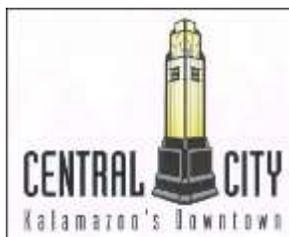


**DOWNTOWN KALAMAZOO INC.**

# **STRATEGIC REVIEW**

**STEERING COMMITTEE REPORT**



Endorsed by Consensus on October 17, 2013

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## EXECUTIVE SUMMARY

October 2013

### ***“Everyone has a stake in downtown”***

George Arwady

Editorial Opinion, Publisher, Kalamazoo Gazette, December 11, 1988

#### **Introduction**

For 25 years Downtown Kalamazoo Inc. (DKI) and its organizational partners the Kalamazoo Downtown Development Authority (DDA), Downtown Tomorrow. Inc. (DTI) and Downtown Kalamazoo Association Charities (DKAC) lead a remarkable turnaround of the central business district. The D’s organization utilized public / private collaboration and innovative financing strategies to support large and small business development and quality of life enhancements that have now expanded beyond our district boundaries. Since 1990, over \$500 million has been invested and 2500 new jobs created. Now the public and private sectors are tapping the downtown market on their own.

This does not imply that the D’s work is complete. It is not. The recent economic downturn has created new challenges. The same incentives that stimulated projects in the early 90’s and 2000’s have to be reinvented. The D’s organization, through new approaches and a new sustainable structure can, continue to lead investment downtown and within the core neighborhoods. With the help of the City of Kalamazoo, Kalamazoo County, Southwest Michigan First, the Chamber of Commerce, Discover Kalamazoo, the Arts Council of Greater Kalamazoo and many others, DKI must continue the original mission and maintaining a viable, economically healthy downtown for the city and the county to thrive.

#### **Strategic Review Report**

##### The Process & Analysis –

A group of 20 community leaders and stakeholders in conjunction with DKI staff, Civitas Consultants and TSI Consulting Partners (TSI), began work in February 2013 to conduct a thorough analysis of the D’s organization to examine its ability and options for being financially and structurally stable for future sustainability. The Steering Committee members were selected based on their knowledge of DKI and their investment and commitment to downtown and the community. In-depth discussion and research of the D’s successful model and current best practices of several other national downtown models provided the committee alternative scenarios to the organization. A structure analysis was done to determine critical programs/initiatives to be maintained. The reality of dropping revenues and TIF tax base became even more shocking than first anticipated. It was determined that severe changes and solutions had to be implemented immediately. The recommendations endorsed by the Strategic Review Steering Committee below are the result of serious analysis driven by the financial realities we face now and in the next two years. The basis for recommendations are defined by the *core values and key directives*. These include:

- Use of the Civitas Report for further direction and guidance, specifically supporting the concept of maintaining the current TIF / Two Mil financing structure.
- Continue a private/public partnership for the organizational structure
- Maintain and enhance quality of life / sense of community initiatives /programs
- Promote and enhance customer satisfied services and downtown advocacy
- Support small business development
- Maintain Downtown as a clean and safe environment

#### Financial –

Within the last 5 years, the DDA TIF tax capture has dropped over \$2 million or 60%. Tax appeals are requiring rebates through 2015 by the DDA. Analysis of the D's individual budgets and a "collective" combined budget have shown that expenditure reductions must begin today to cover 2013 shortfalls and fund balances must be used to fill the gaps. The uncertainty of TIF projections beyond 2015 makes it hard to plan a five year budget. The major factors influencing the D's revenues are 1) TIF capture reductions due to the economy; 2) tax appeals; 3) lack of DTI Property sales and 4) subsidized parking rates. On the expenditure side there is 1) bond debt payments; 2) Arcadia Creek Festival Place loan; 3) parking system capital repairs and 4) TIF subsidizing events and public facilities. Most of these issues are out of the D's control or have been too political to implement. However, years 2016 through 2019 look more encouraging. What does that mean for 2014 and 2015? Recommended changes include:

#### DDA:

- Seek support from DKI from its \$300,000 fund balance
- Request Kalamazoo Community Foundation (KCF) to defer \$75,000 loan payment for Arcadia Creek Festival Place
- Seek payment plans for tax rebates
- Reduce maintenance costs and coverage
- Refinance the Kalamazoo County Loan
- Seek payment plan from City on \$300,000 TIF repayment

#### DKI:

- Reduce/eliminate DKI programs
- Assist DDA with DKI fund balance
- Reduce DKI personnel
- Explore collaboration/partnerships to redirect communications and events
- Create plan for DKAC to become self-sufficient
- ACFP become sustainable over next 2 years
- Maintain one maintenance staff person

#### PARKING:

- Tap parking cash reserve to assist with shortfalls
- Reduce DKI Management Fee
- Reduce outside Contracts and repairs

- Implement New Five-Year Plan with revenue enhancements
- Implement savings through a new Parking 3-5 year Management Agreement
- Reduce Parking Staff

DKAC:

- Become a subcommittee of DKI
- Combine purpose with Communications & Events Committee
- Retain its 501c.3 status to accept charitable donations for DKI and DDA
- Make all events self-sufficient
- ACFP to become totally sustainable over next 2 years.

