A CASE STUDY
A policy perspective on East Lansing’s urban redevelopment agenda

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This case study represents the outcome of a four-month training at Michigan State University, USA. Due to the support and collaboration of professor Roger Hamlin, I had the opportunity to spend a short period of time inside the Urban Planning Department of the East Lansing City Hall.

The case study presents the strategy of the city in the area of urban redevelopment; the analysis focuses on the specific mechanisms used by the local public administration in order to partner with the business sector and to induce private investments that would presumably lead to economic growth inside that community.

I consider that the American experience in the field of urban planning and urban redevelopment can be extremely useful and valuable for policy makers from other countries too. One of the aims of this case study was to also point out how various institutional arrangements can be adapted to the Romanian context. The text boxes used throughout the presentation represent a summary of the lessons or best practices that one can draw upon from the experience of a small American town.

About East Lansing

East Lansing is the hometown of Michigan State University and represents some sort of a “peculiarity” among the other cities in the Mid West area of the US. Though located in one of the most industrialized area of the US, the economic development of the city has never been based on any kind of industry.

And still, the signs of urban decline can be seen all over the place. One may infer from this situation that other processes and phenomenon besides the process of de-industrialization may cause the decay of urban neighborhoods.

East Lansing, Michigan is what one may describe as just another spot on the U.S. map. By reading one of the brief and somehow uninteresting presentations on the city (there are several official governmental web sites that basically offer the same information), one finds the following: East Lansing is in Ingham County and in the Central Region. This community is located just northeast of Lansing between Lansing and Flint along Interstate 69 near Lake Lansing and the Looking Glass River. East Lansing is home of the Michigan State University campus (part of the Lansing-East Lansing, Michigan metro area). D. Robert Burcham first settled East Lansing in 1849. In 1855, Michigan Agricultural College, (the world’s first agricultural college) was preserved through the Land Grant Act by the national legislature. The town was originally named Collegeville.” Then in 1907, it was incorporated as a city, with the name changed to East Lansing (http://www.ohwy.com/mi/e/eastlans.htm).

Located in one of the most industrialized areas/state of America, East Lansing is somehow an “anomaly”; the city has never had a strong industrial base or a manufacturing sector. The history of East Lansing is the hometown of Michigan State University and represents some sort of a “peculiarity” among the other cities in the Mid West area of the US. Though located in one of the most industrialized area of the US, the economic development of the city has never been based on any kind of industry.
Lansing coincides, as the website accurately suggests, with the history of MSU. But despite of being the home of MSU, the city has been trapped, as many other small and medium American towns have, within the classical pattern of urban decline: the white flight to the suburbs, no pedestrian traffic downtown, old and obsolete buildings, and decreasing number of retail stores.

Within the context of a growing interest on the behalf of state policy makers in the revitalizing of inner cities, the 1990s represented a good opportunity for local officials to start to plan the future of East Lansing.

Creating a vision: A downtown for the 21st century

- Urban redevelopment takes place according to a medium- and long-term strategy. The policy papers created in the early stages of the development process are not merely papers but important guidelines for further actions. The success/failure of the project is evaluated according to the objectives and criteria set in these documents.

- Downtown Development Authority: public entity that function outside the institutional framework of the City Hall. In accomplishing the objectives related to urban development, the DDA is granted important financial prerogatives. In the US, as opposed to the Romanian administrative system, a number of public agencies or authorities dealing with various areas of urban administration are organized outside the institutional framework of the City Hall. Thus, they are considered to be more efficient.

The City Center Project is the direct result of a planning process that started in East Lansing in the early 1990s. It took almost a decade of sustained efforts in order to get this downtown redevelopment completed. Nonetheless, the city officials will continue to improve the way the inner city functions: the strategy for the second phase of the project- City Center II- has already been finalized and its implementation will probably start sometimes next year (2004).

Back in 1992 the city tried to elaborate the Master plan for the city taking into consideration a twenty years strategy. As a short-term objective they pointed out the necessity of dealing with the declining downtown area. At that particular time it was assumed that more shops and stores would help improving the economic activity within this area.

The Retail Enhancement Strategy prepared for the DDA by Hyett/Palma in 1995 is the direct result of these early preoccupations. The main question to be answered by this study was whether or not more retail businesses were a viable solution for the economic revitalization of the downtown. The study confirmed that retail businesses were a desirable option and recommended the project.

