



Downtown Development Authority **AGENDA ITEM REPORT**

To: Downtown Development Authority

Subject: Consideration of various agreements and approvals effectuating the demolition of 314, 328, and 334 Evergreen Avenue and temporary use of the 314 and 328 Evergreen by Granger Construction for purposes related to the construction of the MSUFCU commercial office building on the adjacent City Parking Lot #4

Meeting: Downtown Development Authority Special Meeting - 25 Mar 2021

Department: Planning, Building, and Development

Staff Contact: Adam Cummins, Community & Economic Development Administrator

BACKGROUND INFORMATION:

At its meeting on January 28, 2021, the Downtown Development Authority (DDA) directed staff to renew the leases at 340 and 344 Evergreen, and to pause on leasing 314 and 328 Evergreen Ave for the 2021-22 academic school year while staff continue evaluating alternative uses for the properties. This pause enabled staff to continue their discussions with Granger Construction and MSUFCU and evaluate options for these properties.

Due to logistical challenges associated with the MSUFCU project, the project has been delayed and faces uncertainty. A deadline to close on the sale between MSUFCU and the City has been extended to April 6, 2021. To solve for these challenges and allow the sale to close and ultimately the project to come to fruition, staff worked with Granger Construction and MSUFCU to negotiate terms for Granger Construction, contractor for the MSUFCU project, to lease both 314 and 328 Evergreen as a temporary staging area during construction. MSUFCU/ Granger would agree to share the costs of the building demolition and site preparation for 314, 328, and 334 Evergreen with the DDA, and to pay a monthly license fee to the DDA for the use of 314 and 328 Evergreen during construction. The basic deal points are:

- A 50/50 split between MSUFCU and DDA of the construction costs estimated at \$200,000
- Execution of a 19-month construction staging area lease totaling \$96,900 revenue for DDA
- An agreement to allow the use of Lot 4 for City Parking operations until construction commences

In addition, MSUFCU will allow for the execution of a License Agreement for the Temporary Use of Parking Lot 4 for the City of East Lansing's Parking Operations at no cost – increasing parking capacity in the area and providing a potential revenue stream for the City.

Alternatives

Based on the laydown lease and demolition terms for 314 and 328 Evergreen, current property conditions, and future intended use of the property, staff developed two alternatives for the DDA to consider. Both alternatives project revenues and expenses to estimate cash flow over a 10-year period and evaluate outcomes for each alternative.

10-year Summary	10-yr Revenues	10-yr Expenses	10-yr Gain/Loss
1. Demolition with Granger lease, MSU project	\$ 2,366,792	\$ 435,671	\$ 1,931,122
2. No demolition with no MSUFCU project	\$ 2,381,389	\$ 2,023,754	\$ 357,635

1. Demolition with Granger lease, MSU project: Assumes both 314 & 328 are demolished for construction staging, allowing MSUFCU project to proceed, and building is substantially completed by December 31, 2022. Assumes no redevelopment of the Evergreen properties.

2. No demolition with no MSUFCU project: Assumes no demolition and no redevelopment of Evergreen properties.

Analysis of Alternative 1. Demolition with Granger Lease, MSUFCU project

A. Temporary and Ongoing Net Revenues: Over the 10-year period used in the financial analysis, staff estimate cash flow for this alternative at approximately \$1,931,000 – approximately \$1,573,000 more than alternative 2.

•**Demolition Costs:** Granger Construction will cover half of the costs up to \$100,000 to demolish 314, 328, and 334 Evergreen, which they will complete. The DDA portion can be funded by re-allocating monies from the project development fund to cover the costs of the demolition. It should be noted that their cost estimate is inclusive of cost savings realized by site mobilization synergies. Although 334 Evergreen is not currently being considered as a construction staging area for the MSUFCU project, it remains vacant and in need of demolition and may be considered for staging in the future, which could result in an additional revenue stream for the non-revenue generating property.

•**DDA Capture of Local Mills:** Beginning in 2023, the DDA would receive additional funds from local millage incremental revenue related to the MSUFCU project through its existing Tax Increment Financing Plan, which is estimated to create approximately \$200,000 per year in new DDA revenue.

•**Capture of DDA Mills:** Beginning in 2023, the DDA would capture tax increment revenues from DDA mills related to the MSUFCU project, which is estimated at approximately \$9,500 per year

•**Income from License of Property for Construction Staging Space:** Beginning in 2021, at \$0.20/sq. ft., the DDA would receive approximately \$5,100 per month over a 19-month period.

B. Avoidance of Costs: The demolition of the properties would essentially eliminate expenses such as property management, utilities, repairs & maintenance, capital improvements, taxes, and staff costs.

•**Property Management:** Demolishing the Evergreen properties will reduce both staff costs and third-party costs associated with managing the properties. Staff estimate property management costs at approximately \$35,000 to \$45,000 annually.

