



Rochester Hills

Minutes - Draft

Local Development Finance Authority

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*Jeremy Brown, Michael Damone, Daniel Hunter, Michael Ellis, Darlene Janulis,
Michael Kaszubski, Rophin Paul, Stephan Slavik, Doug Smith, Dana Taylor*

Thursday, February 28, 2019

7:30 AM

1000 Rochester Hills Drive

CALL TO ORDER

Chairperson Stephan Slavik called the Regular Meeting to order at 7:30 a.m. in Conference Room 221.

ROLL CALL

Present 7 - Michael Damone, Michael Ellis, Darlene Janulis, Michael Kaszubski, Rophin Paul, Stephan Slavik and Doug Smith

Excused 3 - Jeremy Brown, Daniel Hunter and Dana Taylor

Quorum present.

Also present: Paul Davis, Deputy Director DPS/Engineering
Sara Roediger, Director of Planning & Economic Dev.
Joe Snyder, Director of Fiscal/Treasury
Laurie Taylor, Director of Assessing
Pamela Valentik, Manager of Economic Dev.
Maureen Gentry, Secretary

APPROVAL OF MINUTES

[2019-0092](#) November 8, 2018 Special Meeting

A motion was made by Damone, seconded by Janulis, that this matter be Approved as Presented. The motion carried by the following vote:

Aye 7 - Damone, Ellis, Janulis, Kaszubski, Paul, Slavik and Smith

Excused 3 - Brown, Hunter and Taylor

COMMUNICATIONS

Ms. Valentik noted that last September, she and the Mayor went to Germany and France and met with companies who had a presence here and a few that were looking to come to the U.S. market. She advised that one of the French companies, AdduXi, would be moving into a larger

building in the next 60 days, and the City was very excited to retain their business. They had been a great cheerleader for the City over in France. There were bringing other businesses to their building to explore the U.S. market, and she felt that it was fantastic to potentially see five new businesses coming to Rochester Hills.

Mr. Smith asked Ms. Valentik if she had used the French Consulate General when they took the trip. Ms. Valentik said that they did not, as she had relationships with the businesses they visited. The owner of AdduXi set up visits with two other companies he knew were looking at the U.S. Mr. Smith suggested that she might let the Consulate General in the Detroit area know. He offered to send the contact info. Ms. Valentik advised that she did work with Business France, which was how the City landed AdduXi four years ago. Business France was kind of like a Chamber, and they provided services to French companies looking to do business in the U.S.

Ms. Valentik also noted that she would be attending Automate 2019 in April. Automate was the largest robotics and automation show in the U.S. held every other year in Chicago. She went to it four years ago, and she said that it was a great learning experience and opportunity to see the major players and the supply chain within the robotics industry. FANUC had a huge presence at the show. She would be going with her counterpart in Southfield and someone from the MEDC, and they were strategizing on how to promote the region within the industry. The region had a very strong supply chain, and she listed off some companies, including Pari Robotics in Rochester Hills.

Mr. Paul (of Pari Robotics) asked if the MEDC had a kiosk, which they did not. Ms. Valentik had looked at the possibility of the City sharing something, but it was very costly. She advised that not a lot of economic developers attended, so it was a great opportunity. She met with FANUC, and they were strategizing on some partnership opportunities, including allowing Ms. Valentik to spend some time in their booth to hand out information and talk about Rochester Hills. They might hold a reception. Mr. Paul indicated that FANUC always had the biggest booth, and everyone stopped by. He thought that if Ms. Valentik could put something there related to the City, it would be a great opportunity. Ms. Valentik said that FANUC was looking over its list of suppliers that did not have a presence in the City or in Michigan, and they would provide that list to Ms. Valentik in advance of the show. She hoped to be able to talk to those companies.

UNFINISHED BUSINESS

2010-0462 Discussion of Future LDFA Capital Projects

Ms. Valentik advised that since the last meeting, staff had updated the list of what they envisioned as priority projects. She reminded that the LDFA was set to expire in 2025, but staff hoped it would be extended. There was a fund balance the LDFA needed to start spending, and they needed to decide on projects in which to invest the money. The funds had to be spent within the LDFA capture district, and there had to be a public benefit. She stated that the estimates for the projects were very conservative. They would rather be over budget than under. Projects took an additional year for engineering, so the cost could be split between year one of engineering and year two of construction. Mr. Davis made sure the projects would coincide with other road projects in the City, and Mr. Snyder plugged the projects into the budget.

