

## **Issues Related to Downtown**

### **COFAC RESPONSE**

**February 20, 2009**

#### **Downtown Development Authority/Downtown Traverse City Association**

On January 5, 2009, the City Manager asked component units, including the Downtown Development Authority (DDA), to review draft Citizens Operational and Financial Analysis Committee (COFAC) reports and provide additional information and comments. Two volunteers each from the Downtown Traverse City Association and the Downtown Development Authority Boards worked with DDA staff to review and report on the sections of the recommendations that addressed the DDA, DTCA, APS and City Opera House. This report is a draft only and will be considered by the full boards of the DTCA on February 12 and the DDA on February 20.

The recommendations reviewed included those from the Economic Development and New Revenues Committee, and Economic Development and Revenue Sources Subcommittee, and the Component Units Subcommittee, as well as two minority reports.

The group appreciated the extent COFAC and its various committees reviewed operations and offered comments. Though our group did not agree with all comments in the report, the process of reviewing them proved thought provoking and challenged our beliefs in how we currently do business. The efforts of COFAC should be commended.

This review does not address every recommendation in the report, but speaks to key comments and a number of specific comments we believe require clarity.

#### **Economic Development and New Revenues Committee Recommendations**

The Economic Development and New Revenues Committee preliminary comments center around developing a branding program and a comprehensive economic development plan. Our group agrees with these recommendations, particularly regarding the comprehensive economic plan. The report states “the City...must lead in a more businesslike manner with less political consideration and more emphasis on positive results.” The DDA is the entity charged with economic development in Traverse City’s downtown and we agree with this statement. We also, however, acknowledge the diversity of opinion amongst Traverse City taxpayers regarding growth in the downtown and the city at large. This diversity creates political issues that are best dealt with by politicians. A comprehensive economic development plan, with rigorous public input, can identify threads of agreement about growth, can help educate the public about the value of growth, and empower the public to have more of a say in their city’s future. The Grand Vision process has dealt with the issue of growth on a regional level. The Grand Vision final report, due out later this year, can and should provide further basis for this discussion.

The DDA has invested in branding and wayfinding in support of downtown. However, comprehensive branding necessarily incorporates broader boundaries than simply downtown Traverse City. Traverse City enjoys a positive image, in general, thanks, in part, to the efforts of the Traverse City Convention & Visitor’s Bureau, and events such as the Traverse City Film Festival and National Cherry Festival. **Figure 1** illustrates the quality of Traverse City’s recent image.

**Figure 1**

Additional efforts involving the City, the Traverse City Area Chamber of Commerce, Visitor &

<p><i>Site Selection Magazine</i> – Top US Small Towns, #1 in 2002 and #3 in 2001</p> <p><i>Relocation America</i> – Top 10 Places to Live, 2007</p> <p><i>Top Places to Live at Age 50+</i>, 2007</p> <p><i>CNN Money</i> – Best Places to Live, 2007</p> <p><i>Forbes</i> – Cheap Places to Live Rich, 2006</p> <p><i>Mother Earth News</i> – 9 Great Places You’ve Never Heard of, 2008</p> <p><i>Fly, Rod &amp; Reel’s</i> Top 12 Fly Fishing Retirement Towns, 2005</p> <p><i>Field &amp; Stream</i> – Best Fishing Towns in America, 2008</p> <p><i>State of Michigan Cities: An Index of Urban Prosperity</i> 2<sup>nd</sup> highest ranking, 2007</p>
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Convention Bureau, as well as Grand Traverse and Leelanau Counties should receive further attention.

The Economic Development and New Revenues Committee also suggested beatification awards for property owners. The DDA currently partners with the DTCA and the recently formed Developer’s Group to offer an annual award to developers of projects in the city. This joint award will be presented at the Downtown Annual Dinner in June 2009. Recognizing that “beauty is often in the eyes of the beholder”, the DDA continues to support infrastructure projects to improve the appearance of the downtown in a unified manner.

Another recommendation was to act on the 2007 Economics Research Associates (ERA) Downtown Market Analysis recommendations to establish a private non-profit foundation and development corporation. ERA recommended this tactic as a means to achieve strategic goals. Although the DDA remains aware that the public sector shouldn’t openly compete with the private sector, we have supported the Chamber and the EDC in the transformation of the Chamber’s Foundation to enhance affordable housing, targeted retail attraction, and redevelopment. In fact, DDA representatives met two years ago with peers from Downtown Kalamazoo Incorporated to discuss their use of foundations. Though downtown Traverse City does not have the crisis and the level of philanthropy available in Kalamazoo, we recognized then and now the value foundations can provide in furthering specific strategies to benefit downtown. Rotary Chariteis, over the years, for example, has provided tremendous leadership. The Park Place Hotel, Visitor’s Center, Opera House and State Theatre have all benefited from their coordinated work with the DDA. Downtown control, whether through the City, DDA or a private foundation can be, and currently is being used to implement strategies to benefit downtown as a whole. The Hardy Deck was designed with retail on the State Street side to help establish retail on that street as called for in the City Plan and TIF 97 Plan. The

Chamber Foundation supports development with a clear purpose and financial support in the business community, and the DDA plans to monitor and advocate downtown development opportunities. The DDA has had initial discussions with the Chamber about whether the Chamber Foundation might be able to take on this role.

