



Memo

To: Honorable Mayor Armitage; City Council
From: Bryan Myrkle, Community Development Director
Date: December 14, 2022
Re: Butternut Creek Apartments – Request for PILOT

Background

The City of Charlotte has received a request from the owners of Butternut Creek Apartments for tax relief in the form of a Payment in Lieu of Taxes (PILOT). The purpose of the tax incentive would be to facilitate a \$5.5 million rehabilitation of the apartment complex, while preserving its status as qualifying affordable housing.

A PILOT is a form of tax abatement. Charlotte has used PILOT agreements in the past to incentivize affordable housing projects at several locations. There are currently PILOTs in effect for Sugar Mill Apartments on Maynard Street, and for the Edmond Senior Apartments on Washington Street. A third PILOT was approved for a proposed redevelopment project at Old School Village apartments on Horatio Avenue which did not take place.

A PILOT is a negotiated service charge based on the project's revenue that takes the place of traditional property taxes. A PILOT can be used to incentivize a new development, or the rehabilitation and preservation of an existing development, which is the case for this proposal.

PILOTs are commonly used across the state to assist affordable housing developments. Many cities have a blanket PILOT policy allowing for this kind of tax incentive when qualifying affordable units are part of a residential development. Similarly, affordable housing projects usually will not qualify for state-level assistance if a local PILOT is not included as part of the incentive package. Charlotte does not have a blanket policy, and instead evaluates each project on its own merits.

The argument in favor of providing tax relief for this kind of project is that most cities have significant need for higher-quality affordable housing. A package of federal, state and local incentives is applied to the project to reduce the cost to a point where the rents charged can be affordable for low-and moderate-income families, while allowing a return on investment for the developer.

Another potential benefit is the stabilization of property values in the community by reducing the pressure to provide affordable housing in other ways – by the conversion of owner-occupied, single family homes to multi-unit rentals, for example; or through a reduction in the quality of available housing.

The first PILOT in Charlotte was approved in 2002 for Sugar Mill Apartments and was a 14% PILOT, meaning the property owners pay an amount equal to 14% of the difference between the rents received

and the utilities paid – this being the primary, long-term income or revenue-over-expenses for the project.

When the Edmond Senior Apartments were proposed for development, we researched the policies of other communities and the PILOT rates typically granted. We found active PILOTS in Michigan ranging from as low as 4% to as high as our own 14%, with our rate being the highest and a significant outlier. In the City of Lansing, for example, a 10% PILOT is offered across-the-board with no additional approval necessary if the developer accepts it, and it appears that 10% is the most common rate statewide. As a result of this information, the Edmond Senior Apartments was offered a 10% PILOT, which they accepted, and the PILOT rate for Sugar Mill was subsequently reduced to a matching 10%. In this case, Butternut Creek Apartments is seeking a lower 8% PILOT. If it is approved at that rate, the City is not obligated to similarly reduce the rate for the other two existing PILOT projects, but I think it's likely that you would be requested to do so.

I asked City Assessor Randy Jewell to estimate the amount of tax that would be forfeited by the City if this PILOT is approved, i.e. the difference between what Butternut Creek would pay under this PILOT vs what it would pay through a traditional property tax. However, because final assessments cannot easily be predicted by the level of investment, it is difficult for him to make this estimate. He cautioned that these numbers may or may not reflect the actual tax once completed.

- The current 2022 property taxes are approximately \$96,411.
- Assuming a 30% increase due to the improvements, it would produce an initial estimated tax of \$125,334.
- Butternut Creek estimates its PILOT payment would be \$104,000, or a difference of approximately \$21,000. This annual figure would likely change over the proposed 30-year length of the proposed PILOT agreement as qualifying income restrictions are adjusted by the state on an annual basis.

The owners of Butternut Creek have provided additional detailed information about their proposal which is included in your packet. This includes information about the apartment development's affordability structure and the owner's proposed improvements.

If approved, the PILOT agreement takes the form of an ordinance. Like other local ordinances it requires a first read, a public hearing and a second reading and adoption.

Recommendation

- 1.) Consider whether the City of Charlotte should continue supporting the improvement of affordable housing in the community through site-specific tax relief.
- 2.) Consider what level of incentive to provide.

Financial Impacts

See above.

Suggested Motion

Approve first reading of proposed PILOT ordinance and set public hearing for Tuesday, January 3, 2023.