**THE SPECIAL WORK SESSION OF THE FORTIETH COUNCIL OF THE CITY OF BERKLEY, MICHIGAN WAS CALLED TO ORDER AT 5:30 PM ON MONDAY, SEPTEMBER 22, 2025 BY MAYOR DEAN**

***PRESENT:*** Councilmember Steve Baker

Councilmember Clarence Black (attending remotely from military service)

Mayor Pro Tem Ross Gavin

CouncilmemberDennis Hennen

Councilmember Gregory Patterson

Councilmember Jessica Vilani

Mayor Bridget Dean

***OTHER STAFF PRESENT:***

City Manager Crystal VanVleck

Deputy City Clerk Rachel Patterson

City Attorney Dan Christ

Community Development Director Kristen Kapelanski

Downtown Development Authority Director Nate Mack

Assistant to the City Manager Charlaine Stevenson

Communications Director Caitlin Flora

***APPROVAL OF AGENDA***

Councilmember Baker moved to approve the Agenda

Seconded by Councilmember Patterson

Ayes: Black, Gavin, Hennen, Patterson, Vilani, Baker and Dean

Nays: None

Motion Approved.

***PUBLIC COMMENT***

None.

***REGULAR AGENDA***

**DISCUSSION:** Matter of reviewing the PILOT application for the Columbia Berkley LLC.

Ms. VanVleck introduced the item and explained that PILOT stands for payment in lieu of taxes. The application was received from the Columbia project and reviewed by staff. Council received the presentation last week and a memo was provided.

Ms. Kapelanski provided changes to the staff memo, including table 3 corrections and information on the water main replacement.

* Sewer will be relined, above and beyond requirements.
* Water main replacement may also be done, pending fire flow test.

The timeline was discussed; the item would need to be considered at the next City Council meeting, on October 6th.

Mr. Wayne Wudyka started the presentation which was designed to introduce the public to the project. He went over what the proposed structure will look like after a few redesigns to get to this point. He explained that it would be close to a gateway to the city.

Mr. Wudyka introduced himself, Max Langenbach, Plante Moran Senior Consultant, and Michael Ferlito, the general contractor, and went over their qualifications and careers.

Mr. Ferlito took over the presentation. He said that this marks their first large multi-family project. They are collaborating with companies familiar with the community that have been actively involved since the PUD approval.

Mr. Ferlito explained that the presentation was designed to show the current project and its potential, including a ground-level coworking space and covered parking for 28 vehicles that will be shielded with screening and landscaping.

Project Overview:

* 51 units
* Modern housing
* Designed to align with the master plan - introduce new housing to the area
* Strategic investment to revitalize this part of the community.

Mr. Ferlito explained why they asked for PILOT; projects of this nature cannot get off the ground without tax abatement incentives, and the spin-off benefits more than compensate. Most, if not all, multi-family projects have tax abatement incentives to remain competitive with other developments in the area.

Mr. Ferlito said that they looked at similar projects, like Hudson Valley, to demonstrate economic impact. The project can realize at least a $2 million spend in the immediate area. He said that the request is not without an economic commitment from the developers, including:

* $10,000 annual contribution to Public Safety over 15 years
* $20,000 investment in a wayfinding program
* $20,000 for downtown improvements
* Sewer main replacement
* Will raise value of surrounding commercial properties

Mr. Ferlito said that these community benefits will directly contribute to the general fund, with $50,000 in tangible funds plus sewer improvements in the first year. The project is anticipated to improve infrastructure, specifically the sewer main replacement and improved water pressure for all residents downstream.

Councilmember Baker asked if the improvements were contingent on a pressure test. Mr. Wudyka confirmed that they would construct the sewer and cover the cost of the pressure test.

Currently, the area generates minimal revenue, and the project is expected to bring additional revenue to the city through sales of surrounding properties and retail. It will also expand on a key benefit outlined in the master plan: diverse housing options, leading to increased workforce attraction and retention and signaling that Berkley is open for business.

Mr. Ferlito explained that some communities do not want apartments or alternate housing options, which drives developers out of the community; such decisions significantly impact surrounding communities.

Mr. Ferlito said that there are two ways to get housing projects off the ground: TIF (Tax Increment Financing) or PILOT. In 2023, the Governor authorized these tools for workforce housing, leading to ongoing discussions among developers.

