



City of CHARLOTTE

MEMORNADUM

TO: Mayor Lewis and City Council Members

FROM: Gregg Guetschow, City Manager

SUBJECT: Tax Exemption Ordinance Amendment

DATE: February 10, 2017

The sponsors of The Edmonds Senior Apartments project have requested that Council approve a tax exemption ordinance that would substitute a service fee for property taxes that such a project would otherwise pay. This type of arrangement is commonly referred to as Payment in Lieu of Tax or PILOT.

PILOT arrangements are common for projects targeting low income persons as is the case with The Edmonds Senior Apartments. In fact, I am not sure that such projects will qualify for funding through the Michigan State Housing Development Authority without such a commitment. It appears that the state and federal governments, as a condition of their providing financial support, also wish to see that the local government also has provided some incentive for the project.

As the ordinance amendment shows, this PILOT would be the second granted by the City. The first occurred in 2002 in support of the Sugar Mill Apartments project on Maynard Street. There are some minor differences in the language between the two projects but otherwise they tend to follow a standard format.

There are two key issues related to this matter. The first is whether Council wishes to encourage a project designed to provide additional housing for low income senior persons. The second is the extent of the financial incentive you wish to provide.

In addressing the second issue, you will note that the Sugar Mill Apartments pay a service fee equivalent to 14% of the difference between rents and utilities. The sponsors of The Edmonds Senior Apartments have proposed a 10% PILOT. (This is an increase from their initial proposal of 4%.) We are aware of projects in other communities for which the PILOT varies between 4% and 10%. In the City of Lansing, for example, a 10% is offered automatically and no approval other approval action is required if a PILOT of that amount is accepted by the developer.

You will find in the agenda packet information submitted by the sponsors of this project including a pro forma. The pro forma shows a PILOT amount of just over

\$30,000. We believe that this overstates that actual amount we could expect to receive from a PILOT by several thousand dollars.

By way of comparison, City Assessor Randy Jewell has developed a very preliminary analysis of the taxes that would be generated by the project without an exemption. His estimate is based on an income approach to value utilizing the rental rates proposed by the sponsor. Based on these figures, he estimates that the development would pay nearly \$48,000 annually. If this project were charging market rate rents, we could expect that number to be higher although it is not certain that there would be a demand for that type of housing, leading to a lower occupancy rate and a lower value.

I also asked Mr. Jewell to estimate the property taxes that would be paid by a commercial occupant of the existing structure. Based on the list price for the property, he estimates that a new owner would pay about \$13,800 in property taxes. At present, the entire parcel is tax exempt and generating no property taxes.

The proposed PILOT, then falls mid-way between the two estimates. It is possible to propose a higher percentage but the pro forma seems to indicate very little room to move this number up and still have a financially viable project.

Representatives of the sponsor will be in attendance at Monday's meeting, providing Council an opportunity to ask additional questions regarding this matter.