

DEGC

**Detroit Economic
Growth Corporation**



Tax Incentives

HOW TO GUIDE

February 2021



DEGC is committed to creating jobs for Detroiters and expanding economic investment. Tax incentives are an important economic development tool, yet their perceived complexity often leads to confusion, delays in processing, and missed economic opportunity.

Exploration and implementation of DEGC's toolkit of incentives begins with providing quality customer service and comprehensive community engagement. The Economic Development and Investment Services (EDIS) team is charged with reviewing abatements for projects, both large and small, and facilitating necessary coordination with the City and State.

Businesses seeking our services can expect to be assigned a staff member to walk them through the abatement process and coordinate with relevant stakeholders. This document, an educational primer and overview of the abatement process, serves as a supplement to the support you will receive from our team of experts.

Kenyetta Hairston-Bridges
Executive Vice President

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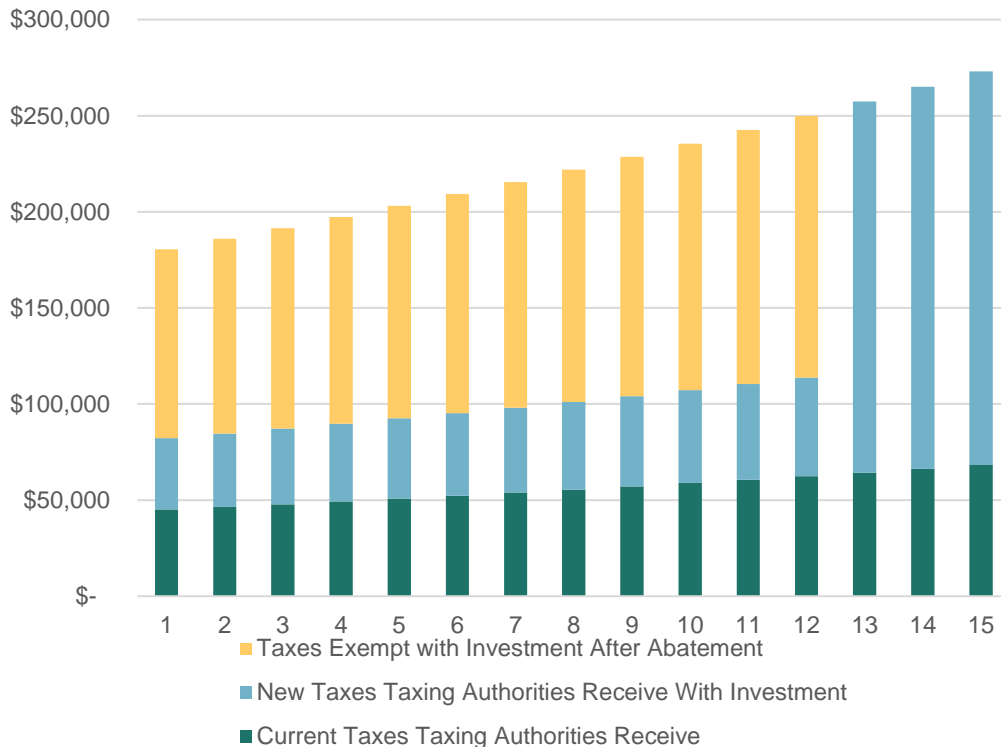
ABOUT TAX ABATEMENTS

What is a tax abatement?

A tax abatement reduces the increase in property taxes paid that would have occurred as a result of investment to a property.

A property owner will still pay property taxes and a small increase in taxes will occur.

Example Abatement Chart



Why do projects use tax abatements?

New construction or a major renovation to a property will result in an increase to future taxes paid on a property.

How does it work?

- Property owners makes a major investment resulting in a reassessment of property value.
- The Developer will continue to pay the taxes currently collected and on the increase in the land value, (**Green**).
- With no abatement, the amount of taxes paid on the property will increase (**Blue & Yellow**).
- With an Abatement: The yellow portion is the amount of taxes, an abatement will exempt from payment
- The Property owner will still pay a partial increase in taxes (**Blue**).
- In total, the property owner will pay the current taxes paid on the property as well as a portion of the increase in property tax assessed (**Blue & Green**).