Mr. Paul asked why they split the costs of road projects into two fiscal years, which he thought would cost more. Mr. Snyder said that a project was constructed in one year and designed the year prior. Mr. Paul asked if the whole life cycle of a project could not be fit into one construction season. Mr. Davis said that it could, but it had to do with the way projects were bid. If Council approved design engineering and a consultant was hired in January, it was really the time a project should be bid. But in that instance, the design would start, and then the project would be bid in the summer, which was not ideal. A lot times, they would try to have a project designed the prior year so that in January, they were bidding. Mr. Paul asked if it took four to five months to get to a bid phase. Mr. Davis said that not all projects went that way, but there were some projects that they were not able to do in house. Simple slab replacements were pretty easy and did not require design. When there were projects like the reconstruction of Waterview, it was a lot more demanding.

Ms. Janulis noted that at the company she worked, they had been bidding in January and February for projects that started in June, because they were competing with so many others. Mr. Davis said that the City had a bid for Auburn Rd. for March 5th. There was another one for Auburn Rd. where the bid was due April 5th. Mr. Paul thought that there would be a price escalation of three to four percent a year. Mr. Davis agreed that there was inflation every year. Ms. Valentik had mentioned that their estimates were on the higher side, but Council had asked in the past why projects were coming in over budget. They did not want to have to do budget amendments to increase a cost to handle a budget. Over the years, they had tightened up their estimating. They had found that for a

number of projects, they had been under budgeting when the bids came back. They had seen preliminary indications that asphalt prices were going up. He added another 30% to projects because of that. It worked better for the City to design one year earlier. Sometimes, they had to acquire right-of-way. They would not know how cooperative people would be or how quickly that would go, so it was better not to be doing it in the year they were constructing. He noted that there was a project for Austin Dr. that was being submitted to the CIP, and it would be done in the same year. Mr. Paul said that even if 50% of the projects were staggered, 5% of \$3.5 million was a lot. If they could do a project in one fiscal year, he felt that it would be ideal, however, it appeared that the process did not allow it. Mr. Davis said that sometimes it did, because it was project specific.

Chairperson Slavik asked if any part of the costs for Old Adams could be picked up by the new developer, KOSTAL. He pointed out that there was only one use for it, besides the gas company. He asked if Meijer would pick up any of the costs, and Mr. Davis advised that it was a City street. He said that it was a good question. They could ask why Auburn Hills was not contributing, as it was a border road for both cities. The City took ownership of Old Adams and Forester. Forester made sense, because it was entirely in the City. The Road Commission used to own Old Adams, but as a result of the City taking it over, they would collect Act 52 monies, which Auburn Hills would not get.

Mr. Ellis asked if there would be limited access for Auburn Hills' properties if it was the City's road. Mr. Davis said that they would have to get permits from the City. He noted that Auburn Hills had a residential development in the works on the northerly terminus. Ms. Roediger agreed that there was approval for 100 apartments there.

Mr. Ellis asked if the upgraded sewer for Industrial Dr. would be within the right-of-way or if it would be removed from it. Mr. Davis explained that there was no right-of-way there currently; it was a private road. The City would take the road over as a public road if sewer was extended. They could extend sewer without owning it; they would just have to obtain easements. If they were to take ownership and pave the road and extend sewer, it would be done in the right-of-way at that time. Sewer would be extended from Marketplace Circle west. Mr. Ellis said that the sewer was a Priority 2 but in reality, he thought they would have to do the road at the same time. Mr. Davis said that they could do the sewer without the road, but he agreed that they would not want to do the road without the sewer.

Mr. Smith questioned whether the City could do a special assessment at

some point if it did not ask developers to help with Industrial Dr. or Old Adams. He observed that there were potentially ten businesses there that could benefit from roadwork.

Mr. Davis responded that there was nothing preventing the City from going that route. They had only used SADs for paving residential roads, but that process could be used. Mr. Smith considered that there were new and existing businesses that could benefit, and they should contribute something. Mr. Davis said that Council and the Mayor would want to see a majority of support. If the businesses approached the City and said that they would like the City to do some improvements where they would participate in the cost, the City would be on board. Ms. Valentik added that the sewer was a priority, because there was an inquiry along the street about what the businesses' role would be in making that happen.

Mr. Davis said that from a Citywide planning standpoint regarding sewers, for the area by KOSTAL and Industrial Drive, they had planned to go east to Old Adams and south to Auburn and have a sewer that would serve that direction. That was not how they were now proposing to do it. When Adams Rd. was relocated, the City did not bring sanitary sewer to the north. A lot of the properties that were on sewer were connected to Auburn Hills, but Meijer was served from the north.