We noted that COFAC also recommends the “use of TIF Brownfield incentives to promote development that otherwise might not happen...(and to) (m)aximize tax incentives that enable State matches and participation”. As expected, the DDA concurs. The Hardy Deck, Rivers Edge and proposed Old Town Deck are all projects that spurred (or will spur) development and tax growth, and leveraged local tax dollars with numerous State programs. There are four brownfield plans in place in the DDA District, with one more under consideration by the State.

There are also a number of tools available to the City to promote economic development elsewhere in town. Besides the Brownfield Redevelopment Authority Act, which has been used extensively in the City, the Corridor Improvement Authority Act, Historical Neighborhood Tax Increment Finance Authority Act, and Neighborhood Improvement Authority Act are all TIF-based tools designed for non-downtown economic development. Besides these, Neighborhood Enterprise Zones and numerous Michigan State Housing Development Authority programs are available to assist with residential projects. The DDA promotes and encourages the City to use these tools.

COFAC ended their preliminary comments with “Provide public parking downtown to attract new development.” Traverse City effectively uses public parking as an economic development as well as an urban design tool. The City Plan and both TIF plans support the use of public parking to effect economic development goals including growth for jobs and taxes, as well as to implement urban design goals like pedestrian friendly streets and preserving historic buildings.

*Restructure Recommendation to create an Economic Growth/Planning Director (including folding the responsibility for downtown under that position)*

COFAC recommends restructuring economic development services by placing that responsibility under the City Manager. Its report suggests that the “DDA volunteer advisory board would remain to oversee the City’s TIF funding, as is mandated by the TIF plan.” Public Act 197 of 1975, (the DDA enabling act), requires the DDA Board to be more than advisory on most issues. For example, the DDA Board must approve its budget which is required to assess its millage on commercial properties in downtown TC.

Currently, the TBEDC, is a unified development voice for the City and the region. The TBEDC collaborates with appropriate partners, including the DDA, depending on project need. A City Economic Development office could work against implementing a regional approach, resulting in bidding wars for development. Site location decisions, whether they are for office or retail, start on a regional level. Are the schools high quality? What are the housing choices? How is the quality of life? Does the market (i.e. the region)

support our business? Coordinated and regional economic development benefits all of us.

The DDA is in constant contact with the City, County, Chamber, EDC and thinks and works regionally. We have to have a regional focus in order to be successful. We continually advocate rationality on behalf of downtown, and always work to include downtown in regional discussions.

The Restructure Recommendation (Part B) suggests that funds used currently for DDA staff could be used for this new Economic Development position and staff. This recommendation ignores the fact that 78% of DDA operational revenue already comes from reimbursements through contracts, including those with the merchants association (DTCA) and Auto Parking Services (APS). We also note that property tax revenue in the DDA budget comes from the 2-mill levy in the DDA District and cannot be spent outside that district.

This report makes good recommendations on reaching out to property owners, realtors and non-retail businesses. Though we do that to some extent, we acknowledge that efforts could be improved and better communicated. The DDA Board has scheduled one of our periodic meetings with property owners for March 5, 2009.

#### **Economic Development and Revenue Source Sub-Committee Recommendations**

The Economic Development and Revenue Sources Sub-Committee recommends considering selling certain City-owned property including the tenant spaces at the City Opera House and the one at the Hardy Deck. Unfortunately COFAC does not make clear recommendations but suggests further study. Further analysis should consider both the monetary as well as strategic value of these properties. Retail space within the Hardy Deck is part of a strategy to establish retail on State Street, and Scalawag's is succeeding. In the case of the Opera House, this gift has become part of a successful strategy to provide entertainment and culture to downtown and drives more traffic downtown.

We acknowledge that our involvement in managing these properties may conflict with our duties for property owners and merchants, and we suggest that the City consider hiring professional property managers to oversee these properties.

