



**Mayor's Office**

Coleman A. Young Municipal Center  
 2 Woodward Avenue, Suite 1126  
 Detroit, Michigan 48226

Phone 313•224•3400  
 Fax 313•224•4128  
 www.detroitmi.gov

September 30, 2020

Honorable Alton James  
 Chairman, City Planning Commission  
 City of Detroit  
 2 Woodward Avenue, Suite 208  
 Detroit, MI 48226

**RE: Commitments with respect to State Fairgrounds Redevelopment and Master Plan of Policies Change #27 October 1<sup>st</sup>, 2020**

Dear Chairman James:

The City is prepared to make a number of commitments in connection with the redevelopment of the former State Fairgrounds. The City will memorialize these commitments to the community through Council resolutions, all of which will be legally binding. We would further ask CRIO to monitor these items.

These commitments come in response to community feedback and recommendations made by the City Planning Commission (“CPC”) Staff. We have provided a chart below that compares the City commitments to the recommendations made by CPC Staff:

CPC RECOMMENDATION	ADMINISTRATION PROPOSAL
Establish a body and/or mechanism to continue to share, engage with and respond to the community throughout the development of this project, construction phases and beyond.	<b>Upon notification by BSEED, PDD or GSD of an administrative hearing or a BZA proceeding or by a CPC rezoning with respect to Phase 2 or Phase 3, the City will host a community meeting within 30 days of the hearings; and</b>  <b>At those meetings, the City will solicit community input and present industrial buffering methods, which the City will recommend to BSEED, the BZA or CPC if the development team seeks to use those properties under conditional uses.</b>
	<i>RESOLVED, that upon notification by the City’s Buildings, Safety Engineering and Environmental Department (“BSEED”), Planning and Development Department (“PDD”) or General Services Department (“GSD”) of an administrative hearing, or a Board of Zoning Appeals (“BZA”) proceeding or a City Planning Commission (“CPC”) proceeding for a land use or rezoning proceeding for the Property related to future uses of the Property that are in addition to use for an Amazon distribution center, the City will: (1) host up to two community meetings total if any such hearing or proceeding is requested and (2) at such community meetings, solicit community input and present industrial buffering methods, which the City will recommend to BSEED, BZA or the CPC if an applicant seeks applicable land use or rezoning approvals for the Property;</i>

CPC RECOMMENDATION	ADMINISTRATION PROPOSAL
Perform a health impact analysis addressing concerns regarding environmental impacts during construction	<b>A resolution that will allow City BSEED – Environmental Affairs to conduct a health assessment consisting of the following: (1) air quality baseline testing in and around the Property prior to completion of Phase 1 and subsequent to the start of operations, so that results can be made available should any future industrial uses be</b>



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<p>and on-going with regard to any possible noise, light and/or air quality impacts. Measure the claimed efficacy of the mitigation actions, and as has been suggested, demonstrate this project as a model for this type of redevelopment in an urbanized setting.</p>	<p><b>proposed on the Property that are in addition to the proposed new Amazon distribution center contemplated for the Property, and (2) verify the accuracy of the existing noise, sound and lighting assessments based on the actual conditions of operations.</b></p> <p><i>RESOLVED, that the City will conduct a health assessment consisting of the following: (1) air quality baseline testing in and around the Property prior to completion of Phase 1 and subsequent to the start of operations, so that results can be made available should any future industrial uses be proposed on the Property that are in addition to the proposed new Amazon distribution center contemplated for the Property, and (2) verify the accuracy of the existing noise, sound and lighting assessments based on the actual conditions of operations.</i></p>
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CPC RECOMMENDATION	ADMINISTRATION PROPOSAL
<p>Consider the feasibility of utilizing some portion of the Hertel Coliseum in the design of the new transit center. Add architects with expertise in preservation to the team doing the assessment and design.</p>	<p><b>A resolution indicating the City will agree to allow a 3-month period for a feasibility study of the Dairy Cattle Building and Hertel Coliseum enabling advocates, the City Planning and Development Department and Detroit Building Authority to evaluate potential reuse or relocation of those buildings</b></p> <p><i>RESOLVED, that the City will allow a 3-month period for a feasibility study of those certain buildings known as the Dairy Cattle Building and Coliseum prior to the demolition of such buildings to make way for the Transit Center, enabling advocates, P&amp;DD and the DBA to evaluate potential reuse or relocation of those buildings;</i></p>