HOW DO I GET AN ABATEMENT?

*Full process chart provided on Page 7

Step 1: Apply for a District with the City of Detroit

A District does not provide the tax abatement. The district indicates that properties in the boundaries may be eligible for the abatement.

Property owners may disqualify themselves from applying for an abatement if any work is completed prior to approval of a district.

A map of all commercial districts approved in the City can be found [here](#).



Step 2: Apply for Certificate

The Certificate grants the property an abatement. Only property owners who commit to specific investments into the property are eligible to request an exemption certificate.



Step 3: Approval by the State Tax Commission (STC)

The State of Michigan STC makes the final approval of all certificates at monthly board meetings.

The STC requires applications be received by October 31st in order for an abatement to become effective the following year.

The City of Detroit requires receipt of all Certificate applications by August 1st to ensure processing and submission by the STC's October 31st deadline.

TYPES OF TAX ABATEMENTS

This comprehensive list of tax abatements can apply to Detroit projects. Each abatement has specific requirements. The DEGC can help you understand which abatement is best suited for your project’s needs and estimate future tax payments with the abatement.

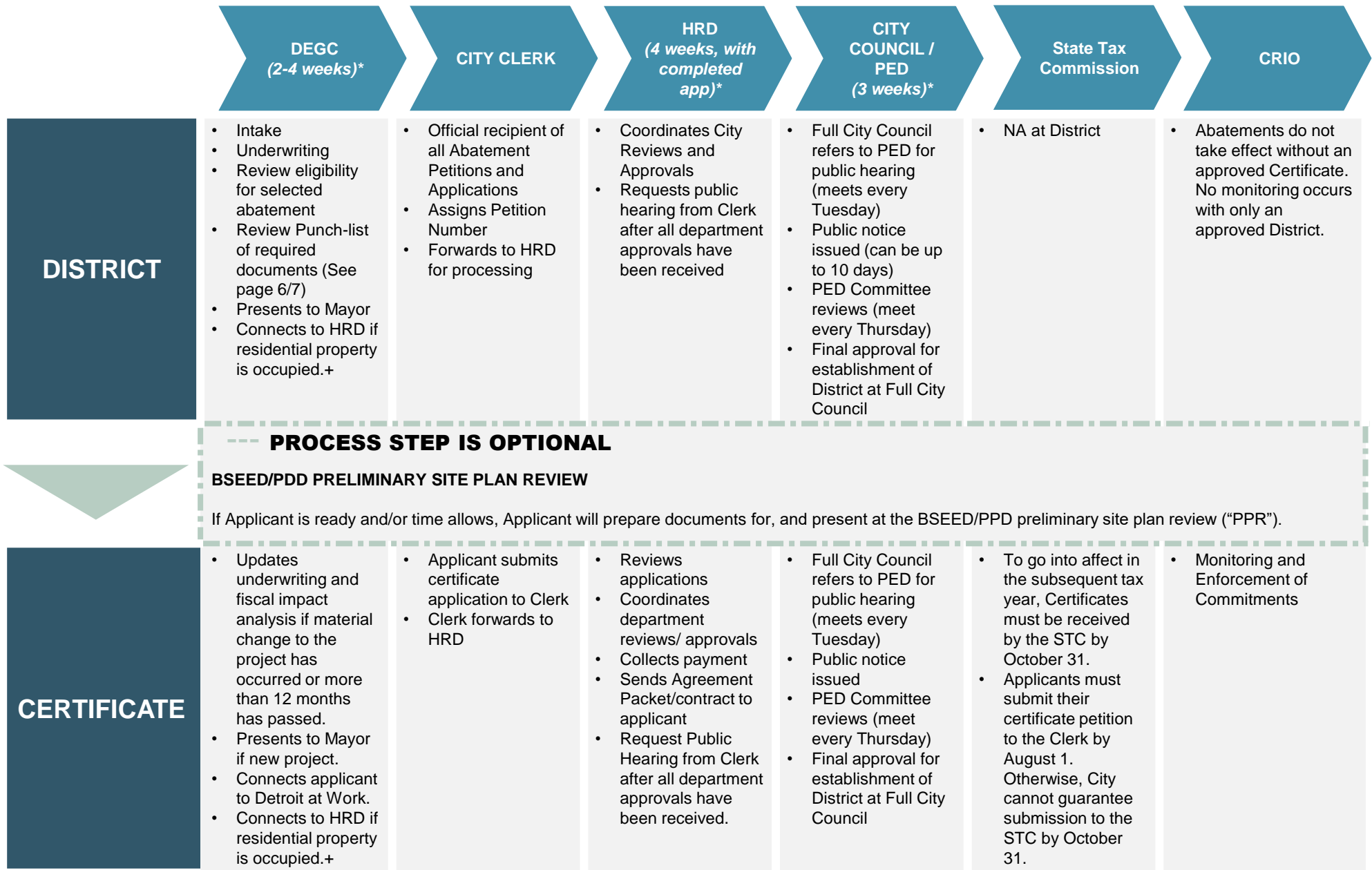
Incentive	Description	Taxes Abated	Example Project
Obsolete Property Rehabilitation Act P.A. 146 of 2000, as amended	Incentive for the rehabilitation of obsolete commercial property	<ul style="list-style-type: none"> Property tax: Millage applied to improved value (excludes school mill) 1-12 Year Term 	Detroit Pizza Bar
Commercial Rehabilitation Act P.A. 210 of 2005, as amended	Incentive for the rehabilitation of commercial property	<ul style="list-style-type: none"> Property tax: 100% local on improvements (excludes school mill) 1-10 Year Term 	The Osi Apartments
