Tax Incentives
HOW TO GUIDE
July 2020
DEGC is committed to creating jobs for Detroitors 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 the experts on our team.

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.

#### 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 make 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).

### Example Abatement Chart

<table>
<thead>
<tr>
<th>Year</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
<th>9</th>
<th>10</th>
<th>11</th>
<th>12</th>
<th>13</th>
<th>14</th>
<th>15</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>$0</td>
<td>$50,000</td>
<td>$100,000</td>
<td>$150,000</td>
<td>$200,000</td>
<td>$250,000</td>
<td>$300,000</td>
<td>$350,000</td>
<td>$400,000</td>
<td>$450,000</td>
<td>$500,000</td>
<td>$550,000</td>
<td>$600,000</td>
<td>$650,000</td>
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</tr>
</tbody>
</table>

- **Taxes Exempt with Investment After Abatement**
- **New Taxes Taxing Authorities Receive With Investment**
- **Current Taxes Taxing Authorities Receive**
HOW DO I GET AN ABATEMENT?

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.

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### 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.

<table>
<thead>
<tr>
<th>Incentive</th>
<th>Description</th>
<th>Taxes Abated</th>
<th>Example Project</th>
</tr>
</thead>
</table>
| Obsolete Property Rehabilitation Act  
P.A. 146 of 2000, as amended | Incentive for the rehabilitation of obsolete commercial property | • Property tax: Millage applied to improved value (excludes school mill)  
• 1-12 Year Term | Wurlitzer Hotel |
| Commercial Rehabilitation Act  
P.A. 210 of 2005, as amended | Incentive for the rehabilitation of commercial property | • Property tax: 100% local on improvements (excludes school mill)  
• 1-10 Year Term | Orleans Landing |
| Neighborhood Enterprise Zone Act  
P.A. 147 of 1992, as amended | • 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 | • Property tax: 50% of prior year state average millage rate OR frozen assessment pre-investment  
• 1-15 Year Term | Town Residences |
| Industrial Facilities Exemption  
P.A. 198 of 1974, as amended | Incentive for the rehabilitation of manufacturing and industrial property | • Property tax: 50% on improvements and (rare cases 100%)  
• 1-12 Year Term | American Axle |
| New Personal Property Exemption  
P.A. 328 of 1998, as amended | Incentive for the installation of new personal property | • Personal Property Tax: 100%  
• Unlimited Term | Molina Healthcare |
| Commercial Facilities Exemption  
P.A. 255 of 1978, as amended | Incentive for mixed-use commercial redevelopment in a qualified downtown revitalization district | • Property tax: 50% on improvements or frozen assessment pre-investment  
• 1-12 Year Term | Bagger Dave’s |
| 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 | • 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 | Sakthi Automotive |
| 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 | • Property tax: 100%  
• 100% Personal Property Tax Abated  
• 100% Corporate Income Tax Abated  
• 1-10 Year Term  
• Also exempts Utility Users Tax | TBD |
# DEPARTMENT ROLES AND RESPONSIBILITIES

<table>
<thead>
<tr>
<th>Department</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>City Clerk’s Office</strong></td>
<td>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.</td>
</tr>
<tr>
<td><strong>DEGC Detroit Economic Growth Corp.</strong></td>
<td>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.</td>
</tr>
<tr>
<td><strong>JET</strong></td>
<td>Oversees Abatement Process for the City.</td>
</tr>
</tbody>
</table>
| **HRD Housing and Revitalization Department** | Facilitates Internal Departmental Review:  
- Accounts Receivable Department  
- Income Tax Department  
- Planning and Development Department  
- Assessor’s Office  
- Approval of any variations to the standard affordable housing policy  
HRD prepares and sends abatement agreement, City Council correspondence, and accepts executed agreement and application fee of $1,800. |
| **Detroit At Work** | Negotiates and develops staffing plan with applicant for abatement certificates. |
| **CRIO Civil Rights, Inclusion, and Opportunity Office** | Approves staffing plan prior to Council review. Manages on-going reporting, compliance, and enforcement of abatement agreement. |
| **Legislative Policy Division** | Prepares recommendation to City Council based upon DEGC’s cost-benefit analysis. |
| **City Council** | Reviews and approves tax abatement application. |
| **STC State Tax Commission** | The State Tax Commission makes the final determination and approval of a Certificate for tax exemption. |

- 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

DEGC
(2-4 weeks)*
- Intake
- Underwriting
- Review eligibility for selected abatement
- Review Punch-list of required documents (See page 6/7)
- Presents to Mayor
- Connects to HRD if residential property is occupied.