•**Taxes:** Property taxes for 314, 328, and 334 are anticipated to decrease significantly upon demolition of the properties.

•**Property Maintenance & Repair:** The properties require continuous maintenance and repairs, and several are currently in need of capital improvements that come with substantial costs that could offset any rent revenues anticipated over the next academic year. Demolishing the properties would certainly help avoid these investments to properties that will ultimately be demolished.

•**Future Demolition:** The properties will ultimately need to be demolished to make way for future development. If they are demolished now, future costs will be avoided. Further, any unknown/potential costs related to hazardous materials on the site would be eliminated.

C.Continuation of Implementation of Redevelopment Goals for Park District Area

•**MSUFCU Project:** 314 and 328 Evergreen may be essential to the MSUFCU project. Challenges with adjacent property owners have necessitated alternatives to the planned staging areas and have caused delays to property acquisition and construction commencement. The use of the Evergreen Properties for construction staging can help solve for these problems and allow the MSUFCU project to come to fruition.

•**Site readiness/environmental remediation:** Demolishing the properties will assist with redevelopment. A site prepped and prepared for redevelopment may be much more attractive for redevelopment/developers.

Alternative 2. No demolition with no MSUFCU project

This alternative assumes that the DDA would continue to operate 314 and 328 Evergreen as residential rental properties, and makes conservative assumptions related to increases in revenues and expenses over time, including capital improvement costs every 5 years. It assumes that redevelopment of the Evergreen properties does not occur. This resulted in estimated cash flow over the 10-year period at approximately \$357,635; compared to the estimated cash flow in \$1,931,000 for alternative 1.

Staff Recommendation

Based on the alternative analysis, staff recommend the DDA approve Alternative 1. Demolition with Granger Lease, MSUFCU project. Therefore, staff recommend that the DDA approve the following:

- Approve the Agreement for Shared Demolition Costs with MSUFCU to share costs related to the demolition

- Authorize the chair to enter into a contract with Granger Construction with DDA costs not to exceed \$100,000 for the demolition of 314, 328, and 334 Evergreen Avenue properties, in a form approved by the City Attorney

- Authorize the re-allocation of up to \$100,000 of project development funds from projects TBD and sidewalks towards the cost of demolition at 314, 328, and 334 Evergreen Avenue properties

- Authorize the chair to execute a 19 month License Agreement with Granger Construction or MSUFCU for the staging of construction equipment and materials at 314 and 328 Evergreen Avenue properties for \$5100 per month in a form approved by the City Attorney

A summary financial analysis is attached to this Agenda Item Report. Staff and the City Attorney continue to work through additional details related to the various agreements outlined above, and will be present to discuss at the meeting on March 25, 2021.

ATTACHMENTS:

[Alternatives Comparison Revenues & Expenses](#)

[AGREEMENT FOR SHARED DEMOLITION COSTS](#)

Alternatives Comparison: Revenues & Expenses

1. Demolition with Granger lease, MSU project

Annual Revenues & Expenses	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	Total
Revenue	\$341,373	\$61,200	\$209,670	\$211,767	\$213,884	\$216,021	\$218,178	\$220,356	\$222,555	\$224,774	\$227,016	\$2,366,792
Expenses	\$435,671	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$	\$435,671
Total	\$(94,298)	\$61,200	\$209,670	\$211,767	\$213,884	\$216,021	\$218,178	\$220,356	\$222,555	\$224,774	\$227,016	\$1,931,122

Note: Expenses starting in 2022 do not include property taxes, nor lawncare/maintenance

2. No demolition with no MSUFCU project

Annual Revenues & Expenses	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	Total
Revenue	\$205,673	\$207,771	\$209,890	\$212,031	\$214,194	\$216,378	\$218,586	\$220,815	\$223,067	\$225,343	\$227,641	\$2,381,389
Expenses	\$235,671	\$152,393	\$154,193	\$156,017	\$157,868	\$249,746	\$161,651	\$163,584	\$165,544	\$167,534	\$259,553	\$2,023,754
Total	\$(29,998)	\$55,377	\$55,698	\$56,014	\$56,325	\$(33,368)	\$56,935	\$57,232	\$57,523	\$57,809	\$(31,911)	\$357,635

AGREEMENT FOR SHARED DEMOLITION COSTS

THIS AGREEMENT is made April 6, 2021, by and between the MICHIGAN STATE UNIVERSITY FEDERAL CREDIT UNION, with its principal offices located at 3777 West Rd., East Lansing, Michigan, 48823 (“MSUFCU”) and THE DOWNTOWN DEVELOPMENT AUTHORITY OF THE CITY OF EAST LANSING, with its principal offices located at 410 Abbot Road, East Lansing, Michigan, 48823 (“DDA”).

