



**OFFICE OF THE
CHIEF FINANCIAL OFFICER
OFFICE OF BUDGET**

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October 21, 2024

Honorable Detroit City Council
Coleman A. Young Municipal Center
2 Woodward Avenue
Detroit, MI 48226

Re: Fiscal Impact of Amendment to Chapter 44 of the 2019 Detroit City Code – Taxes to add PILOT Ordinance

Dear Council Members:

Please see attached Fiscal Impact Statement prepared by the Office of Budget for the above referenced item, pursuant to CFO Directive 2018-101-029: Fiscal Impact Statements. Upon review, please do not hesitate to contact me to discuss further.

Best regards,

Tanya Stoudemire
Chief Deputy CFO / Interim Budget Director

Att: CFO Fiscal Impact Statement No. 2024-110-017

cc: Jay B. Rising, CFO
John Naglick, Jr., Chief Deputy CFO/Finance Director
Malik Washington, City Council Liaison
David Whitaker, Director-Legislative Policy Division



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CFO FISCAL IMPACT STATEMENT NO. 2024-110-017

SUBJECT: Fiscal Impact of PILOT Ordinance
PREPARED BY: Office of the CFO – Office of Budget
DATE ISSUED: October 21, 2024

1. AUTHORITY

- 1.1. State of Michigan Public Act 279 of 1909, Section 4s(2)(d), as amended by Public Act 182 of 2014, states the Chief Financial Officer (“CFO”) shall submit in writing to the Mayor and the governing body of the City his or her opinion on the effect that policy or budgetary decisions made by the Mayor or the governing body of the City (“City Council”) will have on the City’s annual budget and its four-year financial plan.
- 1.2. CFO Directive No. 2018-101-029 Fiscal Impact Statements states that the CFO shall issue Fiscal Impact Statements (“FIS”) for pending or enacted decision items with a significant fiscal impact on the City, as determined by the CFO, to provide financial information to the Mayor and the City Council as they consider action on proposed local policy or budgetary decision items.

2. PURPOSE

- 2.1. To provide financial information to the Mayor and the City Council as they consider the effect of the proposed ordinance to authorize property tax exemptions and payments in lieu of taxes (PILOT) for government-aided, fast track, and workforce housing development (the “PILOT Ordinance”).

3. OBJECTIVE

- 3.1. This FIS serves as the report on the fiscal impact of the proposed on the City’s annual budget for FY 2025 and four-year financial plan for FY 2025 – FY 2028 (the “City budget”).

4. SCOPE

- 4.1. This FIS is not intended to convey any statements or opinions on the advisability of the proposal, except for those components that have or may have a fiscal impact on the City budget.
- 4.2. This fiscal impact analysis is based on the proposed ordinance as described below in Section 5 of this FIS. Should the proposal change prior to final approval, an updated FIS may be issued.

5. STATEMENT

Conclusion: The PILOT Ordinance has an **indeterminate fiscal impact** on the City budget.

- 5.1. Background: Historically, housing developers seeking to develop affordable housing for low-income residents have faced financial barriers from the fact that various property tax

abatement mechanisms would be for an amount and term that fail to close the financial gap that would allow for the financing of the project. One property tax abatement mechanism available has been the State Housing Development Authority's (MSHDA) payment in lieu of taxes (PILOT) program that was available only for projects financed with a federally-aided or MSHDA-aided mortgage or advance or MSHDA grant ("Government-Aided Housing Projects"). State legislation enacted in 2022 (Public Act 239) expanded the scope of the PILOT program to allow municipalities to approve PILOT programs for housing projects being developed or rehabilitated for "workforce" housing.

Under the law, as amended, municipalities are granted broad authority to:

- Establish the PILOT rate for all or any class of Government-Aided Housing Projects,
- Create a PILOT program for development or rehabilitation of workforce housing, being rental units or other housing options reasonably affordable to, and occupied by, households with income not greater than 120% of the area median income,
- Define "low-income persons and families" for purposes of determining eligibility of workforce housing that would qualify for the PILOT, and
- Grant a PILOT for a workforce housing project, if the project remains subject to a covenant running with the land restricting the use of the project to workforce housing, for a period not to exceed 15 years.