Ms. Valentik said that when Engineering looked at what roads were within the jurisdiction and at their condition, Waterview ranked in poor condition, so it was made a Priority 1 with a suggested timeline of 2020-2021. The technology park was very nice for the City, and there was very little vacancy. The largest building that was vacant for a long time was now going to be half occupied by GST Leather, which was an automotive leather company. They were moving into the former Sunlogics building. The road would need some attention. KOSTAL asked if Forester could be looked at, because it could not handle the truck weight that was anticipated.

Ms. Janulis asked if the Board was being asked to approve the project list. Ms. Valentik said that staff would just like to get input, and the matter would come back in July with the budget, if everyone was comfortable. Ms. Janulis recalled that the Board had talked about the projects previously. When she read the Minutes and looked at the proposed list, they mirrored each other. So, personally, she did not have a problem with the list, and she liked what had been done.

Mr. Paul asked about gateway entrance signs. Ms. Valentik said that Mr.

Smith had brought up the idea of creating some kind of branding for the district and the technology corridor. Ms. Roediger added that next year, the City would be looking at an update of the gateways plan the City had done quite a while ago. They would look at updating a branding, streetscape and gateway plan for the entire community. As part of that, they could see if there should be an offshoot to identify the technology parks, and then a study would give some recommendations for signage for the LDFA area.

Mr. Damone wondered how many funds would be generated for the LDFA if KOSTAL put up a building. Ms. Valentik said that the City had not done that analysis, because they had not submitted a site plan. Mr. Damone said that he asked because when they were prioritizing, they should determine where the LDFA should make the investment and get the best return on that investment. Ms. Valentik said that when they began the conversation with KOSTAL almost two years ago, they shared that they really wanted to stay in Rochester Hills, but it was a challenge to find land. Their hiccup with the property was Old Adams and Forester and whether they could drive trucks on them, or if there would be any limitations. Ms. Valentik said that staff had talked about return on investment. If someone had asked her three years ago if they should be looking at taking over jurisdiction of Old Adams and Forester, let alone reconstructing, she was pretty sure she would have been laughed out of the room. Mr. Davis claimed that he would not have done that. He explained that ever since Adams Rd. was relocated ten years ago, the Road Commission has had very little use for Old Adams. They needed it before when the bridge was there, and they had jurisdiction of Hamlin Rd. As part of the recent transition, the City now owned that section of Hamlin. It had taken a long time, but the discussions started when Adams was first relocated. The Road Commission said that those roads would be low to no priority for them after the relocation, and they wanted the City to take over. It was not a real high priority for the City, either, and he suggested that Auburn Hills should have them. It made sense, though, because the Old Adams cul-de-sac south of M-59 bended entirely into the City, and Forester was entirely in the City. He knew it would come to the City eventually, but it took a lot longer than he thought.

Mr. Damone said that his other thought was about the lack of vacant land, but he observed some north of Industrial Drive. He questioned whether they would want to move the sewer up to a higher priority so that land would become developable, if it was not already. Ms. Roediger said that there were some challenges with that land with Meijer located behind it. Mr. Damone suggested that they should make an investment where they

could bring vacant land into the developmental stage.

Mr. Ellis asked who owned the vacant land. Ms. Roediger advised that Grand Sakwa owned the land north of Industrial Drive. She explained that there were some limitations as to what could go in front of the Meijer because of their site lines. It would have to be a single-story building. The land south of Industrial, closer to Old Adams was recently on the market. There had been some discussions about potential redevelopment of that property. Two pieces south of Industrial were owned by other people, and Grand Sakwa owned the triangle piece that abutted Adams. There was a DTE line that ran through the middle of it. To Mr. Damone's comments, she indicated that part of the reason to take over a private road that did not meet public standards was that they felt that there was investment potential.

Mr. Ellis asked what Grand Sakwa's vision was for the land, and if the vision was about capturing taxes after it was developed, or if they were looking more at retail. Ms. Roediger advised that the KOSTAL piece was under a Consent Judgment. It allowed primarily retail and office, with hotels and some light industrial permitted. The Consent had to be amended to allow for KOSTAL's use. She believed that Grand Sakwa's vision was to maximize their return on investment in whatever industry.

Mr. Davis brought up sewer, which they had talked about extending on the north side of Industrial. They would need an easement from Grand Sakwa or would need to acquire right-of-way across their parcel. Upon questioning, he stated that Industrial was private between Old Adams and Marketplace Circle. Mr. Damone asked where KOSTAL would get their sewer, and Mr. Davis showed that it was coming down from the Meijer site. Ms. Roediger pointed out that there was a significant utility line that ran east/west, and they could not develop north of that line. Mr. Davis said that there were other areas where sewer was a problem for development. For some properties, the discussion was about connecting to Auburn Hills temporarily, and then looking at Rochester Hills to try and extend sewer to them. He added that the edges of the community were not always high priorities for utility extensions, but they could make it a bigger priority if the Board wanted.

