

City of Lathrup Village
27400 Southfield Road
Lathrup Village, MI 48076
www.lathrupvillage.org | (248) 557-2600

TO: Mayor & City Council
FROM: Mike Greene – City Administrator
DATE: October 19, 2026
RE: School Project Information

In response to questions raised regarding the proposed Surnow development and its potential long-term fiscal impact, the City Administration has reviewed key assumptions, anticipated municipal service costs, and the potential financial implications of entering into a 40-year, renewable-by-right Payment in Lieu of Taxes (PILOT) agreement.

What is the proposed use of the property?

Adaptive reuse of the 1926 school on 4.07 acres in the Village Center zone. The 1950s wing additions would be demolished to make way for two new 4-story apartment wings, north and south, connect to the old building through glass connectors. The original building remains and becomes amenity space: recreation, meeting and learning rooms, co-working and event space. There are 145 units (83 one-bedroom, 62 two-bedroom) and a surface lot behind the building, with no vehicle access from Southfield Road.

Who approved this project?

For the Annie Lathrup School project, the building design was reviewed and approved by the Lathrup Village Historic District Commission, and the site plan was reviewed and approved by the Planning Commission. The City Council also approved an encroachment license authorizing 18 parking spaces within the public street right-of-way. Additionally, the City reviews and approves the Payment in Lieu of Taxes (PILOT) ordinance and associated PILOT resolutions.

Who is paying for the development?

The Annie Lathrup School redevelopment is being financed by Surnow Company, a private development firm that secures its own dedicated funding for the project. Surnow currently projects total development costs of approximately \$43 million. This financing is separate from any Payment in Lieu of Taxes (PILOT) ordinance established by the City, which governs the project's tax treatment.

What is a PILOT?

A Payment in Lieu of Taxes (PILOT) is an agreement that allows a qualifying development, often an affordable or workforce housing project, to make payments to a local government under a special tax arrangement instead of paying the full amount of property taxes that would otherwise apply.

In the case of the Annie Lathrup School redevelopment, the PILOT would generally work as follows:

- Reduced tax obligation: Rather than paying property taxes based on the property's full taxable value under standard tax rules, the development pays taxes calculated under the applicable PILOT framework.
- Payments to the City and other taxing jurisdictions: The City establishes the PILOT through an ordinance, subject to applicable state law. The distribution of payments depends on the governing statute and arrangement.
- Long-term arrangement: The PILOT may remain in effect for a specified period, potentially decades, depending on the program and approvals.
- Support for housing development: PILOT programs can help make projects such as affordable or workforce housing financially feasible by reducing ongoing operating expenses.

What if a the facility is not fully occupied?

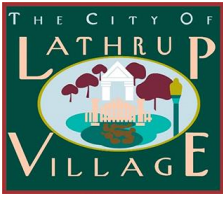
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During the PILOT resolution process, the City included a minimum annual payment requirement of \$120,000 to provide a baseline level of revenue regardless of the property's occupancy level. This provision offers the City some financial protection in the event the facility is not fully occupied and rental income is lower than projected.

How much revenue would the PILOT generate for the City/DDA compared to current levels?

Based on an assumed average monthly rent of \$1,900 per unit across 145 units, the project would generate approximately \$3.306 million in annual rental revenue. At a PILOT rate of 4.5%, the estimated annual PILOT payment would be approximately \$148,770. Under the anticipated distribution, the City and DDA would collectively retain approximately 50%, or \$74,385 annually (\$37,192.50 to each of the DDA and City), with the remaining 50% distributed to other taxing authorities.

Currently, the property generates approximately \$23,000 in annual property taxes, of which the DDA receives roughly 50% (\$11,500) and the City receives no direct revenue. Under these assumptions, the PILOT would increase the combined annual revenue to the City and DDA by approximately \$62,885 compared to current levels. Actual revenues will depend on occupancy, rental income, and the final PILOT terms.

How long does the PILOT last?

PILOT term lengths are determined on a case-by-case basis through negotiations between the developer and the City, subject to applicable state law and required approvals. For the Annie Lathrup School redevelopment, the anticipated PILOT term is 40 years.

If the City is struggling for revenue, why enter into PILOT agreement?

The PILOT agreement is intended to facilitate the redevelopment of the historic Annie Lathrup School property while generating additional revenue for the City and DDA. Under current assumptions, the project is expected to generate approximately \$74,000 annually for the City and DDA combined, compared to approximately \$11,500 currently received by the DDA and no direct revenue to the City. The agreement also includes a minimum annual payment of \$120,000, providing some protection against lower-than-anticipated occupancy and rental income.