DTI:

- Evaluate its role and purpose
- Becomes self sufficient and potentially becomes a stand-alone organization
- Continue to partner with DKI on projects and operational support

Organizational Structure –

Maintaining the Private/Public structure will come with a reduced and streamlined organization. DKI is investigating the legal ramifications of combining DKI and DKAC. These are two private non-profit groups that already work very closely together and have similar goals in terms of parking, events, business support, safety and advocacy. DDA will remain as the public arm, supporting public improvements and maintenance but with more focus on key downtown areas, especially the Kalamazoo Mall and Arcadia Creek Festival Place. DTI has been making progress in 2013 to address its debt issues and future role. It may still remain a D's partner by contract with DKI for staff. They have to determine if they want to continue their role as a leader in downtown economic development and land on specific projects to support. The DTI Board plans to hold a strategic planning session in November 2013 to map out their future and relationship with the other D's organizations.

Probably the most important element in the new D's organization is the concept of creating a Downtown Joint Executive Committee made up of representatives of DKI, DDA, City Commission and City Administration. Their role would be advisory, leadership, problem solving and support to DKI and DDA Boards. The goal would be to open up a stronger communication mechanism to work out public /private projects, concerns or issues.

DKI Staff Team / Partnerships –

There is no option to maintaining current staff levels based on the finances we expect in 2014 and 2015 even with the other recommendations in place. Creativity to accomplish sustainability goals will require some staff

cuts. However, cost reductions, revenue enhancements, partnerships, grants, sponsorships and most importantly improved efficiencies could minimize these cuts.

## **Future of Downtown Kalamazoo**

We believe the recommendations outlined above will create a stronger, more sustainable organization that will continue supporting downtown planning and growth. It will be a streamlined organization with two main boards and five support committees connected to the City, downtown businesses and customers. DKI will improve communication with the diversity set of stakeholders from both the public and private sectors. Board and Committee membership may take on a new representation to achieve that goal.

The finances of the D's will drive the makeup and programming of the organization over the next two years but not sacrifice its mission. The D's goal is to remain viable and continue to add value to the future of downtown.

### **Request to Our Partners-**

The Strategic Review Steering Committee recommends collaboration to address short term (2-3 year) needs. The collaboration includes both human and financial support.

- City of Kalamazoo / County of Kalamazoo
  - Improve communication and leadership
  - Explore a new tax structure for the City of Kalamazoo
  - Work with City of Kalamazoo to clarify the DDA TIF agreement
  - Explore support to refinance County loan
  - Loan support with some outstanding tax appeal debt
- DTI
  - Continued partnership for business assistance and economic development
- Foundations
  - Grant support for quality of life, capital repairs and operational gaps
  - Special projects
- Private Sector
  - Sponsorships
  - County-wide outreach of supporters
- Arts Council
  - Explore sharing of resources to expand the highly successful Art Hop program
- Discover Kalamazoo
  - Explore sharing of resources to promote a regional draw
  - Downtown Kalamazoo will grow as the major focus of the regional market
- Educational/Healthcare
  - Support the planning and expansion of the medical and healthy living campuses downtown
- Southwest Michigan First (SMF)
  - Commit our support, downtown experience and resources to the Urban and Metropolitan Initiatives at SMF and the State of Michigan

# **DOWNTOWN KALAMAZOO INC.**

## **STRATEGIC REVIEW - STEERING COMMITTEE PRELIMINARY REPORT**

### **INTRODUCTION**

Since 1989, four unique organizations, Downtown Kalamazoo Inc. (DKI), Downtown Development Authority (DDA), Downtown Kalamazoo Association Charities (DKAC) and Downtown Tomorrow Incorporated (DTI) [collectively referred to as the D's] worked interdependently to meet their shared mission: to revitalize and strengthen the urban core of Kalamazoo County, which in the 1980's was suffering serious systemic affects of urban blight and disinvestment. Recognizing the need to halt and turn around falling property values and an over-all negative reputation due to decrepitude and increased crime, city government, downtown stakeholders, community leaders and the community in general responded by creating and supporting an organizational vehicle that could lead, guide, staff and manage a comprehensive approach to implementing downtown redevelopment. At the root of all four organizations' shared missions (see Attachment A – D's Mission), lies the premise that the community and its potential for future economic success is only as strong as its central core. Thus, today, after thoughtful strategic planning that began in 1987 with DTI's Vision For Downtown and the 2009 Comprehensive Downtown Plan, downtown Kalamazoo stands apart from downtowns of its size as a growing, thriving city and county center.