Mr. Damone stated that they had to look at the big picture. His overall question was if they could make an investment and get a return - i.e., new building, new company. Mr. Davis said that a good example was South Blvd. between John R and Dequindre. There was an area where Mr. Anzek, when he was Director, felt that the City should extend water and

sewer to encourage development of that corridor. There was resistance from some Council members. One, in particular, said that developers should pay for that. The City ended up extending water and sewer, and the corridor filled in with new buildings. There were still some vacant properties, but they did get new development. Mr. Damone indicated that he was just taking a philosophical approach.

Mr. Snyder outlined that staff met to go over projects and priorities from Administration's perspective. He then took the priority ranking and planned it out as to when they could do things. At the end of 2018, he advised that the LDFA should have just under \$2.3 million in fund balance. Last year, LDFA contributed funds for Hamlin Rd., for which he thanked the members. In 2019, they would do the Auburn Rd. corridor and Livernois, so sending some funding to Hamlin helped the Major Road Fund. The City had \$16 million in major road construction planned for 2019. Mr. Davis added that the LDFA had funded the Technology pathway, as well (\$300k). In 2020, they would do the design phase for Waterview and Old Adams/Forester, with the construction to happen in 2021. Mr. Snyder stated that they should increase the LDFA fund balance over the next two years, and then when those projects happened, it would drop down to about \$730k. He recalled a question about how much they should keep in fund balance. The City fund balance policy for a similar fund was 25% of operations. LDFA annual operations were about \$100k, so 25% would be \$25k, which did not seem enough. The number they came up with was \$1 million. They picked that number, because they did not really know what else was coming up, and they wanted to have the ability to react. The project list was the best guess from staff for anything that could come up. He remarked that he did not have a lot of angst about seeing the fund balance go a little below \$1 million.

Mr. Snyder referred to Miscellaneous, and said that \$400k for JENOPTIK was there in 2019. It might not be needed, but they were assuming that it would. Ms. Roediger said that the challenge with JENOPTIK was that the City was committed to spending the money, but there were no plans in. They had talked about an expansion in the future, but they were limited as to where the money could be spent. The City needed to make sure the money was there when they were ready, but they did not know when that would be.

Mr. Ellis asked if they should look at it as if it was not part of the \$2.3 million. Mr. Snyder said that it was not part of it, because they did not spend it in 2018. The \$2.579 for 2019 almost included the \$400k for

JENOPTIK. If they did not spend that money, the \$2.5 would become \$2.9 million. That would be carried over to the next year. The money was obligated in the first year, so it was accounted for and would not be forgotten.

Mr. Snyder commented that road maintenance was the bigger one. For many years, LDFA had contributed \$200k to the Major Road Fund to do work in the LDFA, more for maintenance work. They could only do maintenance for so long, and they would have to go into a reconstruction mode over the next five to seven years. The plan was to suspend the transfer, and instead of using the \$200k for maintenance, to put the money towards reconstruction.

Mr. Snyder mentioned IT infrastructure capacity. It was a project in the Capital Improvement Plan (CIP) for the LDFA district, and it was to provide IT infrastructure if a developer asked. Mr. Paul asked if they were going out to bid for the \$100k. Mr. Snyder explained that it had been in the CIP for years as a placeholder. Mr. Paul wondered if the amount was realistic. Mr. Davis remembered that it was for Hamlin Rd. If someone came to the City and wanted a certain fiber optic line brought in, they needed a token amount in the CIP. He stated that it might never happen. Mr. Paul clarified that it was just a ballpark number. Mr. Snyder agreed, and said that if the cost was \$400k for example, the City could put in \$100k and the developer could pay the rest. He suggested that it was important to keep it in mind with regard to LDFA fund balance. It was not in the budget, but they would have funds in reserve to do something.

Mr. Snyder advised that the projects list did not include any streetscape dollars. They could take care of the top five projects on the list and take the fund balance down to zero and turn off the lights in 2025 if that was decided, although he would like to see the LDFA in place for a long time. It would be the City's goal to add streetscape elements whenever a road project was done. The Board could determine how much they would have to spend on streetscapes. Ms. Valentik had also mentioned that it would be ideal to construct sidewalks and plant trees along Waterview at the time it was being reconstructed. That might be a bigger discussion. If the Board was comfortable going a little below the \$1 million level, he wondered if they should add \$400k to do the sidewalks and trees along with the road.