Mr. Ferlito suggested that Berkley's openness to business would attract more developers. Projects are often financially impossible without incentives due to construction costs and the tripling of interest rates.

Mr. Ferlito asked does this municipality want this type of housing? Do we want young people and empty nesters?

He stated that they tried to include comfortable amenities into the space. He explained their sources and uses; MEDC has indicated full support, contingent on budget and PILOT approval, without which the project would be unviable.

Tax Analysis:

* $13,500
* Local contribution to Berkley: $6,300
* PILOT and MSA figures are projected to increase with CPI and inflation, capped at 5%.

Councilmember Hennen asked if the estimate would reach $15,000 at full occupancy. Councilmember Vilani asked for a comparison if the project were to proceed without a PILOT. Mr. Wudyka stated the project would not move forward under those circumstances.

Councilmember Vilani questioned what had changed, given that the project had already received council approval. Mr. Wudyka cited increased costs (construction/supplies), explaining that while the project began in 2022, bidding could not occur until approval. The prospect of a PILOT prompted them to continue with the project. Rapid increases in interest rates have made construction significantly more expensive than anticipated, and a reduction of over 10% in units means less income.

Mr. Wudyka acknowledged that real estate development means not having all the answers on day one. He emphasized that they had already heavily invested in order to get to this point. The PUD is necessary, and construction must be completed 30 months from June/July. Despite increased construction costs, they would like to build now. Fewer units also mean less rent per unit, leaving money previously planned for on the table. This involves considerations of rent, costs, and interest rates.

Councilmember Hennen said that he is following these kinds of things closely with the MML and his home program, and noted a statewide effort to increase housing. He said that the reality is that sustainable housing projects often require some form of tax incentive. While city services are expected to be covered and not subsidized, such projects still can’t happen without this support.

Mr. Wudyka clarified that this is "attainable housing," not "affordable housing."

Councilmember Baker inquired about the analysis of a 1% PILOT and requested figures for 2-3%. Mr. Wudyka stated that while it is a good long-term project, it lacks short-term cash flow, and they had not calculated those numbers, considering the current offer to be the best.

Mr. Ferlito said that they have no control over project returns. He noted that a 4% PILOT might necessitate changes in other aspects. He mentioned 15 units at 80% AMI, each costing $175,000 over the project's lifespan, which would require an amendment to the rent roll or CBOs.

Councilmember Baker asked if CBOs would be deferred. Mr. Wudyka explained the difficulty of constructing a financing stack with such variables. He said that he knows they can build what they presented, backed by real equity, real money, and a construction loan. He said that they can’t have variables like that when they take it out for a permanent loan. The Michigan Economic Development Corporation (MEDC) will match lender's terms, with a longer amortization from the lender, and MEDC will subordinate to them. MEDC's support is critical, adding 20% more equity, providing numerous opportunities for downstream lenders. He stated that the project cannot go up and is locked into the rental formula.

Councilmember Hennen requested to see what 3-4% would entail, from a due diligence perspective.

Mr. Ferlito explained:

* The plan is to achieve 100% AMI occupancy.
* Individuals earning $200,000 annually would not be able to reside in this building.
* It is a Class A facility; comparable units in Birmingham would command $4,000-$6,000 in monthly rent.
* The same unit here would rent for $1,850, compared to $4,373 in Birmingham.

Total Developer Contribution over 15 years:

* 120% AMI rents for 51 units: $23,572,726
* 80-100% AMI rents for 51 units $19,602,241
* 120 to 80-110% AMI Rent Loss $3,907,084

Councilmember Baker asked if the numbers are viable given the statement that the project would not be built without the program. Mr. Wudyka clarified that the cost comparison aimed to demonstrate why these incentives are necessary, as no one would undertake such a project otherwise.

Councilmember Patterson requested figures regarding the Clawson project. Mr. Ferlito stated it is no longer moving forward, and involved a renovated 11-unit building (10-year commercial rehab). He stated that no projects are currently underway without incentives; projects in Detroit cannot be built without PILOT/tax abatement due to taxes and millage rates. In Berkley, this project would create 51 units permanently reserved for workforce individuals, which is rare in current development. Berkley is in an area that commands higher rents; Royal Oak, for example, has higher rents than Detroit. Projects without incentives are typically only found in Birmingham. Berkley is gaining a new building reserved for working individuals, rare today.

