

**Royal Oak Civic Center Project**

August 23, 2017

The Honorable Mayor Fournier and  
Members of the City Commission:

The agenda for the August 28 meeting of the Royal Oak City Commission is focused on the Royal Oak Civic Center Project. This project will consist of a new police station, a new city hall, a new parking structure, and a new downtown public park on the site of the existing police station and city hall and a privately owned six-story 140,000 square foot office building with first floor restaurant and retail.

The city commission will be asked to approve a development agreement with Central Park Development Group LLC (often referred to as the Boji/Surnow Group or simply CPDG) for the construction of a six-story, 140,000 square foot office building with first floor restaurant and retail. You will also be asked to designate the public right-of-way for the area surrounding the office building and parking structure. Finally, you will be asked to approve the issuance of limited tax general obligation bonds to finance the building of the police station, city hall and public park and the issuance of revenue bonds to finance the building of the parking structure.

The staff and consultant reports associated with these agenda items address the specific details of the actions requested. There are a lot of details. The development agreement alone is a 98-pages document. However, none of the individual commission letters provide an overall review of the project, its anticipated impact or how we will pay for our part of it. For the sake of brevity, this will not be an all-inclusive report as I will focus on the big picture. For those who want details, I refer you to the reports on city's web site at: <https://romi.gov/civiccenter> and those linked to the three agenda items. In reviewing this material keep in mind the project evolved over time from a city hall within the private office building to a stand-alone city hall and separate office building. This eliminated the "public-private partnership" which was been extensively discussed.

This project began with the downtown task force which examined all aspects of our downtown and determined we needed more daytime traffic to support our restaurants and retail stores. The task force recommended a goal of attracting 180,000 square feet of class A office space downtown. They also recommended a retail goal. These goals were adopted by the city commission on June 2, 2014.

The city quickly determined the only locations suitable for office development under our control were our downtown parking lots. Planning put together a package identifying and providing details of each of these sites, circulated it to potential developers and invited them to submit proposals. This approach was used rather than simply taking bids because we've found, through bitter experience, that developers will not respond to an open bid process if it requires making details about their plans public. The downtown development authority (DDA) has done multiple times and received no response to the bid requests but received several inquiries from developers immediately after the closing date for the bids. A bid process may have worked if we were willing to simply sell the property to the highest bidder without regard to how they proposed to use it. However, that is not the case here. We are very concerned about how the property will be developed.

We were contacted by Jeffrey Surnow, a developer known for very high-quality work, sensitivity to the environment and historical preservation. He was the developer who turned the old Birmingham post office into an office building. Surnow's vision involved replacing city hall and the police building, putting the city offices into a new office building, building a new police station, parking structure and returning the site of the current city hall/police station to its prior use as a downtown park.

This plan got immediate support because it went a long way toward meeting our office space goal and it also addressed long term city goals to replace the two decrepit municipal buildings and a goal of creating a downtown park. It also created more needed parking.

We were making great progress on this proposal when, on March 1, 2015, Mr. Surnow was tragically killed in a car-bicycle collision in Hawaii. For some time, it appeared that the plan had died along with Mr. Surnow. However, later that summer, we were approached by Ron Boji who had teamed up with Mr. Surnow's sons and wanted to resurrect the Surnow concept.

Two-years of discussions, negotiations and public meetings along with the city's decision to contract Plante Moran CRESA real estate consultant and later project manager, resulted in refinements and changes to the proposal. The most significant of these was a city commission decision, in January 2017, to separate city hall from the private office building and to take full control of public portions of the project. As it stands today, the Central Park Development Group (Boji/Surnow or CPDG) is only responsible for the construction of the office building. The City of Royal Oak will be the developer of the public buildings, parking structure and the park.