CITY CLERK
- Official recipient of all Abatement Petitions and Applications
- Assigns Petition Number
- Forwards to HRD for processing

HRD
(4 weeks, with completed app)*
- Coordinates City Reviews and Approvals
- Requests public hearing from Clerk after all department approvals have been received

CITY COUNCIL / PED
(3 weeks)*
- Full City Council refers to PED for public hearing (meets every Tuesday)
- Public notice issued (can be up to 10 days)
- PED Committee reviews (meet every Thursday)
- Final approval for establishment of District at Full City Council

State Tax Commission
- NA at District

CRIO
- Abatements do not take effect without an approved Certificate. No monitoring occurs with only an approved District.

**PROCESS STEP IS OPTIONAL**

BSEED/PDD PRELIMINARY SITE PLAN REVIEW
- If Applicant is ready and/or time allows, Applicant will prepare documents for, and present at the BSEED/PDD preliminary site plan review ("PPR").

CERTIFICATE
- Updates underwriting and fiscal impact analysis if material change to the project has occurred or more than 12 months has passed.
- Presents to Mayor if new project.
- Connects applicant to Detroit at Work.
- Connects to HRD if residential property is occupied.

- Applicant submits certificate application to Clerk
- Clerk forwards to HRD

- Reviews applications
- Coordinates department reviews/ approvals
- Collects payment
- Sends Agreement Packet/contract to applicant
- Request Public Hearing from Clerk after all department approvals have been received

- Full City Council refers to PED for public hearing (meets every Tuesday)
- Public notice issued
- PED Committee reviews (meet every Thursday)
- Final approval for establishment of District at Full City Council

- To go into affect in the subsequent tax year, Certificates must be received by the STC by October 31.
- Applicants must submit their certificate petition to the Clerk by August 1. Otherwise, City cannot guarantee submission to the STC by October 31.

- Monitoring and Enforcement of Commitments

**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.**

Detroit Economic Growth Corporation
ABATEMENT CHECKLIST FOR DEGC 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.

<table>
<thead>
<tr>
<th>Purpose for Review</th>
<th>Additional Items That May Be Required</th>
</tr>
</thead>
<tbody>
<tr>
<td>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.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Standard Requirements</th>
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</thead>
<tbody>
<tr>
<td>The following submissions are required for a new project. If a district and certificate applicants 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.</td>
</tr>
</tbody>
</table>

**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 in Excel submitted with project data sheet to DEGC (any dynamic Excel model is accepted. MEDC’s proforma can be found here)

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

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.

- ✓ Rent Roll Matrix found here
- Refer to the City of Detroit’s Tenant Retention Policy for additional information required if the building is occupied in Appendix.

**Other**

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

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

<table>
<thead>
<tr>
<th>Submissions</th>
<th>Certificate Petition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Applicants will submit documentation to the DEGC to complete a fiscal impact analysis &amp; underwriting.</td>
<td>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 <a href="#">DEGC website</a>:</td>
</tr>
<tr>
<td>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.</td>
<td>HRD will distribute a <strong>Certificate Packet</strong> to the applicant. The Certificate Packet contains the following required forms:</td>
</tr>
</tbody>
</table>
| **District Petition** | ✓ Tax Incentive Agreement  
✓ Fee Affidavit Form  
✓ Resolution of Corporate Authority  
✓ Council President Jones Incentive Information Chart  
✓ Hiring Plan Online Smartsheet Submission |
| 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. | Additional Items to Complete After Application is Submitted to the Clerk. |
| Sample petition submissions are on the [DEGC website](#). | ✓ 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](mailto:wesleyl@detroitmi.gov) |

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

**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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Nevan Shokar  
Real Estate Mgr – Central  
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Contact a DEGC manager today for assistance on your project.
APPENDIX

Housing and Revitalization Department (HRD)
Affordability and Tenant Relocation Policy