It is believed that the collective D's unique quazi-governmental structure of public / private partnership (see Attachment B - organizational chart) has been the key driver for having successfully lead a remarkable, nationally-recognized turnaround of the downtown Kalamazoo central business district. The D's organizations utilized public / private collaboration and creative financing strategies to support large and small business development and quality of life enhancements that have not only permeated within the TIF and DDA districts, but now expand beyond the districts' boundaries, further enhancing the city tax base through spin-off development into outer lying neighborhoods and business corridors.

Specifically, since 1990, over \$500 million has been invested and 2,500 new jobs have been created downtown. The tax base has been enhanced, with the DDA's TIF capture peaking in 2008 at \$3,550,000. The residential vacancy rate has remained less than three percent since 2009. The total number of residential units downtown is now over 575. The main retail corridor has few if any empty storefronts. Crime rates have been cut by 25% since the DKI established the Downtown Safety Committee and helped fund the downtown Community Policing Officer. The crime rates are lower any other Kalamazoo city neighborhood. The image of downtown Kalamazoo has been re-established as a destination and community center.

Over 40 downtown festivals and events draw hundreds of thousands of visitors annually to parades, Bronson Park and the Arcadia Creek Festival Place. DKI has received several national awards for initiatives such as customer service enhancements through the Central City Parking system and innovative partnerships for the Arcadia Creek Commons project. These are the hallmark accomplishments that have helped to name downtown Kalamazoo as a "Top Ten Turn-Around Downtown" in the nation by The Urban Land Institute (2007). DKI is recognized nationally for it effective organizational structure. Several cities have contacted DKI over the years and have looked at replicating our model, most recently the City of Grand Rapids and Traverse City.

## RECENT IMPACTS

Within the last 5 years, Kalamazoo's DDA Tax Increment Funding (TIF) tax capture has dropped over \$2 million , or 60 % (see Attachment C – TIF Revenues). Tax appeals are requiring rebates by the DDA through 2015. Analysis of the D's individual budgets and a combined budget has indicated that expenditures must be reduced immediately to cover unexpected current year shortfalls. In 2013, DKI's fund balance has been utilized to fill the financial gaps in the DDA budget. The uncertainty of TIF projections beyond 2015 has made it hard to plan a five year budget. The factors influencing the D's revenues are 1) TIF capture reductions due to the economy; 2) tax appeals; 3) lack of DTI Property sales, and 4) subsidized parking rates. On the expenditure side there is 1) bond debt payments; 2) Arcadia Creek Festival Place loan; 3) parking system capital repairs and 4) TIF subsidizing events and public facilities. Most of these issues are out of our control or have been too political to implement (i.e. fee increases).

**Overall, there have been three key circumstances that have lowered revenues since 2005:**

- **Economic downturn reduced property values significantly**
- **Property demolitions, The Renaissance Zone designation, and expansion of non-profit property ownership**
- **Real and Personal Property tax appeals**

## CORE VALUES / DIRECTION

As we consider and determine critical services and their budget implications, we need to focus on what the community values in its downtown. For example, Downtown festivals provide significant benefit to the community. We should look for ways to maintain them if at all possible.

Over the past few years, placemaking initiatives have evolved downtown even at the grass roots level. The elements below, several of which came out of the 2009 Downtown Plan, support the creation of a diverse destination.

The Steering Committee established the following core values so that they might guide the direction of the organization and help prioritize future goals to meet the critical services necessary in order to maintain growth:

- The Steering Committee indicates that preserving and enhancing Quality of Life and the Experience of downtown is critical, such that Communications, Special Events, Business Recruitment/Retention, the availability of Public Space, Pedestrian friendliness and connectivity to the neighborhoods should be a priority and must be attended to.
- Focus on supporting the business vitality on the historic Kalamazoo Mall.
- Design, cleanliness, and a maintained environment are essential.
- Providing a clean, safe, high customer service parking system is fundamental to user retention.
- Providing advocacy for a 24/7 environment that has a hands-on approach and is responsive to constituents' needs.

## STRATEGIC REVIEW STEERING COMMITTEE ANALYSIS

Challenged with reduced TIF revenues and the long term stability of the D's organization, The Kalamazoo Community Foundation offered its support to help the organization assess its current and future position as a downtown and community agency for growth and development. Funds were provided to conduct a deep analysis of the overall D's organization to create a long range, sustainable, strategic structure and vision for continued downtown investment. To begin the process we reviewed our purpose and set goals for the process.