I believe this development will be a game changer for the City of Royal Oak. It will have far greater impact on our downtown than any previous development. While most attention seems to be focused the office building, I consider the park to be the most important part of this development. Successful downtowns absolutely need a green respite from concrete and brick. Downtown parks can provide a lively public gathering space that helps define the city as a vibrant place to live, work and play.

For an extremely dramatic example of this, we need only look 13.5-miles away. The rebuilding of Campus Martius Park in 2004 has had a profound impact on the City of Detroit. Less than six-miles away is another example of how a downtown park can have a huge impact on a community. That is Birmingham's Shane Park, which was renovated and expanded in 2010. Almost all premier downtowns include a park. In the metropolitan area, Plymouth has Kellogg Park, Northville has South Main Park and Ford Field Park and Rochester has Rochester Municipal Park. I don't think Ann Arbor has a significant city owned downtown park but it does have the University of Michigan campus which provides far more greenspace than any of the aforementioned city parks.

The proposed Royal Oak downtown park is the heart of the Royal Oak Civic Center project. Without the park, there would be no proposed office building. CPDG has insisted the park be developed as a condition of building the office building. It makes the office much more attractive to potential tenants. I think it will also have a huge impact on future development in the immediate area. It will greatly increase the value of our third street parking lot and other nearby properties.

The need to replace our current city hall and police headquarters building is well documented so I'll only summarize here. Both are functionally obsolete buildings with very high maintenance requirements. A May 2016 analysis of the existing buildings by Plante Moran CRESA

recommended replacing both buildings. The police building is far too small for the needs of the department. It is also quite literally falling apart. City hall is a much more solid structure but it was an extremely poor design, it is believed to have been constructed from plans for a school, and it has had major issues with plumbing failures which have caused several serious incidents. Both buildings have heating ventilating and air conditioning problems which make temperature control impossible. The cost to rehabilitate either building approaches the cost to replace it. A rehab project wouldn't fix design issues. The police building would still be too small and city hall would still be broken up into many small classroom sized spaces. Most importantly however, if we decided to retain and improve the existing buildings, there could be no downtown park. Without the park, there would be no office building, no parking structure, and little, if any, impact on other future development in the area.

As critics have noted, the parking structure probably will be largely filled during the day by vehicles of employees of the office building. This is not of great concern however, as we do not have a daytime parking shortage. During evenings, when we do experience a parking shortage, almost all those employee vehicles will be gone and the space will be available for customers of downtown businesses. Those vehicles will also not be there on Saturday and Sunday mornings, so it will be available for customers of the Royal Oak Farmer's Market. I see this as a win-win. We will be building a new parking structure that will get heavy daytime use and generate significant daytime revenue. It will also be available to fill our evening parking needs and generate evening revenue.

The office building will bring 700 new employees to downtown Royal Oak. Between this building and the Etkin building already under construction, we will exceed our goal for new office space. The office building is, however, the most controversial aspect of this project. We are being asked to approve a \$5.5 million incentive and to provide the land (valued at \$900,000) for \$1. It is certainly a legitimate question to ask whether the city should be granting such an incentive.

Our real estate advisors from Plante Moran CRESA have shown us that the current real estate market will support rents of about \$30 per square foot for class A office space in Royal Oak. The cost to build the building requires a return closer to \$35 per square foot. Without an incentive, it doesn't make economic sense for a developer to build a speculative office building.

But does it make economic sense for the city to provide such an incentive? Will the economic benefits of the building exceed the cost of the incentive? Under the terms of the proposed development agreement, the developer is guaranteeing the building will generate at least \$12.8 million of property tax revenue in the first twenty years after it is built. That will not all go to the city, however, it includes payments to the state, schools and other taxing authorities. In fact, the city share will be captured by the Royal Oak Downtown Development Authority which is guaranteed to receive at least \$5.5 million in the next fifteen years. The DDA is a component unit of the city and I draw no distinction between taxes received by the city and taxes received by the DDA. In the end, both the city commission and the DDA board are working toward a common goal of improving Royal Oak.