The DDA, in 1997, conducted site and market feasibility studies for the project. In addition, an architectural firm was also hired to identify alternatives about how the physical infrastructure of the site was to accommodate the potential retail businesses to be attracted to locate here.

In 1998 the DDA initiated a request for proposals from developers, and in the fall of 1998 entered into a Memorandum of Understanding with the City Center Partners, LLC, of Lansing. It is a common practice for city governments to launch a request for proposal- RFP. Private developers submit applications and a bidding process takes places among them. Apparently, one may say that this kind of an open contest is the best practice in order to select a proper developer. Not to say, that it is also the fairest one. But East Lansing’s officials are arguing that instead of looking for a well written application they would rather prefer to take into consideration the qualification of the developer, its proven capacity to develop the site. In other words, the past experience of the developer was crucial for gaining the right to implement this project.

In the spring of 1999, the City Center Partners LLC came forward with a proposal to develop a retail/entertainment complex to be called City Center Project. After negotiations between DDA and the Developers, the Development Agreement- a legal contract, was signed and the City Council approved it without major modifications.

The Downtown Development Authority has played the major part in this phase of the project. The act 197 of 1975 permits a city, village, or township to establish a nonprofit development corporation called DDA with broad powers, including those of taxation and bonding, to focus on revitalization and

1 The acronym stands for Downtown Development Authority;
development within established, downtown boundaries. East Lansing has an established DDA and in the case of City Center Project DDA acted as the organizing entity for much of the funding for downtown improvements (Summary report, 1995). Within the planning phase, DDA provided financing through its operating fund for the completion of the market and site analyses.

All these efforts generated a common perception on the behalf of public officials about how the downtown would look like. I will provide in the following lines a brief summary of a vision statement as I think it represents the best criteria according to which the City Center’s success or failure can be evaluated.

The downtown East Lansing has been envisioned as the heartbeat of the community: vibrant, lively, attractive, dynamic, and the dominant core of the City. As a cultural marketplace (i.e. retail, entertainment, cultural, and office), downtown East Lansing should have distinctive physical and visual character that offers a unique sense of place for city residents, students and visitors. With its university town character, downtown East Lansing should offer a refreshing balance between the old and the new, between function and form, and between the automobile and pedestrian. Walking from parking to business, from business to business, from the neighborhoods and from the university should be easy and pleasant. People should be drawn into the parking and pedestrian areas from Grand River Avenues where the spaces and buildings celebrate this creative and intellectual community. The downtown environment should offer convenient, comfortable, clean fun, and safe shopping in a renewed physical setting that retains its history while reflecting a new future (Summary report, 1995, p.3).

How much of this has been actually achieved? And how? These are the issues that I address in the following section.

The components of the project and its main activities: The p-p partnership

- In this specific case one may talk about mixed-use redevelopment. The project consists in the following components- retail, housing (condominiums) and a parking lot that would be used by all the other components of the project.
- The public-private partnership means that the municipality used its finances to acquire the land and to build the parking infrastructure. Without these incentives, no private developer would have taken the chance of investing in this project.
- In the context of urban redevelopment, the public-private partnership has a very specific meaning- the public sector should minimize the risk for private developers so that a reasonable risk/reward ratio for them can be reached.

The first thing to be mentioned here about the City Project is that it is a mixed-use development. It integrates a retail component, a residential component, parking infrastructure. I believe that one can describe it as a mixed-use project mainly because there is significant physical and functional integration of project components and because development has occurred in conformance with a coherent plan (McBee, 1992).

(1) Retail component

Commercials are located at the ground level of the buildings that are part of the project. The retail space beneath the parking garage is owned by the city and rented to the developer who, at his turn, rents it to private businesses. The developer, who in the early phases of the development purchased an old, obsolete department store from its previous owner, owns the rest of the commercial space inside the project area. Of course, this space is also being rented.

There was a significant public debate about the nature of businesses to be attracted to locate downtown, inside the project area. On the one hand, leaders inside the community pointed out how important are small, local businesses to the economic development of downtown. Further more, they argued that it is well known that the student population is attracted downtown by certain commercials such as coffee shops, art galleries and so on. On the other side, public officials were claiming that the nature of retail has changed in the last years and that small businesses alone cannot make a downtown economically successful.