Neighborhood Enterprise Zone Act P.A. 147 of 1992, as amended	<ul style="list-style-type: none"> New Facilities: 1/2 PRE State avg tax rate Rehab: Value frozen at tax rate prior to certificate approval. Homestead: 50% reduction in City/County operating millage Benefit: See description 	<ul style="list-style-type: none"> Property tax: 50% of prior year state average millage rate OR frozen assessment pre-investment 1-15 Year Term 	Corktown Lofts
Industrial Facilities Exemption P.A. 198 of 1974, as amended	Incentive for the rehabilitation of manufacturing and industrial property	<ul style="list-style-type: none"> Property tax: 50% on improvements and (rare cases 100%) 1-12 Year Term 	MyLocker
New Personal Property Exemption P.A. 328 of 1998, as amended	Incentive for the installation of new personal property	<ul style="list-style-type: none"> Personal Property Tax: 100% Unlimited Term 	WPP
Commercial Facilities Exemption P.A. 255 of 1978, as amended	Incentive for mixed-use commercial redevelopment in a qualified downtown revitalization district	<ul style="list-style-type: none"> Property tax: 50% on improvements or frozen assessment pre-investment 1-12 Year Term 	Hotel Indigo
Michigan Renaissance Zone Act (Michigan Strategic Fund Designated Zone) P.A. 376 of 1996	Incentive to spur business development in the State of Michigan and prevent physical/infrastructure deterioration	<ul style="list-style-type: none"> Property tax: 100% excluding debt millages & Wayne County RESA 100% Personal Property Tax Abated 100% Local Income Tax Abated 1-15 Year Term Also exempts Utility Users Tax 	Ford Corktown Campus
Next Michigan Development Act P.A. 275 of 2010 Renaissance Zones P.A. 376 of 1996	Incentive to spur business development in seven targeted regions - incentive is specific to companies utilizing two or more method of transportation to move products	<ul style="list-style-type: none"> Property tax: 100% 100% Personal Property Tax Abated 100% Corporate Income Tax Abated 1-10 Year Term Also exempts Utility Users Tax 	Flex-N-Gate