### Strategic Operational Analysis Mission

Whereas, in 1988 by action of the Kalamazoo City Commission, a Downtown Reorganization Concept was adopted, effective January, 1989 and

Whereas, the Downtown Development Authority (DDA), established in 1975, was to continue its chartered purpose of financing and managing public improvements and facilities; acquiring property through purchases, and in some cases, eminent domain; and serving as the legal and financial mechanism to further the downtown development aims of DKI and

Whereas, Downtown Tomorrow, Incorporated (DTI), established in 1984, would serve as DKI's Development committee overseeing private real estate activities, including the acquisition, management and development of properties and

Whereas, Downtown Kalamazoo Association Charities (DKAC), established in 1988, would serve as the cultural, promotional activities and special events agent and

Whereas, Downtown Kalamazoo, Incorporated (DKI), established in 1989, is a 501 © (6) business association governed by a Board of Directors representing the downtown business community and serves as the private sector partner with the City of Kalamazoo in setting policy and direction for downtown revitalization and

Whereas, the affiliated corporations of DKI, DDA, DTI and DKAC have effectively served downtown Kalamazoo for 25 years and

Whereas, the public funding mechanisms of tax-levy and tax increment financing have fallen victim to decreased property values and stagnant economic growth and

Whereas, the Board of Directors of DKI has sought community financial support to bridge its funding shortfall,

Therefore, it is now incumbent upon DKI, as the "umbrella" corporation in terms of policy and direction:

- to review the incorporated purposes of the DDA, DKI, DTI and DKAC in terms of current operational effectiveness, efficiency and sustainability;

- to seek community and stakeholder input on the perception of effectiveness of the "D's" structure in benefitting downtown and the overall community;

- to seek ideas identifying possible strategic inter-agency partnerships, cooperation and collaboration that enhance the respective Missions;
- to identify reliable and long term mechanisms for future funding, and
- to research regional or national "best practices" within Downtown Development Authorities.

In February 2013 a Strategic Review Steering Committee was established to lead a process whereby it would create a scope of work, investigate the issues, and develop goals and recommendations for action. The strategy would be used by the D's Boards for guiding the organization over the next 5 to 10 years. The makeup of the Steering Committee is broad and diverse (see Attachment D - Steering Committee Membership). It was formed with the goal of utilizing stakeholders that had strong investment and knowledge of downtown and the D's structure. We did consider selecting new downtown residents or business owners, but it would have been time-consuming educating individuals and likely would have delayed the process.

The scope of work required significant research and focused facilitation to accomplish the mission due to the D's complex organizational and financial structure. Two key consultants were brought on board to assist the Steering Committee. The consultants included Civitas Consultants, led by David Feehan, to provide historical and best practices analysis of downtowns across the nation and Tim Fallon of TSI Consulting Partners (TSI), a well-respected facilitator with abundant knowledge of the Kalamazoo community and specifically Downtown Kalamazoo and the City of Kalamazoo organizations.

Civitas was approached first to provide the Steering Committee historical background information on the D's mission (Dave Feehan was President of DKI in the early 90's) and to share best practices from across the country on how other cities are addressing financial concerns and operational structure within their downtown development agencies (see Attachment E – Civitas Report).

TSI was then hired to help direct the Steering Committee through a series of meetings and discussions of immediate issues, including the following assumptions for the Steering Committee's work:

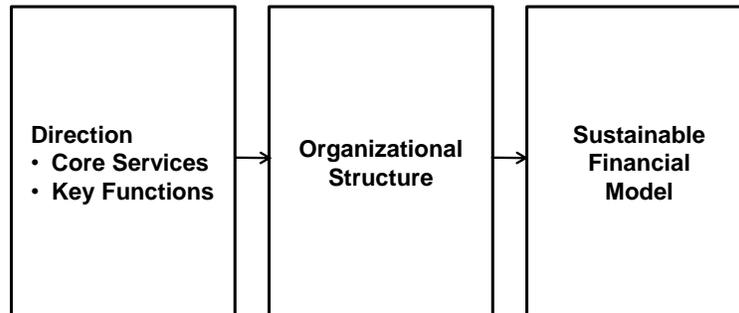
- Improvements in Kalamazoo's Downtown during the last 25 years have resulted in a Downtown with different needs today.
- The D's currently face financial realities that force it to fundamentally rethink the value it provides, its organizational structure and its financial viability.
- The organization faces:
  - A severe decline in financial support
  - A difficult "bridge period" from now through 2018
  - Uncertainty regarding future property values and potential tax appeals

TSI also summarized the following goals for the work of the Steering Committee:

- Reposition the D's to continue to make a vital, sustainable contribution to Kalamazoo's Downtown.
- Align the D's future value and contribution with financial realities/constraints.
- Focus on those core services and key functions that the D's can best provide.

- Realign the D’s organizational structure to deliver those core services/key functions effectively and efficiently.
- Increase the financial sustainability of the organization.

TSI outlined the following approach for the work that is depicted in the graphic below.



To support the process and assist with determining overall goals the following action steps were proposed.