The proposed PILOT Ordinance seeks to implement the new law by distinguishing housing projects by the type of projects that would require Council approval for the PILOT and by the levels of PILOT for which various types of projects would qualify.

All housing projects would require Council approval for a PILOT, except the following:

- Government-Aided Housing Projects.
- Fast Track Housing Projects, which are only those workforce housing projects that are for persons of low income or that involve the rehabilitation of a vacant structure.

PILOT rates for projects requiring Council approval would be set by resolution of Council, subject to the restrictions of law.

PILOT rates projects not requiring Council approval would be based upon average affordability and whether the project involved the rehabilitation of a vacant structure. These rates would range from 0.5% to 4% of annual rental revenue. Permanent supportive housing units would be charged a \$1.00 PILOT.

All PILOT rates would be conditional upon compliance with code requirements for property maintenance, an agreement on rental affordability levels for the term of the PILOT and, for Government-Aided Housing Projects and Fast Track Housing Projects, the submission and certification of certain records and verifications of tenant income and rental rates. Parts of a housing project found to be used contrary to the requirements of their ad valorem exemption would pay a PILOT equal to the ad valorem taxes.

Under the proposed ordinance, PILOTs for fast track workforce housing would be for the term provided by state law, except the proposed ordinance would allow a "by-right renewal" for up to 15 years so long as the development maintains eligibility and remains

subject to a covenant running with the land that restricts the use of the project to fast track or workforce housing and unless otherwise provided by law.

5.2. Fiscal Impact: The proposed PILOT Ordinance would have an **indeterminate fiscal impact** on the City budget. Increasing the amount of exemptions will impact property tax revenue collections. However, the overall impact on City tax revenues would be speculative due to the following unknown factors:

- The number of projects applying for a PILOT
- The size of those projects
- The determination of whether and how much alternative tax relief could have been otherwise obtained
- The assessment of whether the project would or would not happen without the PILOT
- The existence of economic impacts on other tax revenues such as City income tax

Additionally, HRD will need to hire 3 new program analysts beginning in calendar year 2025 to properly establish and administer the program. The full need for these 3 positions is \$383k beginning in FY 2025. While the PILOT proposal would require additional budget resources for HRD, the overall financial impact on the City budget remains indeterminate due to revenue uncertainty in respect to the items noted above.

| City of Detroit | | | | |
|--|-------------------|-------------------|-------------------|-------------------|
| FIS - PILOT Ordinance Proposal | | | | |
| | FY 2025 | FY 2026 | FY 2027 | FY 2028 |
| HRD - 3 FTE (Program Analysts) | \$ 375,573 | \$ 383,084 | \$ 390,746 | \$ 398,561 |
| Total, Personnel Costs | \$ 375,573 | \$ 383,084 | \$ 390,746 | \$ 398,561 |
| HRD - One-Time Operating | \$ 3,000 | \$ - | \$ - | \$ - |
| HRD - Recurring Operating | 4,500 | 4,500 | 4,500 | 4,500 |
| Total Operating Costs | \$ 7,500 | \$ 4,500 | \$ 4,500 | \$ 4,500 |
| Total Costs | \$ 383,073 | \$ 387,584 | \$ 395,246 | \$ 403,061 |
| Partial Year Implementation Savings ¹ | (190,037) | - | - | - |
| Net Impact on Four-Year Financial Plan | \$ 193,037 | \$ 387,584 | \$ 395,246 | \$ 403,061 |

Notes:

(1) HRD will need to hire 3 additional program analysts to administer the PILOT ordinance reforms. These staff will need to start at the beginning of CY 2025 to begin program implementation.

APPROVED

A handwritten signature in cursive script, reading "Tanya Stoudemire", is written over a horizontal line.

Tanya Stoudemire
Chief Deputy CFO / Interim Budget Director