Surnow Company has indicated that without a PILOT agreement, the project would not be financially viable, making it unlikely that the redevelopment would proceed. In that scenario, the property could remain vacant and continue to deteriorate. The City must weigh the anticipated revenue and community benefits of redevelopment against the potential tax revenue under alternative scenarios, recognizing that the PILOT is intended to make a substantial private investment in the community financially feasible.

Public use of development amenities

Access to and use of amenities within the development will be determined by the developer. Any amenities made available to individuals who do not reside in the development, whether for a fee or at no cost, will be at the developer's discretion.

Is this a voucher/Section 8/low income housing project?

Per MSHDA, no, the development would not receive Section 8 rental subsidies.

Could the developer easily convert the development to Section 8 housing after the facility is built?

No. Neither the City's PILOT ordinance nor the MSHDA finance agreement allows for the facility to be converted to Section 8 housing.

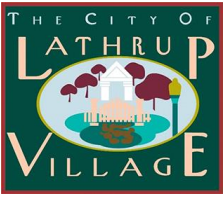
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Who is MSHDA?

MSHDA stands for the Michigan State Housing Development Authority. It is a state agency that supports the development and preservation of affordable housing throughout Michigan through financing programs, tax incentives, and other housing initiatives.

For the Annie Lathrup School redevelopment, MSHDA is involved because the project is being developed as workforce housing and is pursuing a PILOT arrangement under the applicable state housing program. MSHDA's role includes reviewing the project and its compliance with program requirements, including the financial and legal documentation associated with the PILOT.

MSHDA's involvement is also tied to the project's financing and underwriting requirements. The Annie Lathrup School project received MSHDA board approval, and the approved financing assumptions require a PILOT ordinance that meets MSHDA's requirements before the project can proceed to initial closing. The City therefore works with MSHDA to ensure the PILOT documentation meets those requirements.

What is AMI and how is it used to determine who can live in the development?

AMI stands for Area Median Income. It is a measure published by the U.S. Department of Housing and Urban Development (HUD) that is used to determine income eligibility for many affordable and workforce housing programs.

For the Annie Lathrup School redevelopment, AMI helps determine which households qualify to rent particular units based on their household size and annual income.

How AMI works

- 100% AMI: Household income is equal to the median income for the area, adjusted for household size.
- 80% AMI: Household income cannot exceed 80% of the applicable median-income limit.
- 60% AMI: Household income cannot exceed 60% of the applicable median-income limit.

For example, if the applicable annual income limit for a particular household size were \$70,000 at 80% AMI, a household generally would need to earn no more than \$70,000 to qualify for a unit restricted at that level. The actual limits vary by household size, program, and year.

The AMI for Oakland County is approximately \$105,000. For this development, MSHDA has approved the 145 unit plan as follows:

- 29 units – 50% AMI (income level of ~\$52,500)
- 116 units – 120% AMI (income level of \$126,000)

These limits mean prospective tenants must meet the applicable income requirements to qualify for the restricted units. Rent restrictions also apply under the governing program and agreements. The developer must verify household income as part of the eligibility process.

How is the rent amount determined?

Rental rates are established by the developer, subject to the rent restrictions and other applicable requirements outlined in the project's financing agreements and MSHDA program regulations.

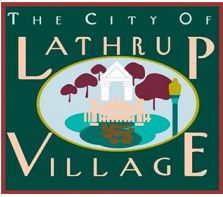
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How will this impact City infrastructure?

Water:

The City's water pressure is based on the incoming water source at the meter pits. Based on the 2023 Water Reliability Report, the water pressure at the 11-Mile meter was 52 psi. For the modeling with the 12-Mile meter operating, 52 psi was used.

Based on the modeled results, the 12" Southfield Road main adjacent to the proposed development has a modeled flow of:

- 2022 Scenario (some improvements done and the 12-Mile meter is closed) = 1,000 – 1,500 GPM
- 2028a Scenario (Southfield Road main from 12 Mile to California replaced from an 8" to 12" main and meter is open) = 1,500 to 2,000 GPM. Note that this project is now scheduled for 2027.
- The modeled results at the rear of the property flow that varies from 750 – 1,000 GPM. The engineering opinion is that if the capped water main in the middle of the property were to be repaired, the flows would increase closer to 1,000 – 1,500 GPM.