- Community & Stakeholder Input
- Establish Tiers and Priorities (Chart)
- Goals & Objectives (Chart)

The first two Steering Committee meetings focused on determining core services and key functions identified to set the stage for later consideration of the best organizational structure to provide those services/functions and the financial model necessary to sustain them.

To set the stage for the discussion of DKI core services and key functions, the Steering Committee identified the constituents that the Downtown serves. A summary of their input follows.

- Tax payers in the DDA district
- Retail businesses
- Commercial office space providers and users
- Restaurants
- Downtown residents
- Visitors
  - Outside the DDA district but inside the county
  - Outside of the county (who tend to spend more per visit)
- Churches
- Non-profit organizations, particularly those in the Downtown
- Arts and entertainment organizations
- 13,000 employees who work Downtown
- Students
- KVCC
- The Kalamazoo Public Library and the Kalamazoo Valley Museum

- Entertainment venues such as the Civic Theater, the State Theater, and Farmer’s Alley
- The homeless population
- Medical patients who come Downtown for treatment
- Special event and festival audiences
- People who drive through the Downtown (20,000 cars per day on Michigan Ave.)
- People who use Downtown recreational facilities and trail ways
- Governmental entities and people who visit them: City of Kalamazoo, Kalamazoo County, the court system, etc.
- The Intermodal Transportation Center
- Meeting and convention visitors
- Children
- Youth
- Families

Discussion of Downtown constituents included the following points. The more appropriate term for many of these constituents may be “consumers.” They consume something – meals, products, experiences, etc. It’s clear that a number of constituents are included in multiple categories above – such as Downtown residents who also work in Downtown and participate in a wide range of Downtown activities. DKI’s concept of visitor builds on Discover Kalamazoo’s concept of visitor – people from outside the county who visit Downtown. When considering the Downtown, the concept of the visitor may need to be expanded to include anyone outside the DDA district.

TSI provided participants with a preliminary list of core services and key functions which the D’s currently provide for the Downtown. (It does not include DTI services and core functions.) After providing an opportunity for participants to review and edit the list they were asked to categorize the items using the following framework:

- A = tier one, services/functions that are most important for the Downtown
- B = tier two, less important
- C = tier three, least important

Based on the individual’s rankings and the discussion that followed, the Steering Committee members came up with the following ranking of core services and key functions based on their importance to the Downtown. It is important to note that participants were asked to rate these items based on how important they are to the Downtown, NOT in terms of whether DKI should provide them.

### **Tier One – Most Important**

- Long-range planning, management and financing of the public parking system (47)
- Sponsor and coordinate Downtown events/special programs (43)
- Recruit and retain small businesses and residents (41)
- Long-range Downtown Comprehensive Plan: land use, project planning, historic preservation, housing, trail ways, transportation (37)
- Assist with planning and programming of downtown safety initiatives: lighting, surveillance cameras, etc. (36)
- Mall maintenance, streetscape improvements, recreation, public lighting, etc. (35)
- Human services (added after the rating)
- Arts, culture and recreation (added after the rating)

## Tier Two – Less Important

- Formulate and oversee Downtown image and branding (34)
- Manage Arcadia Creek Festival Site (32)
- Plan and finance capital infrastructure improvements - public infrastructure (32)
- Marketing, promote and advertise the Downtown experience brand (31)
- Manage Downtown cleanliness (31)
- Manage and carry out development projects (added after the rating)

## Tier Three – Least Important

- Prepare budgets, manage Boards and committees (25)
- Coordinate Downtown design standards – business signs, lighting, way-finding, public benches, bike racks, etc. (23)

The next steps in the process, the Steering Committee identified the core services/key functions that DKI should focus on in the future, identifying which of the core services/key functions might better be carried out by other organizations, considering the organizational structure that DKI needs to support those core services/key functions, and managing the resource constraints that DKI faces over the next five years.

Two key events then occurred which impacted the strategic process approach. The City shared new TIF budget modifications and projections which further reduced revenues significantly more than were anticipated. Secondly, DKI staff took the preliminary budget sheet to all DKI boards and committee for review and input on suggestions for sustainability, cost savings and revenue enhancements for the years 2013 thru 2015. ***It was at this point that the Steering Committee determined that the D's finances were so challenged that formulation of a sustainable organization would be driven by the financial constraints not the organization or core services.*** The Strategic Review Steering Committee expressed frustration with the continuing series of revised estimates on revenue. The number and amount of these revisions makes it very difficult to make confident decisions about the operating budget revenue. The Steering Committee focused its efforts on the 2014 and 2015 operating budgets. There is too much uncertainty about years 2016 and beyond to have any confidence in the revenue projections.

## STRATEGIC REVIEW STEERING COMMITTEE RECOMMENDATIONS

Based on its review of the new financial information presented, the Strategy Review Steering Committee agreed to the following recommendations.