## **Component Units Subcommittee Recommendations**

### *TIF Expirations – Fulfilling the Promise*

The title of this recommendation report, implies and the report falsely states that there is a promise not being kept. There is no intention to extend the TIF plans. DDA staff was in Lansing this past fall arguing against extending the TIF 2 plan for the Old Town Deck project. This resulted in an increase in the State’s CDBG allocation for that project. In the case of TIF 97, there has never been any talk of extending the plan.

This recommendation also argues for paying off TIF indebtedness as soon as possible and terminating the TIF plans early. This would be a promise not kept in the case of TIF 97. TIF plans work because they are a commitment by the City to invest in a district. Because of this commitment, the private sector gains confidence in the district and they invest there. It is their investment that boosts tax revenue and pays for the public investment. The City has done a great job so far with TIF 97. Between 1968 and 1997, only two buildings were built, since then, eight buildings were built and three were significantly renovated (one by the City). This is due, in large part, to TIF 97 and the City’s follow through on public projects such as streetscape improvements, Union Street bridge repairs, the Hardy Parking Deck and utility upgrades. The private sector is counting on continued investment in the district, as is stated in the City Plan and the TIF 97 Plan.

There is also a suggestion to collect revenue one year beyond debt retirement and transferring that money to the City general fund then terminate the TIF plans. TIF funds can only be used for purposes stated in the TIF plan and cannot be spent outside of their collection districts and we do not believe this is legal. The City Attorney should be consulted on whether this can even be done.

The subcommittee “strongly discourages periodic amendments to...TIF programs.” Ultimately these types of decisions are made with exhaustive public notification and City Commission approval. Recent changes to the TIF plans were made based on changing needs downtown. For example, the TIF 97 plan was recently changed to help renovate the City Opera House in conjunction with COHHA’s private and grant fund raising efforts. The TIF 2 Plan has been amended three times: twice to clarify public improvements agreed to by the then-City Commission for the River’s Edge project, and lastly to include bridge improvements and clarify the City’s intentions with the proposed Old Town Deck. The TIF 97 plan has been amended four times: twice to include bridge improvements, once to offer funding for the renovation of the City Opera House and once to clarify funding for a deck in the 300 block of West Front.

### *Contracting the Auto Parking System*

The Component Units Subcommittee recommends exploring “contracting the operations of the Auto Parking System”. It is important to clarify that they are currently “contracted

out” (to the DDA). This arrangement has allowed for coordination of parking operations and investment with greater downtown goals. As we stated earlier, parking has been successfully used by the City as both an economic development tool as well as an urban design tool. The DDA has managed parking with these greater needs in mind. Beyond that, the DDA/DTCA/APS collaboration has helped tackle unique downtown issues such as snow plowing. This sort of arrangement has been identified by Carl Walker, inc. as a best practice in a February 2, 2008 *The Parking Professional* article. Dennis Burns, CAPP, who authored the article, states that when his firm helps a client evaluate which organizational model to follow, the first question he asks is “Which organizational model best supports economic development? The DDA’s management of the Auto Parking System fully integrates parking into economic development efforts. The first question a property owner, developer, and financier asks when considering a project is: where is the parking? The DDA is equipped to answer that critical question. A private company, in business to make a profit, will not consider the full impact parking has on downtown as a whole.

Besides the DDA/APS relationship making sense from an organizational standpoint, it makes sense because we are good at parking. Our staff has years of training and has trained other communities on parking best practices. Eighteen years ago, City Commission meetings often hosted parkers and merchants with tickets and merchants with special problems complaining to the City Commission. Since then, we have raised the level of service and management to a level that makes parking a non-issue (except when it comes to building more!)

The report goes on to recommend that the two parking attendants, who are City employees, should be “incorporated into the overall operations of the Auto Parking System.” We agree with this recommendation, and will accept the City’s lead in revising staff arrangements.

The Subcommittee discussed the budgeted payment to the DDA for operating APS. This \$206,000 cost pays for three full time, and several part-time APS-dedicated employees. The Subcommittee reports that this cost the DDA \$170,000 last fiscal year, but did not mention the time other DDA staffers, such as the Executive Director and Deputy Director, bill to APS pursuant to the existing agreement.

The Subcommittee discussed the goal of eliminating surface parking lots by constructing parking decks and questions whether this will overtax a system that relies on surface lots to subsidize decks. This issue is reviewed every year by the DDA Parking and Access Committee and is one of the considerations for their rate recommendations. Parking rates may have to go up in the future to support operation of future decks. In addition to this review, the City Treasurer’s office looks at APS revenue when decks are proposed and makes suggestions for rate increases if believed necessary. Rates are established, in part, on supply and demand, but are balanced to protect revenue utilized to invest in the parking system.