Councilmember Hennen reviewed SEMCOG data for Berkley from 2023. Out of 7,000 households, 5,000 in Berkley would earn more than the permitted income to reside in this building, suggesting that the project would create rents within the realm of affordability for even lower-income individuals.

Regarding the proposal for a 45-year renewal, which is considered a very long timeframe, potentially rendering the building obsolete, Mr. Ferlito explained it provided predictability for the project. Rents must reflect taxes, which could cause "sticker shock" within the community.

Councilmember Hennen asked if a 30-year term was on the table. Mr. Ferlito responded that all options are open, depending on how banks see the project. He emphasized the significant capital required, slow equity build, and long amortization. Equity builds downstream, not on day one. Refinancing occurs every five years, and the lender's requirements for the next few rounds must be met. He highlighted the risk involved in building something with nominal cash flow and a downstream refinance, noting that such limits disincentivize projects.

Councilmember Hennen acknowledged that the first 30 years involve loan repayment, with less income, and that after 15 years, more revenue would accrue to make the investment worthwhile, but tax incentives are still necessary. Mr. Ferlito stated that loan refinancing is still required. The permanent loan would be $11-$12 million, with approximately $1 million burned off annually. Refinancing would reset the amortization schedule, unlike a home mortgage where payments reduce the principal over 30 years.

Mr. Wudyka likened it to refinancing a mortgage every five years. Councilmember Hennen confirmed this applied to commercial loans. Mr. Wudyka stated that 5-10 year terms are normal in the industry; projects must either be cash flow heavy or a longer-term investment.

Mr. Ferlito noted that apartments typically offer low risk and low return, not significant cash flow gains, unlike retail and office buildings with higher risk and higher return, each with different loan structures. Mr. Wudyka explained their motivation: it's a good long-term investment, they believe in the community, it's a better use of the space, and due to depth constraints, nothing else could be built there. Covered parking is a clever solution for meeting parking requirements. They began acquiring buildings in 2007 and accumulated them over time, feeling safe making this long-term investment. They are not risk-averse and view it as a positive stimulus, also serving their interests given they own surrounding properties, which will experience increased property values.

Mayor Pro Tem Gavin asked about the ballpark total net profit. Mr. Ferlito stated he had never been asked that question. Mr. Langenbach clarified that initial cash flow of $50,000 in the first year would slowly inflate. Crucially, it represents a small chunk of the bottom line and could be even smaller if assessed at market rate and full property tax liability were paid.

Councilmember Vilani asked for a breakdown over 5, 10, and 15 years. Mr. Langenbach stated that the initial investment of $2.5 million would not be recouped until a sale (year 10), depending on the cap rate (rate of return). Before the sale, cash flow is minimal. The project is expected to become profitable after 15 years.

Councilmember Vilani then asked what the approximate value would be based on recent market trends. Mr. Langenbach estimated a sale value of $3 million in 10 years, which is below market returns for apartments, and capital gains would be due. He noted non-cash benefits that would help.

Mr. Wudyka emphasized maintaining a long-term perspective on cash flow for estate planning purposes. Mr. Ferlito confirmed that all information, including 15-year cash flow exit pricing and rates, has been provided to the Council, though they do not anticipate a 15-year hold.

Mayor Dean asked what would happen at the end of 15 years if market rate rents were implemented. Mr. Langenbach explained that the PILOT ordinance is for 15 years with an option to renew. Upon renewal, the City can require rents to remain at the same level. If the developer opts for market rate, the property would be reassessed at market value (plus 15 years of non-assessment at market value), resulting in a significant tax increase. Councilmember Hennen said that this would mean losing lower rents in exchange for much higher taxes. Mr. Wudyka commented that if it's a good decision, the city also benefits.

Councilmember Baker asked whether the extension decision would be made now or closer to the end of the 15-year term. Mr. Wudyka stated it allows the developer the option to extend twice.

Councilmember Vilani expressed concern that the city would not have the ability to renew the terms and disliked the idea of making a decision now that would lock 15 future councils almost in perpetuity for the life of the building. Mr. Wudyka stated that the project would not be built without incentives and that they aim to be competitive, acknowledging that Berkley is not Birmingham, and that this attainable project is no different than what surrounding communities are doing.

Councilmember Baker asked if discussions were ongoing regarding up to two renewals, but no decision had been made on those renewals today. Councilmember Vilani reiterated that the city cannot renew, but the developer can.