- Carry out a thorough review of the revenue and expenses for each service/function in Tier 1, Tier 2 and Tier 3.
- The following principles should guide the review of each service/function.
  - Use a zero-based budget approach.
  - Conduct a thorough analysis of the operating budget by activity – prioritizing those activities that are most valuable and important to continue.
  - Present a prioritized list of functions that should be continued and an estimate of the cost of continuing them.
- The review of parking revenue and expenses was assigned to the Parking Committee.

- The review of the following Tier 1 service/function – “Sponsor and Coordinate Downtown Events and Activities; formulate and oversee Downtown Image and Branding” – was assigned to the DKI Communications and Events Committee.
- The review of the remaining Tier 1, Tier 2 and Tier 3 services/functions was assigned to the DKI staff.

DKI staff provided the Steering Committee updated financials and staff resources currently being devoted to the core services / key functions identified by the committee. The Strategic Review Preliminary Budget (see attachment F) represents extensive discussion internally and with the Steering Committee to provide the breakdown of costs allocated to the core services. It targets the current 2013 revenues and expenditures, and proposed 2014 and 2015 budgets.

With the financial situation reassessed and recommendations from committees in hand , TSI, DKI Staff and the Strategic Review Steering Committee Chair presented a summary of core values, new budget realities and key strategic actions seeking formal endorsement by the Steering Committee. At the September Strategic Review Steering Committee meeting the following endorsements were reached.

### Core Values

- Use of the Civitas Report for further direction and guidance, supporting the concept of maintaining the current TIF / Two Mil financing structure
- Continue a Private/Public partnership for the organizational structure
- Maintain and enhance Quality of Life / Sense of Community
- Promote and enhance Customer Satisfied Services and Downtown Advocacy
- Support Small Business Development
- Maintain Downtown as a Clean and Safe environment

The Civitas Report recommended preferred option #1 - Simplify and Adjust. In essence, maintain DKI as the management authority and DDA as primary funding partner. The group approved the concept of D. Feehan’s report, rather than the details. It was clarified that the group could use the detailed report as reference material for future discussions. The committee agreed in principle that future funding would be through the DDA. The group agreed by consensus that private and public components should both exist. The Steering Committee strongly endorsed a public/private partnership, without enshrining the current arrangement as the best future direction.

## New Budget Realities

As indicated above, financial realities are pressing the D's into survival mode. Successful adjustments are being made by D's Boards and Committees to balance budgets for 2013. It was hoped these changes would help fund shortfall concerns in 2014 but immediate needs have dictated a different approach. The D's have to focus on 1) financial survival in years 2013 - 2015 which will lead to 2) sustainable operations and programs for years 2016 and beyond.

There are three key "reality check" recommendations the Strategic Review Steering Committee offer to the D's Boards for review and implementation. They include: **Financial, Structural and Staffing**

## **NEW FINANCIAL APPROACHES**

The Steering Committee believes there are several strategies which can be carried out, but none will be realized without the increased collaboration of the community.

- Several immediate short term strategies which were discussed and vetted for 2014 & 2015 include:

### ***-Budget Reduction Strategies:***

1. Refinance Kalamazoo County Loan with the support of the City of Kalamazoo
2. DKI Communications & Events – total savings for 2013 is estimated at \$50,000, same is targeted for 2014 & 2015
3. Sublease DKI offices or move to smaller DTI property
4. Capital Improvement Program Committee – No savings to implement in 2013. Maintain basic clean and safe standards
5. DKI Safety and DDA's Advisory Council Committees – no budgets but still viable to provide support to DKI
6. Building Revitalization Program Committee – Program budget on hold, 2013 Savings \$4,000
7. Business Retention / Recruitment Committee – Retail Incubator and Incentive program budgets placed on hold, estimated 2013 Savings of \$29,570

### ***-Revenue Enhancement Strategies:***

1. Restructure TIF Capture formula
2. City's Brownfield Redevelopment Authority assist DDA payback on Metro Center
3. Parking – Prepare New Five Year Parking Plan which will include annual revenue enhancements, reduced management fees, bid contracts, implement technology improvements. 2013 Savings \$40,000, target same for 2014 & 2015

### ***-Defer/Postpone/Forgive Strategies:***

1. Defer Payment on Methodology Error
2. Maintain Two Mil / TIF funding structure – Do not add new taxes through a BID or PSD. (See Attachment E – Civitas Report).
3. Defer ACFP Payments to KCF

- Long Range Projections 2016 - 2019
  1. Implement Zero Based budgeting for all boards and committees
  2. Explore Special Assessment districts
  3. Utilize conservative TIF budget projections
  4. Leveraging Resources
  5. Commit but defer TIF contributions to key downtown development projects –Exchange, Gazette
  6. Sustainability – Parking, DKAC Events and the Arcadia Creek Festival Place must become self-sufficient
  7. Rebuild DKI, DDA and Parking fund balances