The report questioned staffing the Hardy Deck at night and on weekends when there is no charge. This is a security issue, as they noted. Procedures are in place that allow one staff person to monitor the deck while handling customers when they leave. The Subcommittee recommended a video monitoring system as an alternative. There still needs to be responsible staff to monitor the video. We are planning a video monitoring system for the proposed Old Town deck, which would be unmanned. Staff at the Hardy deck would monitor this system.

The Subcommittee made suggestions about pricing to encourage more use of the Hardy Deck. These suggestions will be forwarded to the Parking and Access Committee for consideration. However, the inter-relationship of all parking issues can be complex and the DDA would be pleased to schedule a study session with the City Commission to discuss general parking system operational issues. We are confident that the current system is cost effective to the City's general fund, which receives over \$50,000 annually from the Parking Fund.

The Subcommittee concludes this report by stating "the DDA's primary focus is downtown economic development" arguing for the separation of the DDA and APS and referring to a later recommendation to separate the DDA and DTCA. We explained earlier in this response how parking IS economic development. We will discuss the DTCA later in this response.

#### *Component Units – Sale of Retail Properties*

This issue was addressed earlier in this response but is worth further discussion. The Subcommittee states that the four City-owned rental properties "generate no net profit to the City and have been susceptible to rental rate adjustments inconsistent with private sector practices" and therefore should be sold. We agree that selling the retail units as condos should be investigated but should be done so recognizing their strategic value. Furthermore, the Opera House units should be considered for their contribution to the Opera House fund, which maintains the Opera House building. This decision would impact the long-term viability of the Opera House and therefore should be studied thoroughly for its possible negative impact.

#### *DTCA Contract with the DDA*

In 1987, a two-day summit was conducted at the Park Place Hotel where hundreds of members of the community came together to address issues within the downtown. The DDA/DTCA relationship was a result of this public event. Downtown was suffering with the closing of JC Penney and other high traffic stores. Although it took three years to develop, the DDA DTCA relationship was created in 1990, which has resulted in a one-stop shop for the downtown district. The two organizations represent all facets of downtown and create a balance between opposing interests. Often a challenge, the two organizations have made it appear seamless.

The Subcommittee recommends terminating the DDA/DTCA contract, arguing that the “DDA is distracted from what should be its primary mission, that of economic development in downtown Traverse City.” Promoting downtown as a shopping destination, marketing Traverse City, coordinating merchants, providing community events, retail retention and driving traffic downtown IS economic development and are specifically provided for in the DDA Public Act. The COFAC report cites the following under the Economic Development report that all serve as the role of the DTCA...”Creating a brand, creation of a slogan, improved website, development of new festivals and events, remain environmentally friendly and create strong relationships with the private sector.” The Traverse City DDA/DTCA relationship is an example of collaboration at its finest. Together we are able to accomplish more than the average DDA organization and the result has been a thriving Downtown community and healthy surrounding neighborhoods.

The DDA Mission states, “The Traverse City Downtown Development Authority was created in 1978 to halt property value deterioration and to increase property valuation where possible in the business district of the City; and to eliminate the causes of deterioration and to promote economic growth.” Collaboration with the DTCA has supported this mission. Focus on retail retention has resulted in increased property values and rents for property owners and in turn resulted in an increased tax base for the City of Traverse City. Private investment has resulted in over \$53,000,000 in the DDA District over the past five years. The DTCA has branded Downtown Traverse City as a “Cool City.” Often considered one of the most vital downtowns in the state of Michigan along with Ann Arbor, Downtown Traverse City continues to be attractive to retailers, offices and developers, thus continually increasing the tax base in Traverse City.

The DTCA Gift Certificate program is an example of a boost not only to Downtown Traverse City, but our local economy. In 2008, over \$192,000 in Downtown Gift Certificates were sold. A recent Editorial by the Traverse City Record Eagle cited the following regarding the program, “In tough economic times like these, giving shoppers a reason to go downtown instead of the mall is a huge boost to all downtown merchants and, in the end, the city itself.” This program alone would typically fall to a DDA to assume. In our case, the businesses of downtown are carrying the cost and responsibility. This is only one of many such examples.

The COFAC report also argued, “There are no controls in place that limit the DDA’s contribution to the amount contributed by the contract with the DTCA.” Each year the Review & Search Committee, comprised of the DDA Chair, Vice Chair, DTCA President, and Vice President meet to discuss the annual contract. The contract amount for the 2008-2009 fiscal year was increased to over \$52,000, while the DTCA continues to operate on its own budget. For example, every event, the website, each stamp and copy for DTCA events, just to name a few, are paid for by the DTCA. Many downtown organizations responsible for economic development, throughout the state of Michigan and beyond, use TIF or parking dollars to subsidize the functions that are currently the role of the DTCA. The 2007 Economics Research Associates report, often quoted by

COFAC, makes recommendations that are under the purview of the DTCA: reduce tenant turnover, consistent store hours and expand regional market support. Clearly there is concern about what we are not focusing on. COFAC already alluded to more contact with developers and the real estate community. We would be happy to discuss these and other goals further.

