide the future of our community and built environment to achieve our most meaningful policy objectives.

With appreciation to the Council for their interest in this report and their commitment to solving these problems, we offer these recommendations in good faith to change our city for the better.

SUMMARY OF RECOMMENDATIONS



1. Create an organizational directive in support of economic development in the name of housing development to support overall affordability, placemaking, tax base improvements, and in pursuit of sustainability in the built environment. This directive should come in the form of a resolution from council endorsing the reforms of this report, setting a strategic vision for the development activities of the city, and directing other work to be prepared and presented to the Council in furtherance of these reforms.

2. Establish an economic development office and manager, who will be responsible for:

- a. Formulating a strategy for strategic property acquisition and begin accumulating interests in real property to help fulfill the city's mission driven housing, placemaking, and tax base support objectives.
- b. Working directly with owners of underutilized properties to support development that meets the city's public policy objectives.
- c. Supervision of the development process for major developments, providing direction to staff on the development review process and customer service to applicants.
- d. Engagement with SPARK and local businesses to ensure business expansion opportunities are coming to Ann Arbor.
- e. Providing small Business support by creating a one stop shop for small businesses founding and expansion.

3. Establish a funding strategy for the economic development office. A functional economic development office should pay for itself over time by successfully pursuing development projects that enhance the tax base and generate more tax revenue for the city. However, there are other funding strategies that should also be implemented, including finding opportunities to share costs with our existing TIF district funded entities, and exploring the creation of a locally originated LDFA, or other TIF entities, that can be dedicated to a property acquisition fund and to the operation of the economic development staff of the city.

4. Pursue an amendment to the charter that removes the requirements that all interests in real property go to Council for approval and receive eight votes. The language in Section 14.3(a) should be altered to remove the eight vote requirement, and to make these agreements subject to the same Council approval threshold as all other contracts. We may also want to consider a provision that requires development agreements to follow the same approval path as their corresponding site plans.

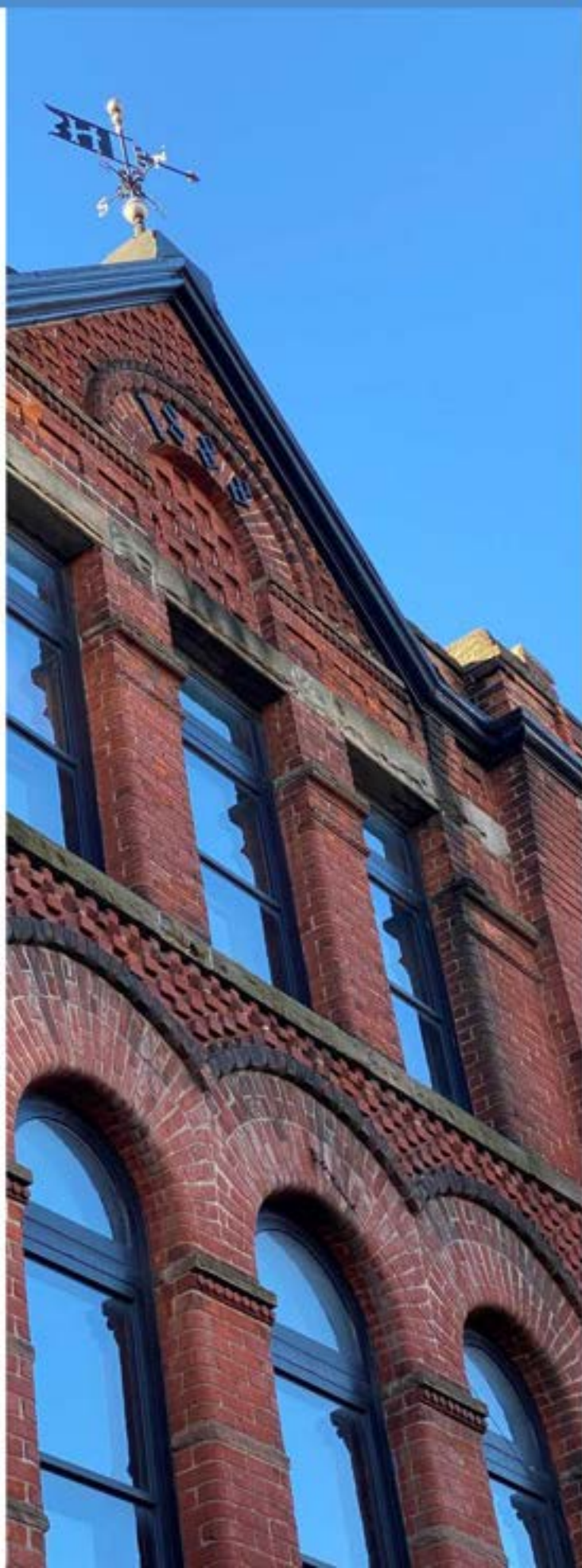
5. Direct the separation of the site plan and land improvement processes through a Council resolution and corresponding Administrative Policy that will direct the following:
 - a. Planning staff will bring site plans forward when they feel the city's review has progressed to the point where major revisions to the site plan are unlikely.
 - b. Planning Commission shall approve site plans with conditions, if necessary.
 - c. Planning Commission shall approve site plans with the ability for planning staff to administratively make sub-major revisions if necessary.
6. Ensure our public engagement around site plans is effective and timely for the public, and that it does not overburden the timeline for development. At the direction of the Council, the staff should prepare code amendments to update our public engagement ordinances around land development.
7. Pursue amendments to the UDC and other ordinances to allow smaller investments in properties to move forward without requiring a full site plan or triggering other provisions of the land improvement ordinances.
8. Amend the approval matrix in the UDC so that more work is approved by staff, including changing the threshold for what size of projects require a site plan, and what size requires approval by the planning commission.
9. Create a fast-track approval process for developments that meet our public policy goals. This is unlikely to be a big incentive for these developments, however it will clear staff time to focus on developments that need more attention from staff and will not tie up the organization with development proposals that are meeting a very high bar for approval already.
10. Alter the UDC to eliminate traditional Level of Service measures as evaluation metrics for developments and instead replace it with a multi-modal transportation score so we can encourage developments to invest in ped and bike infrastructure rather than roadway widening.
11. Refine development agreements so they are smaller and easier to approve.