There are arguments to sustain or to contradict both sides’ approach. However, I believe one should not downplay the importance of changes in the nature of retail. An emerging ‘destination shopping trend’ has been identified at both local and national level. Back in the ‘70s the most desirable places to
shop were in-door malls located in the suburbs. Shopping used to have a recreational character, consistent with the existence of a relative high number of women who did not work or used to have only part-time jobs and/or hold unimportant job-positions. Due to a variety of factors, in-door malls have ceased to be attractive for people and the whole nature of retail stores has started to change in the last years. Out-door malls are being developed in response to what we referred to as destination shopping. This kind of stores are compatible with the downtown area and as long as parking infrastructures accompanies these businesses their are presumed to do well within the frame of a redeveloped downtown.

Another point the city officials used to make was that not only the nature of retail stores but also the size of the stores changed: in order to be cost-effective, they are supposed to be huge. This ‘economic constrain’ is definitely not compatible with the kind of stores some of the community’s members in East Lansing imagined would be encouraged to locate downtown as a result of the developmental project. City officials pointed out national chains instead of local, fancy art galleries, café shops or boutiques as desirable retail businesses for this area. One can presume that these national chains, apart from fitting the ‘size’ criteria also determined certain predictability as to how the retail shops were supposed to be designed and look like.

For the time being, the national chains that occupy the retail space inside City Center seem not to experience significant economic difficulties. However, the economic growth of the downtown is properly assessed when traced along a longer period of time.

(2) The residential component

This component consists in 39 upscale condominiums. They are all individually owned. The owners, who are part of the condominium association, own in common the façade and other structures of the building.

The developer’s decision about building expensive condominiums downtown was considered, at least in the earlier phases of the project, extremely risky. However, knowing that these condominiums have all been sold, one may imply that the developer correctly ‘guessed’ the demand for a certain type of housing downtown.

Recently, policy markers both at the state and city government level started to implement an urban agenda that focuses on the creation of a strong residential base within the inner cities (Report, 2003). In the case of East Lansing, a city that lacks a strong manufacturing system, residential development is extremely important for the revitalization of its downtown.

The option for upscale condominiums rests upon the understanding of the fact that middle class families, with children, are not going to come to reside downtown. This is a fact. Under these circumstances, the developer preferred to target a very important category of the ‘creative class’ and namely the young professionals. They are willing to reside downtown because in this way they may be closer to the workplace or may have access to the amenities and a life style that cannot be found in the suburbs.

(3) Parking infrastructure

This particular kind of infrastructure is essential for the success of a downtown redevelopment. In the case of City Project, because of its residential and commercial components, the parking garage was even more important. It is owned and operated by the city, as an integrated part of the city parking system- by creating this arrangement the city was able to spread the costs of this investment.

A significant number of activities that contributed to the creation of the three components of the City Center could be described as p-p partnerships. I will refer to the most important ones as I try to emphasize how partnering made urban redevelopment possible.

 Probably the most important activity that underlies the role of the public sector deals with land acquisition and land cleaning. As public officials claim, land price dictates how development occurs within the inner city: this is certainly not an overstatement if one compares the price of land in the downtown area and in the suburbs. According to the data available at the moment the project had been planned the land market price was 5 $/square foot in the suburbs, compared to 100 $/square foot downtown. Another example, proving the same discrepancy between downtown and suburb in the matter of costs associated with development deals with the parking infrastructure. It costs 15.400 $/space in downtown compared to only 2.300 $ in the suburbs.
Because of the importance of such a project, city officials argue that they want to have some control over the way in which the land is developed by the private sector. It is considered to be a wrong policy option on the behalf of the city authorities to invest in cleaning the land and providing the necessary infrastructure and then to turn this land for free to the private developer. In the case of this specific project, the land is rented to the private developer over a period of 15 years. The rent is calculated as been 12% per year of the total value of the land. The developer has to pay a 120,000 $ rent a year- the value of the land is 1,000,000 $, and at the end of the 15 years period he has the first option to buy it at a price determined as it follows: the total value of land - 15 (years) x 120,000 $.