CPC RECOMMENDATION	ADMINISTRATION PROPOSAL
<p>Consider memorializing additional commitments for the project in an MOU, memo or other means</p>	<p><b>A resolution directing GSD to fund the improvements to the State Fair community park projects</b></p> <p><i>RESOLVED, that the City's General Services Department shall initiate two park improvements projects within the surrounding communities of the Property;</i></p> <p><b>A resolution appropriating the land sale proceeds for the transit center</b></p> <p><i>RESOLVED, that the Fiscal Year 2020-2021 Budget is hereby amended for Appropriation No. 20507 – Capital Projects to accept and appropriate Ten Million Five Hundred Thousand and 00/100 Dollars (\$10,500,000.00) to support capital projects, such as the Transit Center, land acquisition or other capital projects;</i></p> <p><i>RESOLVED, that the City is hereby authorized to pay the State of Michigan Land Bank Fast Track Authority (“MLBFTA”) Three Million Five Hundred Thousand and 00/100 Dollars (\$3,500,000.00) from Appropriation No. 20507 – Capital Projects to cover the remaining balance owed on the City's acquisition of the Property pursuant to that certain separate resolution approved by Detroit City Council on July 24, 2018;</i></p>

The City will submit these resolutions to be approved at the same time as the land sale and the master plan amendment.

Attached is a memo from the Jobs and Economy Team detailing the valuation methodology used for establishment of the purchase price for the former State Fairgrounds.



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Attached is a memo from the City Law Department on the applicability of the Detroit Community Benefits Ordinance to the proposed transaction.

Also attached is a written response from the City Department of Public Works – Traffic Engineering detailing the traffic impacts on 8 Mile Road and Woodward Avenue.

We wanted to provide this information in advance of the meeting, so the committee members had time to absorb its implications. I ask that you share this comparison with your Commissioners. It will be posted on the City's website later today and we look forward to the discussion at 5:50pm on October 1, 2020 on this matter. Thank you for your consideration.

Respectfully,

Arthur Jemison  
Group Executive – Planning, Housing and Development  
Mayor's Office

cc: City Planning Commissioners  
Marcell Todd, Director, City Planning Commission  
Kathryn Underwood, Senior Planner, City Planning Commission  
Kimani Jeffrey, City Planner, City Planning Commission  
Nick Khouri, Group Executive, Jobs and Economy  
Luke Polcyn, Executive Director, Jobs and Economy  
Raymond Diggs, Senior Advisor Mayors Office  
Kathryn Trudeau, Deputy Director, PDD  
Karen Gage, Director of Zoning Innovation, PDD

Attachments: Memo LP to NK (2020-08-24)  
SFG - Memorandum to CPC r/appraisals, purchase price, and CBO - 9-30-20  
Traffic Impact Question



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## Memorandum

**To: Nick Khouri**  
**From: Luke Polcyn**  
**Date: August 24, 2020**  
**Re: Fairgrounds Appraisals**

You have asked me for a summary and documents related to the valuation of the State Fairgrounds leading up to the proposed Hillwood/Sterling Group transaction. There have been two appraisals done in the last three years: one by the State of Michigan in 2018 and one by the City of Detroit in April, 2020. The final report of the City of Detroit appraiser is due by the end of this month.

