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Resolution to Direct the Ann Arbor Housing Commission to Pursue Affordable Housing Development of 2000 S. Industrial

On April 1, 2019, Ann Arbor City Council adopted Resolution R-19-138 directing the City Administrator to collaborate with the Ann Arbor Housing Commission (AAHC) to provide coordinated analysis on the feasibility of city-owned properties as potential locations for affordable housing. This resolution incorporated previous resolutions R-19-110, R-19-111 and R-19-116.

Jennifer Hall, Executive Director of the Ann Arbor Housing Commission led the analysis along with support from a staff team and several contractors to determine the feasibility for 11 sites including review of land use and zoning, environmental conditions, financial resources, site -specific costs, and overall risk among other factors. The analysis, three potential portfolio scenarios, and next step recommendations were presented to City Council at the Nov.18, 2019 City Council meeting.

Through the analysis, 2000 S. Industrial has the potential to add 50-165 affordable housing units in addition to Ann Arbor Housing Commission offices/maintenance facilities. The property is in an excellent location near public transportation, grocery stores, pharmacy, jobs and other local services. However, due to the close proximity of the railroad line, traditional federal and state funding sources such as Low-Income Housing Tax Credits and HOME funds would be ineligible. LIHTC and other federal funding enables deep subsidies for households at 60% AMI or less.

Consequently, the feasibility analysis included the option of developing the property as a limited equity cooperative for households primarily at 80% of Area Median Income (AMI) or less. The cooperative model is not the same cooperative model common in Ann Arbor such as Arrowwood, Forest Hills and University Townhomes. Those cooperatives were built more than 40 years ago with federally financed mortgages at a time when construction costs were much lower, which enabled these properties to maintain their long-term affordability today.

This proposed cooperative option requires many risky factors to work. It would require a developer who specializes in cooperative development to secure private construction financing to develop the property. The developer would market the properties and sell the individual units to homebuyers. The homebuyers must be able to secure a mortgage between \$275,000 - \$385,000. The individual homebuyers would become members of the self-governed cooperative and pay monthly membership fees to pay for the maintenance of the property. The model is very similar to a condominium association except the project will be on a ground lease with the City, there will be a limited equity resale provision, and the legal structure of the cooperative can potentially make it eligible for a PILOT instead of paying full property taxes.

The feasibility analysis also included an option to develop this property as affordable rental housing, using other local financing such as housing revenue bonds, Brownfield funds, Ann Arbor Affordable Housing Funds, and/or proceeds from the sale of other public sites. The primary funding source would be housing revenue bonds, repaid with rental income from households at or below 80% AMI. However, additional local funding would be needed to complete the project.

One alternative is to adopt a local millage devoted to affordable housing development. Without local millage funds it is highly probably that the development of 2000 S. Industrial will be dependent on City Council's decisions on the development of the Klines Lot and 1510 E. Stadium. If the Klines Lot is sold to a private market-rate developer, the proceeds can be used to fund development on S. Industrial. 1510 E. Stadium is currently occupied by Fire Department Inspectors. If the downtown fire station is renovated and if inspectors are relocated to the downtown fire station, then fire station #2 at 1510 E. Stadium is the perfect size and includes a garage to temporarily house the AAHC administrative and maintenance staff at 2000 S. Industrial during its redevelopment. Alternatively, 1510 E. Stadium could be renovated and expanded to house the entire Ann Arbor Housing Commission staff from S. Industrial and Miller Manor as a permanent location.

The Ann Arbor Housing Commission can explore these funding sources to determine if a mixed-income affordable housing project can be developed on this site and continue to explore whether a limited equity co-operative can be built on this site as well as exploring the cost of building new office/maintenance facilities for the AAHC at 2000 S. Industrial or 1510 E Stadium.

The staff team is requesting that City Council direct the Ann Arbor Housing Commission to proceed with further analysis of 2000 S Industrial as office space for the AAHC office and maintenance facility as well as maximizing the number affordable housing units for households at 60% AMI through a mixed-income development that includes housing bond financing for rental housing up to 80% AMI.

Prepared by: Teresa Gillotti, Director, Office of Community and Economic Development

Reviewed by: Jennifer Hall, Executive Director Ann Arbor Housing Commission
Derek Delacourt, Community Services Area Administrator

Approved by: Howard S. Lazarus, City Administrator

Whereas, City Council adopted Resolution R-19-138 directing the City Administrator to collaborate with the Ann Arbor Housing Commission (AAHC) to provide coordinated analysis on the feasibility of city-owned properties as potential locations for affordable housing;

Whereas, The extensive analysis was completed and presented to City Council on November 18, 2019;

Whereas, The analysis found that 2000 S. Industrial was shown to have potential for both AAHC office and maintenance space and affordable housing due to the size of the parcel and location, but would not be eligible for Low-Income Housing Tax Credits or other federal housing funds which would provide funding for deep income targeting for households at 60% AMI or less;

Whereas, the City and Ann Arbor Housing Commission could provide financing through housing revenue bonds for rental housing up to 80% AMI along with other local resources such as the sale of other public land sites; and

Whereas, The site has the capacity to be developed with 50-165 affordable rental units for households up to 80% percent of the Area Median Income (AMI) as well as AAHC office and maintenance facilities:

RESOLVED, That City Council direct the Ann Arbor Housing Commission to pursue the development of AAHC office and maintenance facilities along with 50-165 affordable housing units at 2000 S Industrial subject to sufficient local funding from housing revenue bonds, the sale of other public land and other local funding sources;

RESOLVED, That the direction includes conducting applicable due diligence such as environmental reviews, surveys, and other site investigation items; hire a co-developer to work with an architectural firm and engineering firm to design a project for site plan approval;

RESOLVED, That the Mayor and City Clerk be hereby authorized and directed to sign related documentation to support the Ann Arbor Housing Commission's application for funding for development of offices/maintenance facilities and affordable housing on 2000 S. Industrial; and

RESOLVED, That the City Administrator be authorized to take the necessary actions to implement this resolution.