Engineering believes the flow is adequate for the proposed development due to its domestic use. However, the adequacy of fire protection depends on several more factors, including the type of building, use of the building, and the type of fire protection/sprinkler system used. The development team will have a consultant specializing in sprinkler systems to calculate the requirements, run fire flow tests, and design a system that will provide the required flows for the required duration. Typically, a building over 2-3 stories will require a fire pump inside to boost pressure and flow.

- Sprinkler system review is conducted with building plan review (after site plan approval).

Additionally, they are subject to standard water rates and would be charged for their share of the system/usage.

Storm Sewer:

Based on engineering records, it does not depict any storm drains adjacent to the site. It is believed that most of the stormwater is directed, or was originally designed to be directed, to the adjacent ditch system. There are a couple of storm manholes depicted on the TOPO but the belief is they are connected to the footing drains/sanitary sewer.

The current design and OCWRC requirement are to store stormwater on-site based on a 100-year storm event. The current allowable outlet of the detention system is 0.20 cfs / acre x 4 acres = 0.80 cfs. The required storage volume of the detention system is approximately 30,000 cubic feet (225,000 gallons). Please note this is a detention system; ultimately the 30,000 cft of stormwater will be discharged into the City's storm sewer system but will be at a restricted rate and not at peak flow.

It is the engineering opinion that the storm sewer system will have a net 0.80 cfs of "peak" flow added to the system. The existing 24" storm sewer at minimum slope has a design capacity of approximately 10 cfs.

If the site did not contain storm sewers connected to the City's system and no detention provided, the peak flow directly to the sewers would be approximately 10.35 cfs.

Sanitary Sewer:

The school is not in use but it can be estimated that the current flow into the sanitary sewer is based on the footing drains being connected and the roof drains being disconnected to the footing drains. We are going to assume that 25% of the roof drainage makes its way to the footing drains (they are not extended away from the building).

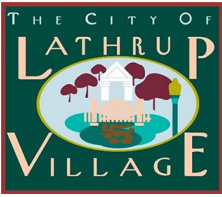
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Flow = $C \times I \times A$ where:

C = coefficient of runoff (0.90 for roofs)

I = Intensity (4.38 for 10 yr storm)

A = acres

Therefore $Q = 0.90 \times 4.38 \times (22,910 \text{ sft} / 43,560 \text{ sft} / \text{acre}) \times 25\% = 0.52 \text{ cfs}$ of discharge to the sanitary sewer system

Sanitary Sewer – Future Development:

Based on current design standards for sanitary sewer design, the proposed sanitary discharge would equate to:

145 apartments (83 – 1 bedroom + 62 – 2 bedroom) $\times$ 1.5 persons / apt = 207 persons

The average amount of water used per person is 100 gallons

The peaking factor is 4

Total amount of water used per day = 207 persons $\times$ 100 gal / person / day $\times$ 4 peak factors = 82,800 gals / day

Converted to cfs = 82,800 gal/day $\times$ (1 cft / 7.48 gal) $\times$ (1 day / 24 hrs) $\times$ (1 hr / 3600 seconds) = 0.13 cfs.

Based on the above calculations, the flow into the sanitary sewer system will be reduced from 0.52 cfs to 0.13 cfs.

The existing 12" sanitary sewer at minimum slope has a design capacity of approximately 2.46 cfs.

Please recall that when the City separated the sewer system in the 1960s, the existing combined sewer system was converted to the sanitary sewer system, so it is over-designed in size.

Additionally, they are subject to standard sewer rates and would be charged for their share of the system/usage.

Roads:

While there is no doubt an increase in vehicles will provide additional wear on the road system, the distribution of Michigan Transportation Fund (MTF) major street funds among the 531 cities and villages is based on two factors: 60% based on city/village census population, and 40% based on city village "equivalent major mileage." The balance of the MTF distribution to cities and villages is earmarked for local streets. MTF local street funds are allocated among the 531 cities and villages based on two factors: 60% based on census population, and 40% based on local street mileage.

In summary – if the population of Lathrup Village increases, additional street funds will be allocated to the City.

What is the anticipated municipal service and infrastructure costs associated with this development?

The City recognizes that the development would introduce additional residents and could increase demand for municipal services, including police, fire protection, roads, infrastructure, administration, and other public services. The precise financial impact is difficult to determine before the development is occupied, as actual costs will depend on service utilization, operating conditions, and future economic factors.

Based on the City's current budget and staffing structure, the Administration does not anticipate that the development would create an additional financial burden resulting in undue financial hardship to the City.