Costs associated with land cleaning and tearing down the old buildings were also greatly reduced through the public sector ‘intervention’. In Michigan, the real trigger for the jump in the number of brownfield projects was when the program was expanded to include obsolete and blighted sites. Many of the buildings inside the City Center Project area had to be demolished and then the site needed to be cleaned up. The financial reimbursement the developer received for redeveloping a brownfield was invested into the project instead of just being pocketed (Lansing State Journal).

A final aspect that should be mentioned is related to business relocation. There were a few commercials situated within the project area that had to be moved. Because the city government was one of the actors involved in the redevelopment process, various deals with the owners of these businesses have been worked out. For e.g., in one case the city used what is referred to as business condemnation: a specific business was bought in order not to relocate it. Presumably, the costs associated with relocation would have been greater than what the city actually paid for the business- an agreement between the city and the owner of the business was established. The city was going to pay for the business over a period of 10 years.

**Project financing: the use of TIF (Tax Incentive Finance)**

- The financial mechanism used is quite a simple one: its functioning is based upon the assumption that redevelopment will enhance the value of the properties located in the area of the project. Implicitly, the assessed market value of the properties will generate bigger taxes for the municipality.
- For a number of years, this hypothetical increase in the amount of taxes collected, is going to be granted to the municipality and not to the other jurisdictions that are normally entitled to receive a share of it.
- In a certain way, one may argue that the project is financed by itself.
- The problem that may appear while using this mechanism- the other jurisdictions may fight against this loss in the amount of taxes received.
- TIF is successfully used within a local fiscal system that focuses primarily on the property tax.

By looking at a financial statement of the project, one can easily see that the direct public contribution was approximately $16,000,000 out of $30,000,000 that represents the total cost of the project. The main activities that required public financing in order to induce private redevelopment were described in the previous section. However, the public sector has to be able to use a variety of mechanisms in order to get the necessary money to induce and leverage private investment. In the early stages of the project the city government used short-term acquisition loans, sub-leases revenues, operating revenues, and other resources to pay for e.g., for project preparation and initial site acquisition. But the significant amount of financing needed for the construction of the parking infrastructure was obtained by floating limited GO bonds. The city also issued taxable bonds whose proceeds have been used for building(s) and business acquisition. The parking systems revenues, Brownfield, and most important TIF have been used to back and then to retire the city bonds.

**TIF** is the financial mechanism commonly used to spur redevelopment in deteriorated urban areas. The unique aspect of TIF is that, from the public-sector standpoint, the cost of inducing development is borne by all the taxing jurisdictions affecting the redevelopment area in proportion to the increase in property tax revenues they receive as a result of redevelopment (Hamlin and Lyons, 1996, p.73).

TIF occurs when a local government freezes the tax base within a specific development district and uses the revenues generated by reassessment or new development to finance selected improvements within the district. The tax increment refers to the additional taxes that will result from private development. This increment is earmarked or captured for the TIF authority and its projects rather than
going to the municipality’s general fund or to other taxing units that otherwise would receive revenues (Summary report, 1995, p35-6).

The assessed market value of the properties in the area designated to become the City Center used to be $2,000,000 prior to the project. After the project has been completed, the total amount went up to $17,000,000. By doing a simple calculation, the tax increment is $476,000 per year.

The use of TIF seems to be extremely innovative and in a way is “self-financing”. What I mean by this is that redevelopment generates the resources that are used to make infrastructure improvements in the project area. It is true that for a period of time certain jurisdictions lose tax revenues but on the long run they benefit from an increase in the assessed market properties in the area. In the same time, redevelopment is presumed to spur business activity, thus generating an increase in the revenues from other taxes as well. However, TIF may be hard to use, depending on how local government and the tax system is structured.

While East Lansing has utilized TIF program prior to the City Center Project, it has not raised significant money- only about $24,000 per year. This is due to East Lansing being an out-of-formula school district, and captured tax increment financing would have lowered revenues for the school. Thus, it is quite difficult to capture the taxes generated by the incremental increase of property values in a designated district (Summary report, 1995, p36). TIF was successfully used in the case of City Center Project because it was associated with a brownfield. In this case, it is easier for the city to capture the tax increment for redevelopment even if this means that the school districts loose revenues from taxes.