The report went on to recommend that the DTCA could continue doing what it currently does on its own. This would be more difficult without the collaboration with the DDA. Having separate offices, copiers, telephones, storage space, and staff would add cost to the DTCA and surely put an end to some or all of their efforts. We've already mentioned snow plowing as a collaborative solution by the DDA/DTCA/APS. Another is community events. The DTCA sponsors two types of events: shopping and community. Shopping events are designed to result directly in sales for merchants (which, we clearly believe is economic development) where community events are celebrations for the local community. Programs and events are accomplished with significant volunteer coordination and help (over 1,000 hours in 2008!) Events include Friday Night Live, Santa's Arrival, Chili Cookoff, Bridal Show, Cherry Capital Winter Wonderfest, Celebration for Young Children, Downtown Art Walk, Old Town Art & Crafts Fair, National Cherry Festival Arts & Crafts Fair, Downtown Street Sale, Downtown Art Fair, Fall Festive Sale, Downtown Halloween Walk, Shop Your Community Day (donating over \$13,000 back to the local community), Ladies Night, Holiday Open House & Men's Night. These events and programs such as the Downtown Gift Certificate program and many others would most certainly be in jeopardy if such a recommendation were to be considered.

This relationship is not broken and is a model for other communities. The collaboration keeps potential conflicts to a minimum. If anything, it is clear the DDA should do more to recognize the value and contribution of the DTCA to its mission.

#### *Revision of Downtown Development Authority Delivery System*

The Subcommittee recommends bidding DDA services to a private contractor. The reasons for this recommendation seem unclear. The reports says that this will "allow the winning bidder to add additional value to its services, possibly at a lower cost." This seems ill defined and highly speculative. In reality, the DDA is a public entity, with transparent accountability consistent with the City of Traverse City. Private contracting would be less transparent or accountable to the City Commission.

#### *DDA – Supplemental Recommendations*

This section advocates that the DDA Board approve a strategic action plan every year with "measurable goals and objectives." Plans are in place and implementation is ongoing. A more formalized approach, however, does have merit.

The Subcommittee again is advocating more input from constituents. This includes an annual study session specifically for property owners and other stakeholders. We have conducted these in the past and they proved valuable.

COFAC also suggests more investor outreach to the investment community to learn what can be done to improve the investment climate. Though we do this already we could formalize the process of getting this input through the aforementioned action plan. The report suggests surveying nearby cities to identify amenities and bring those ideas to Traverse City. We certainly have done this through our participation with the Michigan Downtown Association and our networking throughout the State. The DDA supports the concept that “copying is the most sincere form of flattery.”

The Subcommittee suggests the Executive Director’s job evaluation be performance-based. The Executive Director’s contract is evaluated for renewal every year by the personnel committee on a performance basis. The committee surveys all Board Members for their input. The DDA’s performance reviews are consistent with other public bodies in the region.

#### *Creation of an Expanded, Year Round Farmer’s Market*

The Subcommittee supports ERA’s recommendation to expand the Farmers Market to a year round venture. Although this idea has met with some merchant resistance, we support this idea. The recommendation states this expanded Farmers Market could “provide a lower cost alternative for small businesses to start up in.” Unfair (and, in this case subsidized) competition is the concern expressed by some of the merchants. Again, this seems to conflict with earlier COFAC commentary regarding City-owned retail spaces that “have been susceptible to rental rate adjustments inconsistent with private sector practices.” What COFAC is recommending for the Farmers Market would be just that. And that’s OK because there is an overriding strategy driving it. In this case, it would be, as ERA suggested, to drive more traffic downtown; and as COFAC suggests, to incubate new businesses.

#### **Concluding Thoughts**

We again want to offer our appreciation to COFAC for the many hours put into this effort. Reviewing their draft report was an opportunity to see our organizations through outside eyes and to reflect on their effectiveness. It is clear that we need to continue efforts to engage the public, both the citizens of Traverse City and the business community, to reach greater solidarity about downtown’s future. Traverse City is the heart of this city and the region, and its importance cannot be dismissed. Maintaining and improving downtown is hard work, it takes time and requires vision. We look forward to working with the City Manager and the City Commission on making a better Traverse City.