When I was taught how to conduct a cost-benefit analysis in graduate school, it was drilled into me that, unlike a private business, a government must look beyond its own pocketbook. Specifically, we were taught to examine "costs and benefits to whom-so-ever they may accrue." Most of the benefits, and some of the costs of this project will accrue to or be borne by other parties. Besides tax payments to the DDA and other governmental entities, the office building will generate substantial community benefits, including, but not limited to, the creation of construction jobs, including skilled trades jobs; the creation of approximately seven hundred (700) permanent

jobs, including employment opportunities for city residents; direct spending by building tenants, their employees, vendors and office visitors in the downtown area; a positive economic impact that will benefit the downtown area, the city and the region; and further enhance the general health, safety and welfare of the residents of the City of Royal Oak. Upon completion and full occupancy, the annual economic impact of CPDG's Class A office building is estimated at \$234 million. The 18-month construction phase alone is anticipated to create over 500 jobs with a total economic impact of \$74 million. This analysis uses U.S. Bureau of Economic Analysis RIMS II Multipliers (2017/2015) for the Detroit-Warren-Dearborn, MI Metropolitan Statistical Area (Type II). We use formulas like this to estimate the economic impact of a project because we have no way to directly measure the benefits.

The cost of the project that will be borne by others is the inconvenience caused by construction and the impact of potential parking problems during the construction period. We have no way to quantify this. We will be working hard to minimize the impact but there is no question the construction period will be a major inconvenience for a lot of people. The opening of the new Center Street North parking deck in December will alleviate some of the temporary parking issues.

The parking concerns that have been brought up, whether by neighboring businesses or farmer's market vendors and customers are not valid beyond the construction period. When complete, this project will result in far more available parking than we have now during the periods when we now experience a parking shortage.

So, that brings us back to the question raised earlier. Does it make economic sense for the City of Royal Oak to offer an incentive to get this office building built now? That is a question each of you must decide for yourself. Personally, I think it does.

Which brings me to the last issue. How will Royal Oak pay for its part of this project? The parking structure will be paid for by revenue bonds. They only pledge revenue of the parking system. The general fund has no liability for payment of these bonds. The debt service on these bonds will be paid by the automobile parking system fund from parking fees. That may require increasing those fees. I don't believe Royal Oak has used property tax revenue to pay for parking since the establishment of the automobile parking system in 1950. We certainly have not done so in recent years.

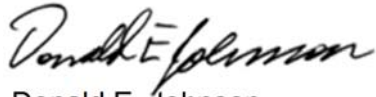
The remaining public portions of the project, will be paid for with limited tax general obligation bonds. Such bonds carry a full faith and credit pledge but do not pledge or authorize the levying of additional property taxes to pay debt service. Interest and principle must come from existing revenue.

The debt service on the portion of the bonds used for constructing the park and site connectivity will come from the Royal Oak Downtown Development Authority. This has yet to be approved by the full board but is being recommended by the DDA's business marketing committee. I originally asked the committee to consider paying the developer's incentive but while the members are willing to financially support the project, they prefer the DDA pay for the park. It's a larger contribution to the project than paying for the incentive.

The principle and interest on city hall and the police building will be borne by the general fund. We can do this mostly because of our pension and other post-employment benefits (OPEB) bond issue. That resulted in a \$2.5 million annual cash flow savings over simply paying the actuarially required contributions. That is a number already supported by a post bond issue actuarial report.

I have not tried to quantify the savings that will accrue from lower utility and maintenance costs of the new buildings or the savings that will ultimately accrue from having a more efficient floor plan but I do feel they will be substantial. In the case of the police building, we anticipate a significant time savings that will result on more officer time on the street rather than a cash savings.

Respectfully submitted,

A handwritten signature in black ink, reading "Donald E. Johnson". The signature is written in a cursive, flowing style with a large initial "D".

Donald E. Johnson  
City Manager