I've attached a full set of the two appraisals completed. The summary is as follows:

### **State of Michigan Appraisal, February 2018: Net \$5.3 million**

In February 2018, the State of Michigan's land bank commissioned an appraisal of the former fairgrounds property. This appraisal initially valued the fairgrounds at approximately \$75,000 per acre based on comparable sales – as if the fairgrounds were vacant, developable land. In fact, the fairgrounds property requires both environmental remediation and demolition to bring it to that standard. To determine the as-is value, the appraisal then deducted the estimated costs of environmental remediation (\$1,510,000) and demolition (\$2,640,000), along with a \$2,400,000 termination fee for the Joe Dumars Fieldhouse lease (which the City did not intend to continue). From this \$5,300,000 as-is market value, the appraisal further applied a 35% discount to account for a 12-month marketing period to calculate the valuation.

### **Summary of State of Michigan 2018 Appraisal**

<b>Base Value (\$75,000 per acre)</b>		<b>\$11,810,250</b>
<b>Less Deductions:</b>		
<b>Costs of Environmental Remediation:</b>	<b>\$1,510,000</b>	
<b>Costs of Demolition:</b>	<b>2,640,000</b>	
<b>Fieldhouse termination fee</b>	<b><u>2,400,000</u></b>	
<b>Total Deductions:</b>		<b><u>\$6,550,000</u></b>
<b>Total Appraised Value</b>		<b>\$5,260,250</b>



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The State of Michigan noted that the appraised value would be \$7.7 million if the immediate termination of the Fieldhouse lease were not necessary. The lease ran through September, 2024, with reduced termination fee payments required over time. The State took the position that it was the City of Detroit's decision as the buyer when to terminate the lease and the State should not have to pay that fee. The City and State ultimately reached a compromise, with the City agreeing to buy the property for \$3.5 million up front and another \$3.5 million contingent on a future sale by the City. The City closed on the purchase in 2019.

### **City of Detroit Appraisal, April 2020: Net \$8 million**

In April 2020, the Detroit Economic Growth Corporation commissioned an appraisal of 135 acres of the former fairgrounds property. The Integra Realty Resources ("IRR") appraisal valued the property at \$11,070,000. This figure consists of 130 acres valued at \$85,000 per acre, a significant appreciation in value from the amount the City paid just last year.

Another 5 acres of possible retail land along 8 Mile was appraised at approximately \$305,000 per acre.

This valuation applied a deduction of \$1,500,000 for environmental remediation, based on the same 2012 estimate used in the 2018 appraisal. Because of the age of those estimates, the 2020 IRR appraisal noted the estimated costs actually "may be higher at present." In other words, they could merit a larger deduction.

Unlike the 2018 appraisal, the 2020 IRR appraisal did not take the additional step of applying deductions for demolition to determine an as-is value. Demolition costs and Fieldhouse termination fees would both have to be deducted from the appraised value to arrive at the purchase price.

In addition, the City is not selling the full acreage to the buyer. Under the negotiated purchase agreement, 3 acres for the transit center and approximately 7 acres for a public roadway to service the transit center are being retained by the City of Detroit.

From the appraised value, the "as is" sales price had to account for these deductions:



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### Summary of City of Detroit 2020 Appraisal

<b>Base Value (\$85,000 - 305,000 per acre),</b>	
<b>Less \$1.5 million Environmental Remediation</b>	<b>\$11,070,000</b>
<b>Less Other Deductions:</b>	
<b>Land Retained by City for Roads</b>	
(7 acres x \$85,000 per acre)	<b>\$ 595,000</b>
<b>Costs of Demolition:</b>	<b>\$2,640,000</b>
<b>Total Deductions:</b>	<b><u>\$3,235,000</u></b>
<b>"As Is" Value Before Fieldhouse Fee</b>	<b>\$7,835,000</b>

The \$7.8 million figure still leaves the buyer responsible for the Fieldhouse termination fee. The lease runs through September, 2024 and, if exercised at closing, the termination fee would be \$1.8 million. Since the Fieldhouse was not in phase 1 of the development plan and did not need to be terminated immediately, the buyer assumed the liability of the Fieldhouse lease and potential termination fee without further reduction in purchase price.

### **Total Consideration Received by City for Sale of Land: \$16 million+**

While the appraisal supports an "as-is" purchase price of \$8-9 million, total consideration paid by the buyer will actually run to over \$16 million.

