



Memorandum

To: Mayor Schreiber and City Council Members

From: Edward B. Koryzno Jr., City Manager

Date: December 8, 2006

Subject: Status of the Water Street Project

I am disappointed to inform you that Joseph Freed & Associates has decided to cease negotiating a development agreement for the Water Street Project. Their decision was based on the state's poor economy and slow housing market. Detroit-area home prices experienced the worst decline of any urban area in the nation between July and September and the state's current housing market is its worst in 30 years. Prior to this decision, the City and Freed worked "hand in hand" to negotiate a development agreement.

The City has more than \$1.25 million remaining in grants and loans for demolition and environmental cleanup of the property, and it is important to begin this work as soon as we receive approval from the Michigan Department of Environmental Quality (MDEQ). This vital work needs to be accomplished before the \$500,000 demolition grant expires in September 2007. Clearing and cleaning the property improves its appearance and contributes to its marketability. Washtenaw County has also awarded the City a \$120,000 sub-grant and a \$155,000 loan from the U.S. Environmental Protection Agency (EPA) Revolving Loan fund for additional environmental work. Any additional grants we can obtain need to focus on improving the environmental condition of the property.

City Council has several options to choose from in deciding how to proceed. One option is to continue the search for a master developer to take on the entire 38 acre project site. Given the breadth of our most recent search, and the state's poor economy and slow housing market, this approach seems unlikely to succeed at this time. Another option is to seek a new developer to develop the commercial property along Michigan Ave and delay the residential development until a later phase. This approach may also be challenging since Freed has already indicated they would not likely be interested. However, other developers may be. A third option is to abandon the existing mixed-use concept plan, divide the property into marketable parcels, and list those parcels with a real estate agent. This approach will essentially undo the land assembly work it took the City five years to complete. Once sold, the City will never have the opportunity to assemble a site like this again.

Each of these options has several advantages and disadvantages. Before making a recommendation to Council, I will convene a small workgroup of local business people with expertise in development and redevelopment to provide input on these options and identify alternative solutions. This will give me the opportunity to make a recommendation based upon the best advice of people who know the community and the marketplace.

In the meantime, we cannot lose sight of the financial and redevelopment importance of the Water Street Project. This Project has the potential to serve as a catalyst to bring new commercial and residential development to downtown Ypsilanti. It can be a destination along the County's Border-to-Border Trail and create new synergy for the community. On the other hand, Water Street also poses a considerable economic challenge because the City must retire bonds sold for this project. The first debt payment of approximately \$378,000 is due in November 2009. There are two debt payments the following year totaling approximately \$1,000,000. The payments continue to escalate until 2015 when they reach a maximum of approximately \$1,600,000 and then decline until retired in 2031.

Our top priority should be keeping the project moving forward and increasing the property values in order to pay our bond debt. These goals have become substantially more difficult because of the state's poor economy and slow housing market, both of which are beyond our control. The best approach will likely be one that meets the City's financial obligations and prepares for the economy and housing market to rebound.