



Memo

To: Honorable Mayor Armitage; City Council
From: City Manager LaPere, MPAP
Date: March 3, 2023
Re: Request from Related Affordable LLC regarding request to amend Ordinance 2022-09 to establish a PILOT tax exemption for Related Affordable, LLC owner of 535 Lansing St., commonly known as Butternut Creek Apartments.

Background

On January 3, 2023 City Council approved an ordinance to add PILOT tax exemption for property at 535 Lansing, commonly known as Butternut Creek Apartments. The applicant had originally requested a PILOT of 8%. Upon discussion, City Council approved an ordinance which provided for PILOT with the annual service charge of equal to 10% of the difference between the annual shelter rent actually collected and utilities. Copy of the original ordinance and supplemental materials from the January 3rd Council meeting can be found here: <https://www.charlottemi.org/city-council-meeting-tuesday-january-03-2023-700-p-m/>

The representatives from Related Affordable LLC have approached the City requesting reconsideration of the annual service charge based on additional information they have supplied, see attached.

Financial Impacts

The difference between 8% (\$104,000 estimated payment for year one) and 10% PILOT (\$130,000) is estimated to be \$26,000 in year one, or approximately \$13k per percentage point. The difference in the amount collected and retained by the city is estimated to be about \$2,600 in year one (estimated city amount \$10,400 at 8% vs \$13,000 at 10%). Please note, these figures are estimates based on the historical allocation of current PILOT distributions between various entities and annual collection estimates provided on projected annual shelter rents.

Costs of amending the ordinance are nominal and include the amount to publish the required notices and staff time drafting revisions to ordinance and required notices.

Recommendation

If Council wishes to amend the ordinance as requested, they should direct administration to draft an ordinance amendment to Section 64-25 (C) to modify the annual service charge from "ten percent (10%)" to "eight percent (8%)". Procedurally, a first reading could take place on March 20th, and public hearing and second reading and consideration of adoption on April 3rd.

eel

attachment



From: Related Affordable, LLC
To: City Council Members of the City of Charlotte, MI
Date: February 13, 2023
Re: Butternut Creek Tax Abatement Amendment

This memo presents Related Affordable’s proposal to amend Ordinance No. 2022-09, which established a 10% service charge in lieu of property taxes for the proposed acquisition and rehabilitation of Butternut Creek.

The team at Related Affordable has made significant progress in securing a tax-exempt bond and Low Income Housing Tax Credit (“LIHTC”) allocation from the Michigan State Housing Development Authority (“MSHDA”) in addition to working with the Department of Housing & Urban Development (“HUD”) to renew the property’s project-based Section 8 Housing Assistance Payments contract for another 20 years. We have also finalized a \$5.96 million rehabilitation budget with our architect, general contractor, and external consultants, which comprises necessary upgrades to building systems, common areas, units, and resident amenities that will greatly enhance the property’s useful life. This is to ensure that Butternut Creek continues to successfully operate as an affordable, safe, and attractive place to live for seniors and families in the long term.

While the 10% service charge previously approved by the City Council provides predictability regarding the property’s real estate tax payments, **it is not sufficient to make the project feasible with the \$5.96 million rehabilitation budget required to modernize Butternut Creek.** This is because the property’s resulting Net Operating Income is too low to support a First Mortgage that covers the cost of the full rehabilitation. With an 8% PILOT, as shown below, we would be able to generate over \$380,000 in additional First Mortgage proceeds, \$233,000 in additional LIHTC equity raised, and \$517,000 in additional renovation funding to meet the \$5.96 million target.

Butternut Creek MI Limited Dividend Housing Association, LP Sources & Uses - 10% PILOT		Butternut Creek MI Limited Dividend Housing Association, LP Sources & Uses - 8% PILOT		Increase:
Sources		Sources		
First Mortgage	10,885,000	First Mortgage	11,267,000	+ 382,000
LIHTC Equity	5,978,181	LIHTC Equity	6,211,620	+ 233,439
Income from Operations	733,600	Income from Operations	726,000	
Reinvested Allowance 48%	902,129	Reinvested Allowance 48%	948,683	
Total Sources	18,498,910	Total Sources	19,153,303	
Uses		Uses		
Acquisition	7,500,000	Acquisition	7,500,000	
Renovation	5,437,800	Renovation	5,955,246	+ 517,446
Hard Cost Contingency	477,000	Hard Cost Contingency	522,390	
Soft Costs	1,791,161	Soft Costs	1,794,482	
Financing/Legal Costs	858,462	Financing/Legal Costs	870,183	
Replacement Reserves	30,000	Replacement Reserves	30,000	
Other Reserves & Escrows	516,348	Other Reserves & Escrows	506,890	
MSHDA Developer Allowance	1,888,139	MSHDA Developer Allowance	1,974,112	
Total Uses	18,498,910	Total Uses	19,153,303	

The LIHTC program is one of the few means available to complete an outsized scope all at once at an existing affordable housing property. Butternut Creek is now over 50 years old and needs a variety of capital expenditures to be made concurrently. Related Affordable is a long-term owner and fully intends to set the property up for success by covering the \$5.96 million in rehabilitation costs deemed necessary by the architects, engineers, and consultants involved. Cutting the budget by over \$500,000 would require us to omit renovation and reconfiguration of common space for senior residents, exterior site improvements including enhancements to landscaping and lighting, and more.

With this added context, we ask the City of Charlotte to grant Butternut Creek an 8% service charge in lieu of property taxes for this project and ensure its feasibility. The last thing we want is to cut necessary improvements for the property when we are able to leverage the LIHTC program, which will not be possible again until 2038. We strongly believe that the economic and social benefits of fully modernizing and preserving Butternut Creek as the only source of Section 8 housing in Charlotte are worth this added effort. We thank you again for your time and support.