

Memo

To: City Council
From: Bryan Myrkle, Community Development Director
Date: November 17, 2020
Re: Request for Payment In Lieu of Taxes

As you know, PK Development, of Okemos, Michigan, is proposing to purchase the Old School Village apartments (former Charlotte Junior High School), and continue the development started by Charhian Development. There are currently 17 market-rate rental units at the site, and the proposal is for the development of 54 new units for low- and moderate-income families.

Similar to the Edmond Apartments and Sugar Mill apartments, the developer is proposing to use federal, state and local incentives to ensure the project's financial viability. The primary difference in this case is that these apartments are intended for family housing, not housing for seniors.

The state and federal incentives are not available to the developer unless there is a corresponding local incentive. This is to ensure that the local municipality also has 'skin in the game,' so to speak. The cumulative goal of these incentives is to reduce the cost of the project to the point where the rents charged can be affordable for low- and moderate-income families, while allowing a suitable return on investment for the developer.

The type of local tax exemption used for these projects is known as a Payment In Lieu of Taxes, or PILOT. This substitutes a fee based on the project's revenue, for a tax based on its value.

In your evaluation of this request for a PILOT, there are two key questions you will need answer. The first is whether you wish to use a tax

break to encourage this particular development proposal, and the second is the extent of the tax break you wish to accept.

Former City Manager Guetschow researched the issue of PILOTS in 2017 when the Edmond Apartments were proposed. The first PILOT granted in Charlotte in 2004, for Sugar Mill Apartments, was a 14% PILOT. This means that 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 net income or revenue-over-expenses for the project.

Mr. Guetschow determined that there were active PILOTS in various locations around the state ranging from 4% to 10%, with the 14% PILOT being a significant outlier. In the City of Lansing, 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 statewide, and something of a standard. Based on this research, the Edmond Apartments developer was offered a 10% PILOT on that project, and the Sugar Mill PILOT was reduced to 10%. In this case, PK Development has also requested a 10% PILOT.

City Assessor Randy Jewell estimates that this exemption would provide the developer tax relief of approximately 2/3 what they would otherwise pay for this project. Using the restricted rental amounts provided by PK Development, Mr. Jewell calculated that the annual taxes on the development would be approximately \$90,500 without the exemption, compared to an estimated annual PILOT payment of \$30,120. The existing 17 rental units at the site would not be included in this PILOT.

One item to note is that this site is within the City of Charlotte Downtown Development Authority, and unlike ad valorem taxes, a PILOT is not automatically captured in a Tax Increment Finance district. Therefore, it will be necessary for the City Council to take action directing those funds to the DDA each year, if they wish the continued development of the site to benefit the DDA.

In terms of the proposed development itself, there are several reasons to consider using a tax incentive at this time. The first and most obvious reason is because, despite serious effort, the development has not progressed in more than 10 years. The owner, Jim Cicorelli, has been very diligent about trying to find a way to make the project work during that time. Unfortunately, projects with a significant historic preservation component are more difficult and more expensive than new-build

projects. Beyond that, pursuing a project at this site with no historic preservation at all would also be abnormally expensive, because of the extensive demolition and disposal costs. As communities all over Michigan have learned, redevelopment projects often require the use of incentives that new developments would not.

In terms of this specific incentive vs. others, Mr. Cicorelli has previously taken the impressive step of hiring a consulting firm that specializes in finding and packaging Michigan incentives for projects like these, and there was no combination of incentives or programming that would overcome the development challenges.

Another reason to consider taking this step is due to the deteriorating condition of the building. Without further development or extensive demolition, the building will become an ever more dangerous nuisance. Both the City police and fire department have identified the site as a major community safety issue. They have provided information regarding their concerns and activities at the site for your reference.

For your City Council meeting on November 23, we are asking you to approve a first reading of a revised ordinance granting this tax exemption, and set a public hearing on the matter for December 14. At that meeting, you would be tasked with making a decision on the PILOT tax incentive for this project, considering the recommendation from the Planning Commission on the request for rezoning, and also considering a zoning ordinance variance requested by PK development related to the room density of the development proposal.

Should you need any additional information in order to make your decision on the PILOT, please let me know so that I can have it available to you by that meeting date.