Recital of Facts

The DDA owns property in the City of East Lansing, commonly known as 314 Evergreen Ave., 328 Evergreen Ave., and 334 Evergreen Ave. (sometimes referred to collectively as the “DDA Property”), purchased by the DDA in 2009 for redevelopment. Pending that redevelopment, the DDA has rented the apartments and offices at 314 Evergreen Ave. and the houses at 328 Evergreen Ave. and 334 Evergreen Ave. The condition of those buildings is such that substantial investment would be required to continue to rent them, and the DDA has already received reports and bids for asbestos removal for an impending demolition of the house at 334 Evergreen Ave.

MSUFCU has purchased property immediately to the east, commonly known as Parking Lot 4, from the City of East Lansing, for construction of a new seven-story building. MSUFCU’s construction manager, Granger Construction Company (“Granger”) will begin demolition of the parking lot and improvements on Parking Lot 4, followed by construction of the new building in late July 2021. Parking Lot 4 is a small site, and the effect on surrounding roads and businesses could be reduced and construction aided by additional staging area adjacent to the site. As Granger will be conducting demolition and construction on the adjacent property, the DDA could realize savings on demolition of the buildings on the DDA Property by contracting with Granger for demolition and grading of the DDA Property. In addition, MSUFCU will pay half of the cost of demolition, and Granger will pay for the use of 314 Evergreen Ave. and 328 Evergreen Ave. as staging area for construction of the MSUFCU building for a minimum 19-month term.

NOW, THEREFORE, in consideration of the mutual benefits to the parties and the terms and conditions set forth below, MSUFCU and the DDA agree as follows:

1. Demolition. The DDA shall obtain, at its own expense, asbestos-containing materials inspection and hazardous materials survey for each of the buildings on the DDA Property.
2. MSUFCU and the DDA shall each pay half of the Demolition Cost (as defined below), not to exceed \$100,000 from each party, estimated as follows:
 - 314 Demolition (no asbestos containing materials abatement or soil remediation assumed):
 - Demolition/removal: \$100,000
 - Demolition/removal of foundation/retaining wall adjacent to alley: \$20,000

- Site grading/make safe allowance: \$15,000
- 328 Demolition (no soil remediation assumed):
 - Asbestos containing materials abatement allowance: \$10,000
 - Demolition/removal/backfill basement: \$15,000
- 334 Demolition (no soil remediation assumed):
 - Asbestos containing materials abatement allowance: \$10,000
 - Demolition/removal/backfill basement: \$20,000

3. The DDA shall contract with Granger for asbestos abatement and demolition of each of the buildings and the retaining wall on the DDA Property and regrading of the DDA Property.

a. As part of the Demolition Cost, 334 Evergreen Avenue shall be restored with topsoil and seeded and 314 Evergreen Avenue and 328 Evergreen Avenue shall be covered with crushed and compacted stone to prevent rutting and tracking of dirt and mud offsite. The Demolition Cost shall also include soil erosion and sedimentation control measures, demolition permits, and utility shut-offs.

b. The Demolition Cost shall not include securing 314 Evergreen Ave. and 328 Evergreen Ave. with chain link fencing for uses as a staging area.

4. The DDA obtained Phase I ESA reports for each of the three properties, and the parties have anticipated and budgeted, as part of the Demolition Cost, demolition costs related to removal of asbestos and lead. The Demolition Cost to be shared by the parties does not include the cost for remediation of any conditions beyond those related to removal of asbestos and lead from the houses at 328 Evergreen Ave. and 334 Evergreen Ave. In the event Granger encounters soils or substances that are or may be considered hazardous or contaminated during the course of performing demolition beyond the removal of asbestos and lead from the houses, Granger shall notify MSUFCU and the DDA, and the parties shall mutually develop a plan of action and schedule for remedying the same, and the cost of implementation shall be the responsibility of the DDA; provided, however, that the costs of implementation are reasonable as determined by the DDA in its sole discretion. MSUFCU shall not be responsible for any costs of abatement or remediation beyond the cost of removal of asbestos and lead from the houses.

5. Granger and the DDA shall enter into a license for the use of 314 Evergreen Avenue and 328 Evergreen Avenue for construction staging and a construction trailer or office for a minimum of a 19-month term with additional months if needed for a fee of \$5,100 per month.

6. MSUFCU will enter into a license with the City of East Lansing to continue its use of Parking Lot 4 at no cost until commencement of demolition and construction for the MSUFCU building.

MICHIGAN STATE UNIVERSITY
FEDERAL CREDIT UNION

THE DOWNTOWN DEVELOPMENT
AUTHORITY OF THE CITY OF EAST
LANSING

By: _____

By: _____

Its: _____

Its: _____

86735:00003:5374610-1