The City and the fairgrounds developer agreed on a land purchase price of \$9 million. At closing, the purchaser will also pay the City \$7 million to fund the construction of a new transit center on approximately 3 acres of fairgrounds property being retained by the City. If the City selects a site for the transit center that requires the demolition of any structures, the purchaser will fund the cost of demolition. The City will not be required to fund it from the \$7 million received for construction. Based on the currently anticipated location of the transit center, demolition costs might be as high as \$1 million. That being so, the City would receive \$8 million in value for construction of the transit center.



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The purchaser will also construct new interior roads within the fairgrounds property, then dedicate the as-constructed roads as public right-of-way. The purchaser estimates construction of these roads will cost around \$2.2 million.

The overall compensation received by the City is the following:

**Summary of Consideration Paid by Hillwood/Sterling**

<b>Cash for land</b>	<b>\$9 million</b>
<b>Cash to build city's transit center:</b>	<b>\$7 million</b>
<b>Cost to build city street</b>	<b><u>\$2.2 million</u></b>
<b>Total consideration:</b>	<b>\$18.2 million</b>

The total consideration being received by the City of Detroit is more than double the appraised value of \$8 million.

**Final City of Detroit Appraisal**

The appraiser is finalizing its appraisal based upon terms of the purchase agreement. We expect the final appraisal to be delivered to City Council before the end of August.

# Memorandum

**To:** Detroit City Planning Commission

**From:** Bruce N. Goldman, Chief Assistant Corporation Counsel

**Date:** September 30, 2020

**Subject:** State Fair Grounds Appraisal, Establishment of Purchase Price; and Applicability of Detroit Community Benefits Ordinance

## Questions Presented:

This memorandum is the Law Department's response to the Detroit City Planning Commission's request for:

- (1) an explanation of a recent appraisal of the State Fair Grounds as well as legal verification as to whether proper and consistent procedures were followed with its preparation and the setting of the purchase price of \$16 million for the portion of the State Fair Grounds proposed to be sold to State Fair Partners, LLC (the "SFG Property"), and
- (2) a determination as to whether the purchase price based upon the appraisal violates of the Community Benefits Ordinance.

## 1. State Fair Grounds Appraisal and the Establishment of the Purchase Price for the SFG Property

The Law Department has reviewed the following documents in connection with this matter:

1. a summary of the appraisal of the entire State Fair Grounds obtained in 2018 by the Michigan State Land Bank Authority (the "2018 MLBA Appraisal");
2. the Purchase Agreement for Real Property, effective 9/28/18, between the State of Michigan Land Bank Fast Track Authority (also known as the "State Land Bank Authority") as the Seller and the City of Detroit as the Purchaser for the then entire State Fair Grounds less an approximately 5 acre parcel or portion and another approximately 11 acre parcel or portion (the "2018 City-SLBA PA");
3. the draft appraisal of 135 acres of the State Fair Grounds property obtained in 2020 by the ;Detroit Economic Growth Corporation (the "2020 DEGC Appraisal");
4. the partially executed but unapproved Agreement between the City of Detroit and State Fair Partners, LLC for the proposed sale and redevelopment of the SFG Property ( the "2020 City-SFP PA"), and
5. a certain widely distributed Memorandum from Luke Polcyn to Nick Khouri dated August 24, 2020, analyzing and summarizing the 2018 MLBA Appraisal and the 2020 DEGC Appraisal, in light of the 2018 City-SLBA PA and the 2020 City-SFP PA (the "8/24/20 Memo").

The Law Department also reviewed the State of Michigan Department of Licensing and Regulatory Affairs online database and confirmed that the individuals responsible for the 2020 DEGC Appraisal, H. William Hansen, Jr. and Anthony Sanna, are duly licensed as State Certified General Real Estate Appraisers.