**The Key Strategic Review Steering Committee Recommendations derived from the list above by Board are:**

**DDA:**

- **Seek support from DKI from its \$300,000 fund balance**
- **Request KCF to defer \$75,000 loan payment for Arcadia Creek Festival Place**
- **Seek Payment Plans for Tax rebates**
- **Reduce Maintenance costs and coverage**
- **Refinance the Kalamazoo County Loan**
- **Seek payment plan from City on \$300,000 TIF repayment**

**DKI:**

- **Reduce/eliminate DKI programs**
- **Assist DDA with DKI Fund Balance**
- **Reduce DKI staffing levels**
- **Explore collaboration/partnerships to form agreements to redirect communications and events programs**
- **Create plan for DKAC to become self-sufficient**
- **Create plan for Arcadia Creek Festival Place to become sustainable within 2 years**
- **Maintain at least one maintenance staff person**

**PARKING:**

- **Explore the use of Parking Cash Reserve to assist with TIF shortfalls**
- **Reduce DKI Management Fee**
- **Reduce outside contracts and repairs**
- **Implement New Five-Year Plan with revenue enhancements**
- **Implement savings through new Parking 3-5 year Management Agreement**
- **Reduce Parking Staff**

**DKAC:**

- **Become a subcommittee of DKI**
- **Combine purpose with Communications & Events**
- **Retain its 501c.3 status to accept charitable donations for DKI and DDA**
- **Make all events self-sufficient**
- **ACFP become totally sustainable over next 2 years.**

## **DTI:**

- **Evaluate its role and purpose**
- **Become self sufficient and potentially becomes a stand-alone organization or**
- **Continue to partner with DTI on projects and operational support**

## **NEW ORGANIZATIONAL STRUCTURE**

A new organizational structure has been recommended by the Steering Committee. It is not a change for the sake of change. We are considering the reorganizing DKI and DKAC to form one board to represent the private side, being able to accept contributions, work on economic development, manage the parking system, and handle the Arcadia Creek Festival Place, events, and downtown advocacy. Maintaining the Private/Public structure will come with a reduced and streamlined organization. We are exploring the legal ramifications of combining DKI and DKAC. These are two private non-profit groups that already work very closely and have similar goals in terms of parking, events, business support, safety and advocacy. DDA will remain as the Public arm, supporting public improvements and maintenance but with more focus on key downtown areas; Kalamazoo Mall and Arcadia Creek Festival Place.

DTI has been making progress in 2013 to address its debt issues and determine its future role. It may still remain a D's partner by a contract with DKI for its staffing. The DTI Board has to determine if it wants to continue its role as a leader in downtown economic development and decide if it wants to support specific projects. The DTI Board plans to hold a strategic planning session in November 2013 to map out its future and relationship with the other D's organizations.

The most important element in the New D's organization is the concept of creating a Downtown Joint Executive Committee made up of representatives of the executives of DKI, DDA and City Administration. Their role would be advisory, leadership, problem solving and support to DKI and DDA Boards. The goal would be to open up a stronger communication mechanism to work out public /private projects, concerns or issues. This is a major structural change.

The structural changes are based on the directives below:

- **Maintain the Successful Private/Public Relationship**
  1. DKI & DKAC maybe reorganized. The 501c.3 status shall be maintained
  2. Explore combining DKAC Board and the Communication and Events Committee
  3. DDA provides the public funding tools: Two Mil and TIF
  
- 4. DTI may become a separate entity but still a contractual partner. It is developing its own strategic plan to set its future role.
  
- **Excellent Management / Leadership – Creation of a Public Private Executive Joint Committee to help set goals and policy, conflict resolution, address issues to oversee the new structure.**
  1. Committee of DKI / DDA /City administration
  2. Transparency and Communication focused

3. Collaboration / Partnerships / Volunteers Leadership – Reduction in D’s Boards and Committees. Greater teamwork with partners: City, Southwest Michigan First, County, Discover Kalamazoo, Arts Council, Chamber, etc.
  4. Explore the transfer of some Downtown Communications & Events tasks to Discover Kalamazoo
  5. Explore the Transfer of Art Hop to Arts Council
  6. In-Kind Support from our Downtown Stakeholders / Partners
  7. Explore creation of a downtown Brand Manager
- Roles / Accountability –
    1. Parking
    2. Business Support – Continue our strong role as the downtown small business recruitment and retention agency.
    3. Arcadia Creek Festival Place must become self-sufficient
    4. Maintenance – Clean and Safe
    5. Advocacy
  - Simplified and Efficient – (See Attachment G - New D’s Organizational Chart)

## **NEW DKI/DDA MANAGEMENT TEAM**

It is often normal for businesses and governmental agencies to address a budget crisis with quick comprehensive cuts. However, the Steering Committee recognized the importance of not reducing staff too small so that implementation suffered. The new D’s organization will require a staff to function. The current DKI staff which manages the DDA has enormous institutional knowledge and they do everything possible with reduced funding to maintain basic service levels.