DEPARTMENT ROLES AND RESPONSIBILITIES

<p>City Clerk's Office</p>	<p>Application filed with Clerk's Office. Petition number generated and forwarded to Housing Revitalization Department (HRD). Forwards application and supporting documentation to State Tax Commission for approval of tax certificate.</p>
<p>DEGC Detroit Economic Growth Corp.</p>	<p>Serves as primary point of contact for applicant. Provides final recommendation to Council for abatement term through an underwriting review and net benefit analysis. Presents to Mayor for approval.</p>
<p>JET</p>	<p>Oversees Abatement Process for the City.</p>
<p>HRD Housing and Revitalization Department</p>	<p>Facilitates Internal Departmental Review:</p> <ul style="list-style-type: none"> ▪ Accounts Receivable Department ▪ Income Tax Department ▪ Planning and Development Department ▪ Assessor's Office ▪ Approval of any variations to the standard affordable housing policy <p>HRD prepares and sends abatement agreement, City Council correspondence, and accepts executed agreement and application fee of \$1,800.</p>
<p>Detroit At Work</p>	<p>Negotiates and develops staffing plan with applicant for abatement certificates.</p>
<p>CRIO Civil Rights, Inclusion, and Opportunity Office</p>	<p>Approves staffing plan prior to Council review. Manages on-going reporting, compliance, and enforcement of abatement agreement.</p>
<p>Legislative Policy Division</p>	<p>Prepares recommendation to City Council based upon DEGC's cost-benefit analysis.</p>
<p>City Council</p>	<p>Reviews and approves tax abatement application.</p>
<p>STC State Tax Commission</p>	<p>The State Tax Commission makes the final determination and approval of a Certificate for tax exemption.</p>

- The DEGC makes *recommendations* on the term of abatements. Final approval is required by City Council, and in some circumstances, the State Tax Commission.
- Each abatement legislation has different submission requirements for the District and Certificate. Applicants proceed at their own risk if construction begins prior to City Council approval of the abatement certificate.

APPLICATION PROCESS: STEP BY STEP OVERVIEW



*All timelines are approximate and dependent upon receipt of all application materials in final form. Timeline through City Council dependent on availability of public hearing dates and project pipeline. DEGC and City review can occur concurrently with receipt of completed applications.

*Current or prospective owners of buildings with existing residential tenants will disqualify themselves from City support if any residential leases are terminated or tenants removed prior to negotiating a tenant retention and/or relocation strategy with HRD.

OVERVIEW OF THE COMMUNITY BENEFITS ORDINANCE (CBO)

What is the Community Benefits Ordinance?

Approved in 2016, the Community Benefits Ordinance (CBO) is a **law that requires developers to proactively engage with the community to identify community benefits and address impacts** of certain development projects.

When does a project trigger the CBO?

The CBO applies when a development project:

- Is **\$75 million or more in value** (construction of facilities)
- Receives **\$1 million or more in property tax abatements** OR
- Receives **\$1 million or more in value of city land sale or transfer**

Roles & Responsibilities

Planning and Development Department (PDD)	<ul style="list-style-type: none"> ▪ Reviews the project scope and defines the project's impact area ▪ Ensures all affected residents have an equal voice in the process
City of Detroit	<p>Organizes community meetings over a 3-month period (usually 5-6 formal meetings, depending upon scope)</p> <ul style="list-style-type: none"> ▪ Project introduced to impacted residents ▪ Potential impacts of the project determined ▪ Benefits for the community established
Neighborhood Advisory Council (NAC)	<ul style="list-style-type: none"> ▪ “Eyes and ears” of community concerns on how a development affects well-being, convenience, and livelihood ▪ Includes nine (9) representatives* from the project's impact area ▪ Works directly with developer to establish community benefits
City Council	CBO process results in a final development agreement approved by City Council

* Visit the [website](#) or review the formal [ordinance](#) for detailed information on NAC eligibility and selection process

ABATEMENT CHECKLIST FOR DEGC SUBMISSION

Questions or guidance can be directed to DEGC for assistance in filling out forms or final review before submission.