12. Research the effectiveness of tax abatements to promote sustainability or affordability in housing, and implement a lobbying strategy in Lansing to alter state law in accordance with the findings.
13. Direct staff to bring budget amendments forward in the FY 25 budget that will eliminate or reduce single points of failure in the economic development review process, and make other staffing recommendations.
14. Alter the utility upsizing requirements so engineering has much more discretion to recommend what changes are required to water utility service lines.
15. Explore changes with the state legislature on how impact fees are assessed for utility interconnections, allowing for costs to be smoothed over time rather than assessed on a first-in basis.
16. Pursue smaller changes, such as:
 - a. Reforming the right of way vacation process
 - b. Bypassing the planning commission on single family annexations and zonings (though these still have to go to the Council)
 - c. Eliminating land division notifications since we are required under state law to approve them anyway.
17. Finish implementing Energov.
18. Create a program where design and engineering consultants are recognized annually based on their ability to propose project plans that require the least comments and amendments. This should be weighted by, or divided by, the complication of the site.
19. Publish a development manual for the city that details the major themes and steps in the process, so more consultants are better prepared to deal with the city's development requirements up front. This should create better proposals and encourage developers to provide better designs up front.

20. Issue an APP from the City Administrator directing specific provisions and reporting procedures for economic development operations in Ann Arbor.

- a. Separating site plan and land improvement processes
- b. Establishing the economic development office and its role working with PSA and CSA.
- c. Clarifying what is a development standard and what is not. We have a lot of implied standards, a lot of voluntary standards, and they come to bear on the process in sometimes unfortunate ways.
- d. Setting expectations for how and when staff comments are to be communicated to applicants as they are having their projects reviewed by staff.

21. Draft new Council-adopted policies for when it is appropriate for the city to use creative development tools like TIF districts and tax abatements. The use of these tools should be reserved for when they meet a specific public policy purpose, like sustainability or affordability. With additional authority from the state to use tax abatements more broadly, we could employ them to great effect to achieve our public policy objectives for affordability and sustainability.



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