Mayor Hopewell asked how such extensive work could be done with only three staff members, and suggested waiting to eliminate any positions until that work is complete. T. Fallon clarified that the group must look at staffing, as well as tapping the innovative potential of the community.

The Steering Committee believes that a combination of staff adjustments, board and committee volunteers and new partnerships can maintain the restructured D’s organization over the next two years.

It is proposed that the new D’s staff will be made up of three existing professionals: Executive Director, Financial Director and Planning and Development Services Coordinator. The revised and simplified staff team becomes focused on administration, financial management, business development/ advocacy, parking operations and communication and events. DKI would also seek opportunities to team up with some partners to share and or maintain part time administrative support services. Staff costs would be reduced approximately \$200,000 with service agreements in place from DDA Two –Mill and Parking budget sources.

It is proposed that the current Business Retention/Recruitment Director could become a contracted employee of DTI. This position at DTI could also be shared with DKI at a much reduced service agreement cost. Specific focus of this staff person will be to direct the redevelopment of Arcadia Commons West and property deposition and management duties.

It is not without some hard challenges that the new staff adjustments will take on the breadth of services our stakeholders are used to, this will result in significant reductions in services and support provided. We are committed to maintaining one maintenance staff to focus on our key retail center (Kalamazoo Mall), the Arcadia Creek Festival Place, and general streetscape clean up.

## STRATEGIC REVIEW SUMMARY PLAN

What really has changed with the D's organization as a result of this plan? Below are specific changes which are proposed to be implemented. Some are immediate and other will take time as we begin meeting with our partners to collaborate and share resources. The Strategic Review Proposed Structure Summary Plan spreadsheet (see Attachment H) will guide you through the changes and modifications to the D's organization by Board.

- Short term 2014 – 2015
  - New Organization structure
  - Fewer boards and committees
  - Less staff maintaining basic D's leadership mission
  - Partnerships to share and maintain special programs and events
  - Continue working with of Discover Kalamazoo, Arts Council and The Event Co.
  - Recommitment to the downtown stakeholders, visitors and businesses.
  - Commitment to supporting development projects that will build the tax base (Exchange Building)and essential community services (WM Cancer Center )
  - Leverage Private funding sources
  
- Long Term 2016 – 2019
  - DKI Staff will track TIF changes and revenue trends
  - Study options for special assessments to carry out maintenance issues
  - Target joint solutions with City and SW Michigan First to expand residential growth within the downtown and core neighborhoods.
  - Oppose the State proposed personal property tax elimination
  - Seek partners outside the DDA to help expand marketing and communication strategies
  - Think bigger than just the DDA district for revenue and growth opportunities.
  
- Resource Options that will be pursued
  - Grants
  - Sponsorships / Patrons
  - Revenues/Fees
  - Partnerships / Collaboration
  - In-Kind support
  - Naming rights for special events (holiday parade) or venues (Festival Place)

## **THE FUTURE OF DOWNTOWN**

Today must be a new day of collaboration and communication for downtown to continue to prosper. The D's organization has led downtown's resurgence for 25 years but economic conditions have weakened our financial strength over the last five years. It has tied our hands, forcing stressful conflicts with some of our most important partners. With all the dynamic forces on the D's organization there still is no one more qualified to run the DDA than DKI staff. The current structure of the D's will be reduced however it will still remain a board-driven and stakeholder-based organization to provide input and guidance on all downtown activities.

New ideas and solutions are in the works with this plan. It is not solely based on program and staff cuts, a tweak here and there. Creative communication is paramount with all parties that care for our downtown, city and community. Building new revenue streams evolves from maintaining and enhancing the quality of life and experience downtown. Young entrepreneurs and families are flocking back to downtowns and core neighborhoods where density is high and living close to your neighbors is embraced. These young minds will create the new jobs, events, connectivity, culture and vitality for the next 25 years. They are the ones who can build the wealth through a sense of place. Collaboration with higher education must be focused on keeping students in Kalamazoo. They must become our new base of committed, involved citizens and leaders.

The benefits of the D's Boards implementing the recommendations from The Strategic Review Report will include more clarity and understanding to the general public and partners regarding the value we add to downtown, city and community.

## **ATTACHMENTS**

- A. D's Missions
- B. Current D's Organizational Chart
- C. DDA TIF Revenues
- D. Steering Committee Membership
- E. Civitas Report
- F. Strategic Review Preliminary Budgets
- G. New D's Organizational Chart
- H. Strategic Review Proposed Structure Summary Plan
- I. 2009 Downtown Comprehensive Plan