Purpose for Review

The DEGC reviews project applications to determine eligibility, complete a fiscal impact analysis and establish that “but for” the abatement the project will not be feasible. The results from this review informs Council’s final decision. Information required for this review is summarized below.

Standard Requirements

The following submissions are required for a new project. If a district and certificate application are received within 6 months of each other, with no material change, these materials may not need to be resubmitted. There are several additional documents to include with the data sheet and are listed below. Your DEGC manager can assist you further.

Project Data Sheet submitted to DEGC (online submission found [here](#))

- ✓ Photographs of Existing Site and/or Building Conditions (not applicable for PA 328)
- ✓ For rehabilitation projects, include a detailed description of work detailing need for renovations
- ✓ Project Renderings
- ✓ Project Proforma submitted with project data sheet to DEGC (please utilize MEDC’s proforma template [here](#))

Additional information will be submitted to the Clerk’s office and HRD as noted on page 7.

Additional Items May Be Required

This information can be submitted with the data sheet or to your DEGC manager.

If TIF is being requested -

- TIF projections with the abatement
- TIF projections without the abatement

Occupied Residential Projects

Current or prospective owners of buildings with existing residential tenants will disqualify themselves from City support if any residential leases are terminated or tenants removed prior to negotiating a tenant retention and/or relocation strategy with HRD.

- Refer to the City of Detroit’s Tenant Retention Policy for additional information required if the building is occupied.

Other

- Supporting documentation may be required for assumptions outside of current market trends

Procedural Notes

- Applicants for property tax abatements **must** utilize [MEDC’s proforma template](#)
- Upon completion, **email** template to [DEGC’s Senior Director of Real Estate](#) for review and delegation
- Applicants must submit their proforma to DEGC before filing an application with the Clerk’s Office
- Please notify and/or cc your HRD/DEGC representative when submitting the Clearances & Skilled Trades Task information

ABATEMENT CHECKLIST FOR CITY SUBMISSION



Questions or guidance on filling out these forms can be directed to DEGC for assistance in filling out the forms or final review before submission.

Submissions

Applicants will submit documentation to the DEGC to complete a fiscal impact analysis & underwriting.

To initiate the formal review and approval by the Detroit City Council, the Applicant must submit the petition letter and application to the City of Detroit's Clerks office at CAYMC – 2nd Floor 2 Woodward Ave, Detroit, MI 48226.

District Petition

Petition letter and attachments are filed with the City Clerk's Office. The Clerk's department distributes the application to HRD for the City review.

Sample petition submissions are on the [DEGC website](#).

Certificate Petition

Certificate application is filed with the City Clerk's Office. The Clerk's department distributes the application to HRD for the City review. A petitioner may choose to submit the application with a cover letter. Links to the Certificate applications and samples cover letters are on the [DEGC website](#):

HRD will distribute a **Certificate Packet** to the applicant. The Certificate Packet contains the following required forms:

- ✓ Tax Incentive Agreement
- ✓ Fee Affidavit Form
- ✓ Resolution of Corporate Authority
- ✓ Council President Jones Incentive Information Chart
- ✓ Hiring Plan Online Smartsheet Submission

Additional Items to Complete After Application is Submitted to the Clerk.

- ✓ Check for \$1,800 payable to Treasurer of the City of Detroit sent to HRD
- ✓ Income Tax and Accounts Receivable Clearances – Can be found here
- ✓ Attend the Skilled Trades Task Force Meeting – Contact Ms. Linda Wesley at (313) 628-2993 or wesleyl@detroitmi.gov

Please notify and/or Cc: your HRD/DEGC representative when submitting the Clearances & Skilled Trades Task for information.

Evaluation and Requirements | Business Development & Attraction

Business Development requirements applies to projects where the end user of the property is the abatement applicant or affiliated company.

Evaluation

But For Analysis

Would the project proceed absent the abatement?

For competitively-sited projects:

- Is the cost of doing business in Detroit substantially higher as compared to other sites under consideration?