In addition, East Lansing’s capacity to use TIF is also limited by policy developed by the Ingham County Board of Commissioners to scrutinize any request for those dollars (Summary report, 1995).

What has been achieved? The follow-up of the project: City Center II

- The project is considered to be a success though the accomplishment of some objectives are to be evaluated on the medium term
- The follow-up of the project is obvious. The expertise generated by the project will be used in order to redevelop another area of the downtown under the name City Center II.
- As mentioned before, redevelopment is done according to a coherent strategy.

Did the City Center Project succeed to create the vibrant, pedestrian friendly downtown public officials pictured within the frame of that vision statement I presented in the previous section? Maybe.

The project has been relatively recent completed so for the time being the data available don’t capture the changes brought by the redevelopment. The common sense tells us that the couple of blocks the project consists in have definitely changed. And during this process they have probably changed the ‘face’ of the whole downtown area as well. Jacobson’s department store is just a bad memory now.

But besides this common sense, it is hard to argue whether or not this project will spur the economic redevelopment of downtown East Lansing. Nobody knows how many jobs have been created or how many of these jobs are actually new jobs. The recent trend in retail activity coupled with customers’ preferences creates quite complicated opportunities and constrains for businesses to locate downtown. As long as these trends are not completely understood, it is hard to predict how a downtown should be redeveloped and which groups in population should be targeted.

However, the public officials claim they have a precise vision and understanding of how their downtown would look like in the future. City Center is not just a random attempt to deal with a declining downtown. It is part of a more comprehensive strategy that will continue in the following years.

City Center II is now in the planning phase. This new redevelopment project is meant to focus more on housing; it hasn’t been decided yet if it is going to be a condominium building or apartments for renting. Also an important component is going to be an office center. The most important thing is that the project is designed around the idea of having the MSU museum as its centerpiece. The vision about the museum is something they call the “Disney approach”. It is meant to be an interactive museum, having its collections displayed on a large surface. This museum is said to be able to attract an important number of small local businesses- restaurants, boutiques and coffee shops. For the time being, all one could say about City Center II is that it definitely promotes a bolder and more ambitious vision that its predecessor.
Conclusions: how can the Romanian public administration take advantage of this kind of “best practices?”

- East Lansing is not a unique case; many of the problems its policy makers are confronted with can be encountered in the European space as well.
- Decisions related to urban redevelopment are taken according to a political logic. This is a fact and it happens all over the world. Still, accounting and responsible policy makers try to follow the medium and long-term redevelopment strategy. Urban redevelopment does not occur randomly.
- The public-private partnership, as a means through which the public sector induces private investments and rewards the private actors for taking a risk is extremely important. An ideology of “privatism” underlines this very specific meaning of the term.

East Lansing is a typical small/medium size city whose redevelopment can’t be based on tourism, hi-tech industry or regional economic supremacy. From this perspective it is similar to other cities worldwide, its most important asset being the student population of MSU.

The public officials created a strategy for redevelopment after studying extremely careful the opportunities and constraints associated with the environment as well as the weaknesses and strengths inherent to their town. This rational way of approaching the policy process should be a positive example for the Romanian public administration. This is not to say that political leadership is unimportant. Each policy is the result of political decisions- ecology has nothing to do with urban development and redevelopment. However, political decisions are made within the frame of a vision, of a strategy.

The financial mechanism used is extremely simple and it could be successfully implemented in other administrative systems as well. However, one should not forget that the precondition in order for this financing to work is the role the property tax plays at the local level. If the property tax does not represent the main source of revenues for local authorities the tax finance increment should be adapted. But, one should not forget that the increase in the value of property is the most direct result of redevelopment. If the local tax system is based, let’s say on corporate tax, the correlation between redevelopment and the increase of taxes is harder to anticipate. In this context, increment financing may be difficult to implement.

Another important aspect deals with the public-private partnership. In Romania public-private partnership is usually equated with managerial reform. Within the frame of urban redevelopment, the concept has a specific meaning- risk shifting. This means that public administration should act as to leverage public capital and to induce private developers to implement the strategy and to achieve the objectives defined as public by city governments. In order to do it, public sector should reward the risk private actors undertake when investing in cities properly. This aspect is extremely important because in Romania private or foreign donors usually finance community development and local authorities lack the capacity to induce local businesses and developers to invest in the community they operate in.

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