Mr. Smith said that on the expenditure side, it looked like there would be a big expenditure in 2021, which was Waterview and Old Adams/Forester. He asked where Leach Rd. and Industrial came in. It was another \$1.8

million, but it did not look like it was spent in the 2022-2023 years. Mr. Snyder explained that 2022 was somewhat of a build back up year. They would just do the design for Leach. In 2023, it dropped back down because of the reconstruction of Leach. Also in 2023, there would be the design of Industrial Dr., and in 2024, it would be reconstructed.

Ms. Roediger said that as Ms. Valentik mentioned, they were very conservative with the numbers. They wanted to make sure they did not have to come back for more money. She hoped that the numbers were a little inflated so that things did not cost as much as they were showing. She noted that it was also assuming that LDFA was funding 100% of the projects, which might not always be the case.

Mr. Snyder said that on the revenue side, KOSTAL was not included, as they did not know how much that would be. The City was still going through the Board of Review, so the 2020 numbers could be better with regard to tax values. Ms. Roediger knew that KOSTAL hoped to complete construction by 2021.

Mr. Snyder noted that the budget numbers he had provided were an estimate, but it was roughly what they would see at the meeting requesting approval (July). Ms. Janulis indicated that nothing jumped out at her.

Discussed

ANY OTHER BUSINESS

Ms. Valentik stated that it was exciting to learn that the City had an Opportunity Zone (OZ) in town. She advised that it was a Federal program, and it was created under the 2017 Tax Cuts and Jobs Act. It was to stimulate investment in job growth in targeted areas. A geographic area was identified that was low income or contiguous to a low income census tract that was cut off from capital and had experienced a lack of business growth. She showed the area, noting that there were only 15 in Oakland County (288 in the State). The Zone was south of M-59; the western border was Adams; the eastern border was Crooks; and the southern was Auburn. The Zone included a lot of the industrial parks, but there had to be a residential component. It was not a tax credit or program that continuously needed Congressional approval. There was not a limit on the number of credits or dollar investment; it was a program identified within the IRS code. It really came into play in regards to capital gains and potential tax liability. The benefit of investing in an OZ was that an investor could take capital gains from another investment and put it

into an Opportunity Fund (OF). The Fund would then invest in an OZ such as real estate. It would allow an investor to temporarily defer the capital gains tax that would have had to be paid if they were invested in the OF within 180 days. Depending on how long the money was held in the OF, someone could see a reduction in his or her tax liability. If it were held for five years, there would be a 10% reduction and if held seven years, it would be a 15% reduction. If it was held ten years, there would be a permanent exclusion on the gain.

Ms. Valentik advised that the OZ fell within the LDFA capture area. The first requirement for an OF was that the funds had to be invested in a qualified OZ property. It could be self-certified. As long as an investor was using the funds to create a new business, for new commercial or residential real estate construction or to make investment in infrastructure, it would be eligible. She stated that the program was already drawing a lot of attention from real estate investors and businesses. The day before, she got an email from a broker who had someone looking at property in the OZ. She attended the ICSC event two weeks ago that was standing room only full of investors looking at the incentives of OZs. She thought that they would start to see some potential sales of some of the existing buildings. They had to think about land and the potential for redevelopment, such as on Leach Rd, Industrial Dr., Old Adams and the north end of Devondale. There could be some opportunities that could benefit an investor's tax standpoint.

Mr. Smith asked if KOSTAL could use it. Ms. Valentik said that she was going to research it. Chairperson Slavik suggested that Grand Sakwa could also perhaps take advantage. Ms. Valentik indicated that the IRS was still flushing out all the rules. She was not sure about the timing of KOSTAL's purchase and if it would coincide, but she would suggest that they talked with a great tax advisor. She noted that Mayor Barnett and his team had traveled to Washington, D.C. and were staying apprised. They were talking with other cities to see how they were promoting it. It would be a great tool for developers, who could make an investment in an existing building and substantially improve it, or they could make an investment in a business. She claimed that the OZ would draw a lot of attention and opportunity to the commercial district. Chairperson Slavik asked Ms. Valentik if she would email a copy of the presentation.

NEXT MEETING DATE

Chairperson Slavik reminded the LDFA Board that the next meeting was scheduled for April 11, 2019 (subsequently cancelled).

ADJOURNMENT

Hearing no further business to come before the LDFA Board, Chairperson Slavik adjourned the Regular Meeting at 8:37 a.m.

Respectfully Submitted,

Stephan Slavik, Chairperson
Rochester Hills
Local Development Finance Authority

Maureen Gentry, Secretary