After a thorough and careful legal review of the documents described above, and confirmation of the licensure of the preparers, the Law Department has determined that:

- a. it has found no legal deficiency or impropriety in the 2020 DEGC Appraisal, it having been prepared by state licensed professionals and represented to be in accordance with the Uniform Standards of Professional Appraisal Practice (USPAP), the Code of Professional Ethics and Standards of Professional Appraisal Practice of the Appraisal Institute, and applicable state appraisal regulations;



- b. it has found no legal deficiency or impropriety in the explanation of the 2018 MLBA Appraisal or the 2020 DEGC Appraisal in the 8/24/20 Memo;
- c. the analyses of the 2018 MLBA Appraisal and the 2020 DEGC Appraisal set forth in the 8/24/20 Memo were legally consistent and proper;
- d. the use of and reliance upon the 2018 MLBA Appraisal and the 2020 DEGC Appraisal in establishing the fair value and the purchase price for the SFG Property for purposes of the 2020 City-SFP PA were proper and legally consistent with applicable law.

## **2. Applicability of the Detroit Community Benefits Ordinance to the sale of the SFG Property**

The Detroit Community Benefits Ordinance (“CBO”) is codified at Article 8 of Chapter 12 of the 2019 Detroit City Code. The CBO applies only to development projects in the City of Detroit that meet the definition of either a Tier 1 Development Project or a Tier 2 Development Project. The initial distinction between a Tier 1 and Tier 2 Development Project is the amount of the investment during the construction of facilities or to begin or expand operations or renovate structures. Even assuming the SFG Property development would be of sufficient financial scale as to qualify as a Tier 1 Development Project, the determination of the amount of investment is only relevant “where the developer of the project is negotiating public support for investment either in the form of in one or both of (a) a transfer to the developer of City-owned land parcels of certain cumulative market values ”as determined by the City Assessor or independent appraisal, without open bidding and priced below market rates where allowed by law;” or (b) the City’s provision or approval of tax abatements or other tax breaks that inure directly to the developer.

The purchaser has not currently requested, and has expressly agreed in the Agreement of Purchase and Sale to not request from the City, any economic incentives applicable to the SFG Property. The applicability of the CBO thus depends on whether the developer is negotiating public support for investment in the form of a transfer of the SFG Property “without open bidding and priced below market rates where allowed by law.” There was no open bidding. The CBO would apply then if the City’s transfer of the SFG Property would be “priced below market rates where allowed by law.”

The applicability of the CBO to the development of the SFG Property is at bottom a question about the valuation of the property, whether the SFG Property was “priced below market rates.” While it is a normally a question of fact, the analysis above with respect to the recent appraisal of the State Fair Grounds and the agreed upon \$16 million purchase price for the SFG Property supports only one conclusion, that the proposed purchase price for the SFG Property is not “priced below market rates,” such that the CBO does not apply to the proposed sale of the SFG Property as a matter of law.

**CPC Question: Describe anticipated impacts on Woodward road conditions, if any.**

Per MDOT, the Amazon truck traffic will impact Woodward and 8 Mile road in the following ways:

Woodward Ave was designed to carry up to 860 trucks per day (3.5% CAADT). In 2019, Commercial Average Annual Daily Traffic (CAADT) or truck traffic was 491 or 2% of AADT. The maximum projected CAADT with Amazon is 693 or 2.8%. This will still be less than Woodward's capacity. Furthermore, MDOT has committed to perform any emergency repairs and maintenance work necessary to keep Woodward in good condition.

8 Mile road was designed to carry up to 2,356 trucks per day (4% CAADT). In 2019 CAADT was 1,766 or 3% of AADT. The maximum projected CAADT with Amazon is 1,924 or 3.2%. This will be less than the design capacity of 8 Mile road. Furthermore, in 2022, MDOT will perform a major rehabilitation project on 8 Mile Road between Southfield Road and Van Dyke in 2022.

The map identifies that there are no weight restrictions on 8 Mile Road or Woodward Avenue since both roads are deemed Special Designated Highways that are "For Year-Round Service". Additionally, both 8 Mile Road and Woodward Avenue are state routes and according to MDOT's National Functional Classification map (PDF linked below) both roads are classified as principal arterials which provide direct access to interstates / freeways.