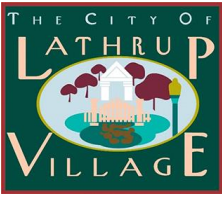
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At this time, the City does not anticipate hiring additional staff as a direct result of the development. The Police Department currently has one vacant full-time patrol officer position resulting from budget reductions. The City would seek to refill that position if funding becomes available, regardless of whether the proposed development proceeds. The development also would not create new public spaces requiring maintenance or necessitate the establishment of new City programs.

For water and sewer services, any additional costs associated with the development would be addressed through the City's approved utility rate structure. Based on current rates, and subject to final meter sizes and meter counts, the City estimates that the property could generate more than \$50,000 annually in water and sewer usage revenue, assuming approximately 450 units of monthly water consumption. These revenues would help offset any additional costs assessed to the City by SOCWA/EFSD and contribute toward future utility system expenses and capital improvements.

Future municipal operating expenses and capital needs will continue to be evaluated through the City's annual budget and Capital Improvement Plan (CIP) processes.

What is the impact on neighboring property values?

The Michigan Economic Development Corporation (MEDC) conducted a study called "Quantifying the Placemaking Effect - Evaluating the Impact of Sustained Place-based Economic Development Incentives on Michigan's Neighborhoods and Commercial Corridors, 2008-2019."

The MEDC study provides evidence that major redevelopment projects supported by public and private investment can have positive spillover effects on surrounding neighborhoods, including increased occupancy and nearby residential and commercial property values.

For the Annie Lathrup School redevelopment, the findings suggest that if Surnow Company secures State funding and the project proceeds, nearby properties could benefit from reinvestment in the site and improvements to the surrounding area. However, the study's findings represent results across six Michigan cities during 2008–2019 and should be treated as an indication of potential benefits, not a guarantee that property values near the Annie Lathrup School will increase by the same amount.

The study reported the following findings across the six cities studied:

- Occupancy: Nearby residential and commercial occupancy increased by approximately 3%.
- Residential property values: Each \$1 of MEDC investment was associated with an estimated \$1.05 in nearby residential property value.
- Commercial property values: Each \$1 of MEDC investment was associated with an estimated \$5.13 in nearby commercial property value.
- Geographic reach: The study estimated approximately \$3.86 billion in increased residential and commercial property values within 2,000 feet of investment sites, at least one year after projects commenced.

The study supports the possibility that redeveloping the Annie Lathrup School could benefit neighboring property owners by replacing a deteriorating property with a substantial private investment.

Facility Parking

The Planning Commission has approved the site plan, including the proposed number of parking spaces for the development. Additionally, the City Council approved an encroachment license allowing 18 parking spaces within the

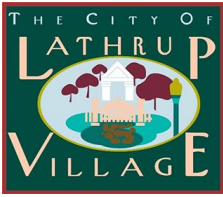
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adjacent public right-of-way. The developer also has the ability to establish shared parking agreements with nearby commercial properties if additional parking is needed.

Parking on residential side streets is permitted during daytime hours, subject to applicable regulations. The City's overnight parking ordinance remains unchanged, and any overnight street parking violations will be addressed by the Lathrup Village Police Department (LVPD) in accordance with existing ordinances.

Are there other direct benefits the City will receive from this project?

The approved development site plan includes improvements to the City's adjacent dog park and repaving of a nearby walking path within Annie Lathrup Park. Additionally, there may be opportunities to negotiate further community benefits with the developer in the future, depending on the project's progress and the City's priorities.

Will there be traffic disruptions along Southfield Road during construction?

Any planned traffic disruptions along Southfield Road associated with the project will be subject to the applicable permitting and approval requirements of the Road Commission for Oakland County (RCOC).

When would construction begin/be completed?

Pending the closing of project financing, the developer will need to finalize building plans and obtain the necessary approvals before construction can begin. If financing closes in December 2026, the developer anticipates construction will take approximately 18–24 months to complete.

How will the City ensure that cut through traffic does not occur by those living at the facility?

As part of the approved site plan, “No Right Turn” signage is required for vehicles exiting the property on the north side to help prevent cut-through traffic on nearby residential streets. Drivers who violate the posted signage are subject to traffic enforcement by the Lathrup Village Police Department (LVPD), including being stopped and ticketed in accordance with applicable laws.

Any other risks?

Based on the information currently available and the due diligence conducted to date, City staff does not foresee any additional significant risks to the City associated with the proposed development beyond those already identified and discussed.

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