Complete review of:

- Lease rates
- Increased training budgets due to lack of skilled workforce
- Higher millage rates
- Income or corporate taxes

Verification Of Economic And Fiscal Benefits

- Total Private Investment
- Projected New Jobs Creation
- Project's economic impact on community

Strategic Impact & Requirements

Exemption Certificate Agreement

- All applicants will be required to sign a standard agreement abatement prepared / approved by the Law Department.

Standard Requirements

- Completion of required property rehabilitation / restoration / construction project within designated period
- Job Creation and staffing requirements
 - Staffing plan approved by Detroit at Work
 - Refer to Staffing Policy in appendix for more information.

Enforcement

- Certificate agreement will outline requirements and monitoring requirements
- Annual reporting requirements will be included.

Evaluation and Requirements | Real Estate Projects

Real estate requirements applies to projects when more than 20% of the tenants in the property are unaffiliated companies to the abatement applicant.

Evaluation

But For Analysis

- Ability to proceed absent the abatement is measured by cash reasonableness and standardized financial criteria including but not limited to: Debt Service Coverage Ratios, Cash on Cash Returns and IRR.
- What length of time is required for the project to support required debt?
- Additional information on the underwriting of Developer lead projects is on page 8.

Verification of Economic and Fiscal Benefits

- Total Private Investment
- Project's economic impact on community
- Consistent with the city's comprehensive plans, corridor strategies, etc.
- Location in Targeted Investment Areas
- Current or prospective owners of buildings with existing residential tenants will disqualify themselves from City support if any residential leases are terminated or tenants removed prior to negotiating a tenant retention and/or relocation strategy with HRD.

Strategic Impact & Requirements

Exemption Certificate Agreement

All applicants will sign a standard agreement abatement

Standard Requirements

- Completion of project within designated period
- Job Creation and staffing standards
 - Staffing plan approved by Detroit at Work
 - Refer to the Sample Hiring Policy in the appendix.
- Residential Projects: Adherence to the City's Inclusionary Housing Ordinance regardless of applicability inclusive but not limited to the following:
 - 20% of the units will be held for households with income at 80% of Area Median Income (AMI) based on HUD standards.
 - Annual total maximum rents, inclusive of utility allowance as identified here.
 - Units should be distributed throughout the complex and unit mix.
- Tenant retention plan if existing tenants
 - Requirements attached for reference in Appendix.

Enforcement

- Certificate agreement will outline requirements and monitoring requirements
- Annual reporting requirements will be included.

DEGC UNDERWRITING GUIDELINES FOR REAL ESTATE PROJECTS

❑ Project is financially and economically viable

- Project demonstrates viability:
 - Ability to secure all sources of financing
 - Positive cash flow with market-based Debt Service Coverage Ratios
 - No financial gaps exist after tax incentive underwriting
- Acquisition costs do not exceed fair market value or recent appraisal
- Other performance benchmarks
 - Rental rates, expenses, debt terms, and other financial assumptions are aligned with current market trends
 - Non-deferred Developer Fee not to exceed 5%. Related party fees not to exceed 8%.

❑ Project demonstrates financial need

- Abatement reduces gap caused by additional costs specific to project location and market
- Project's returns are reasonable to support the term of the abatement and attract investment
- Provision of abatement makes a meaningful impact on a projects' performance
 - Affect to the project returns is greater or equal to a 1% or a material difference in cash flow.

❑ Project involves substantial investment (new construction or complete rehabilitation)

- For existing structures, applicant must demonstrate that substantial rehabilitation is necessary and will occur
- Certificate Specific
 - Documentation of financing may be required.

❑ Recommendation of Term

- Requests with returns outside of current market trends may have shorter abatement terms recommended
- Project must demonstrate the full term of the abatement results in a substantial impact on the project returns, e.g., greater than 50 basis points

❑ Final Review

- Exceptions may be granted based on certain conditions such as project size or use of federally regulated affordable housing funds.
- Supporting documentation may be required for assumptions outside of current market trends

Contact Information | DEGC Abatement Review



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Contact a DEGC
manager today for
assistance on
your project