City Attorney Dan Christ said that considering all factors, if performance metrics were met, that one renewal for a total of 30 years is a negotiated item and that the statute also states that a PILOT extension may not be longer than 15 years. He stated that the statements regarding financing were legitimate and that given no breach and proper performance, the developer would be entitled to a 15-year renewal. Mr. Wudyka added that if market conditions are different, they can re-evaluate variables at that time, emphasizing that the current discussion governs thoughtful dialogue for 15 years from now.

Mayor Pro Tem Gavin asked about the impact on residents at that point. Mr. Ferlito stated that the average apartment turnover is 75%, with new residents approximately every 3 years.

Mayor Pro Tem Gavin raised concerns that a rent increase could be cost-prohibitive. Mr. Wudyka responded that such situations occur and that if they were to worry about 15-30 years from now a decision would never be made.

Mr. Wudyka stated that the PILOT rate in Ferndale is 4%. Mayor Dean clarified that it was not an "apples to apples" comparison, as that project involved a surface lot. Mr. Ferlito stated that a 3% PILOT in Ferndale received $4 million from Oakland County. A 56-unit project in Ferndale, almost identical to this one, had a 3% PILOT, but with higher community benefits. Returns for investors and lenders were roughly similar.

Community Development Director Kristen Kapelanski asked if the Ferndale PILOT was higher. Mr. Ferlito clarified it was a 3% PILOT, with lower local generated taxes than in Berkley. Benefits were higher, but not due to a higher PILOT rate. Ferndale had more 120% AMI units for rent, resulting in a higher rent roll. This project has only 6 units at 120% AMI, compared to 19 in Ferndale. The higher rent here is attributable to the higher CBO.

Councilmember Patterson inquired about two projects in progress in Ferndale. Mr. Ferlito confirmed a 4% project in progress and a 3% project at the same stage, both with much higher average rents.

Councilmember Patterson asked if other jurisdictions, such as the DDA or school board, had weighed in. City Manager Van Vleck confirmed discussion at the last DDA meeting, where the DDA's portion versus the City of Berkley's was less than anticipated. They have not yet consulted the school district. Councilmember Patterson then asked about the county. Ms. Van Vleck confirmed no consultation with the county at this stage.

Councilmember Black inquired about the city's greatest risk under current circumstances. Ms. Kapelanski asked what he meant by "risk." Councilmember Black rephrased, asking what the city's downside is. Ms. Kapelanski explained that the city gains more attainable, affordable housing, which is currently lacking in the community and in high demand. Pursuing higher PILOT percentages would result in higher rents, potentially pricing people out, though this could be justified by the city receiving more tax revenue. Projects necessitate incentives; the biggest risk is non-construction, which sends a negative message to the real estate industry about openness to new builds. From an individual basis, considering real estate financing, competitiveness is crucial. Mr. Wudyka added that they can modify future deals, opening the door to more projects.

Mayor Pro Tem Gavin asked if MEDC funds have been allocated in the current fiscal year as the Columbia project is earmarked for current-year dollars as of now.

Mayor Dean asked Ms. Kapelanski and Ms. Van Vleck to summarize the discussion and identify any remaining needs. Ms. Van Vleck reiterated the tight timeline and the option to reconvene or consider the "next best offer," looking for what other options were on the table and what they would entail.

Mayor Dean stated it was probable and that a Headlee override might be required at some point, necessitating diligent effort to articulate the rationale if they choose to proceed. Councilmember Baker inquired about maintaining the status quo, would that be a 2% PILOT. Mr. Ferlito stated that 1% is 2.5 times what they currently receive. Councilmember Hennen noted that a higher percentage without an MSC (Municipal Services Charge) has consequences.

Ms. Van Vleck emphasized the tight timing, as the item must be considered on the October 6th agenda. Mayor Dean asked if it could be tabled. Ms. Van Vleck inquired about the desired date for the work session and asked Mr. Wudyka to provide alternate scenarios before then. Mr. Ferlito confirmed that Mr. Langenbach could undertake that task. Mr. Wudyka asserted that they are not negotiating against themselves and this represents their best offer.

***ADJOURNMENT:***

Councilmember Vilani moved to adjourn the meeting at 6:55 PM

Seconded by Councilmember Patterson

Ayes: Gavin, Hennen, Patterson, Vilani, Baker, Black and Dean

Nays: None

Motion Approved.

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Bridget Dean, Mayor

***ATTEST:***

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Victoria Mitchell, City Clerk