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TO: COUNCIL MEMBERS

FROM: David Whitaker, Director 
Legislative Policy Division Staff

DATE: February 15, 2023

RE: Establishment of a **Neighborhood Enterprise Zone (PA 147 of 1992)**, as requested by **Olympia Development of Michigan (ODM)** for the proposed **2205 Cass NEZ**

Neighborhood Enterprise Zone Act (Public Act 147 of 1992)

The Neighborhood Enterprise Zone Act (NEZ), PA 147 of 1992, as amended, provides for the development and rehabilitation of residential housing located within eligible distressed communities. New and rehabilitated facilities applications are filed, reviewed, and approved by the local unit of government, but are also subject to review at the State level by the Property Services Division. The State Tax Commission (STC) is responsible for final approval and issuance of new and rehabilitated facility certificates. Exemptions for new and rehabilitated facilities are not effective until approved by the STC.

By statute, every NEZ must contain not less than 10 platted parcels of land that are compact and contiguous. The statute allows for an exception if a NEZ is in a *downtown revitalization district*. In a downtown revitalization district,¹ a NEZ may contain less than 10 platted parcels if the platted parcels together contain 10 or more facilities.

In 2008, **the NEZ Act was modified by Public Acts 204 & PA 228** to allow a neighborhood enterprise zone located in a "qualified downtown revitalization district" to contain fewer than 10 platted parcels if the platted *parcels* together contain 10 or more *facilities*. The Act as modified, defines "qualified downtown revitalization district" as an area located within the boundaries of one or more of the following:

- A downtown district, as defined in the Downtown Development Authority Act.²

¹ As defined in Section 2 (k) MCL 207.772
² PA 197 of 1975, MCL 125.1651 - 125.1681

- A principal shopping district or a business improvement district as defined in the principal shopping district Act (BID Act).³
- An area of the local unit zoned and primarily used for business, as determined by the local governmental unit.⁴

Olympia Development of Michigan (ODM)

Olympia Development of Michigan (ODM) is the project developer of the requested NEZ district, with a proposed area that consists of 1 vacant parcel currently used as a parking lot with a total of 3.739 acres of land, located at **2205 Cass**, which is proposed for a NEZ.⁵ The planned development is one of ten elements associated with ten (10) mixed-use development projects⁶ within Detroit’s DDA Development Area,⁷ which proposed together, encompasses Olympia Development’s Transformational Brownfield Plan⁸ proposal, commonly referred to as District Detroit, with a total estimated investment cost of \$1.532 billion.

2205 Cass

The current development at 2205 Cass, the DCI Residential Project, involves the planned new construction of a mixed-use development, with first floor retail and 17 floors of multifamily residential apartments above. The building is proposed to be located at 2205 Cass Avenue as part of the DCI Block, on the northeast portion of the block bounded by Cass Avenue to the east, W. Elizabeth Street to the south, Grand River Avenue to the west and W. Columbia Street to the north.

Adjacent to the DCI academic building,⁹ the newly constructed 19-story residential building is projected to contain approximately 256,050 gross square feet (GSF) with 247,300 GSF for 261 apartments, 54 of which will be affordable at 50% AMI, as well as 8,750 (net rentable square footage) NRSF/GSF for retail. The residential space will occupy 187,000 NRSF, with the difference of 60,300 square feet comprised of what is referenced as “back of the house” uses, such as common areas, elevators, escalators, lobbies, corridors, mechanical rooms and janitor closets. The currently requested NEZ tax abatement applies to the *residential* elements of this particular development.

In addition to the NEZ request, the developer is also pursuing assistance via a potential refundable loan through the Detroit Downtown Development Authority’s (DDA) newly implemented Affordable Housing Loan Program - \$8.804 million to support 54 affordable units,¹⁰ to assist in providing deep levels of affordable housing.¹¹ The developer is also pursuing Transformational Brownfield TIF reimbursement over a period of 35-years of TBP capture in the amount of \$47.9 million,¹² and also a PA 210 Commercial Rehabilitation tax abatement, for the *commercial* elements of this development (a ten-year abatement).

³ Principal shopping Districts and Business Improvements Districts Act 120 of 1961, MCL 125.981 - 125.990n

⁴ Under the DDA Act, "downtown district" means that part of an area in a business district.

⁵ The rationale for creating NEZ projects under PA 147 of 1992, as amended, must be based on the anticipation of market value added to the neighborhood upon completion of new construction and/or significant rehabilitation of existing housing stock. Assessor’s Letter dated January 5, 2023

⁶ The 10 listed sites include 4 mixed-income residential buildings, 4 commercial office buildings and 2 hotels, along with additional open public and green space. [District Detroit | City of Detroit \(detroitmi.gov\)](https://detroitmi.gov/district-detroit)

⁷ The “DDA Act,” Public Act 197 of 1975, enacted on August 13, 1975, authorized the use of Tax Increment Finance (TIF) to correct and prevent the deterioration of downtown areas in the State of Michigan.

⁸ A Transformational Brownfield Plan must be for mixed-use development and must meet a minimum investment threshold, which is set at \$500 million for a city, village or township with a population of at least 600,000 (i.e., Detroit).

⁹ The project referred to as “DCI,” is the University of Michigan Center for Innovation in Detroit (academic building). The DCI education center building of the DCI project is not being funded with support from this TBP; the other DCI Block buildings are.

¹⁰ The developer is also pursuing Federal 4% Low Income Housing Tax Credits (“LIHTC”)

¹¹ Affordable loan can be forgiven over time, with a demonstration of 50% of Detroit residents occupying the affordable units. Under these terms, a “Detroit resident” is defined as someone that has lived in the city for a minimum of 3 years prior to occupancy.

¹² TBP allows for the capture of five sources of new tax revenues associated with a project, in addition to incremental revenue from property taxes. The additional tax revenues available include the following State tax sources, 1.State Construction Period Income Tax; 2.State Construction Period Sales Tax Exemptions; 3.State Construction Period Use Tax Exemptions; 4.State Income Tax Capture; 5. State Withholding Tax Capture

Project	Total Investment	Square Footage	Units/Type	Affordable Units	AMI
2205 Cass - DCI Residential	\$150,140,161	256,050	Total Units: 261 Studio: 64 1-Bed: 131 2-Bed: 66 3-Bed: -	Total Units: 54 Studio: 13 1-Bed: 27 2-Bed: 14 3-Bed: -	Total Units: 5 @ 40% AMI; 49 @ 50% AMI Studio: 1 @ 40% AMI; 12 @ 50% AMI 1-Bed: 3 @ 40% AMI; 24 @ 50% AMI 2-Bed: 1 @ 40% AMI; 13 @ 50% AMI 3-Bed: -

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DEGC Project Evaluation Checklist

District Detroit – 2205 Cass

Developer: Olympia Predevelopment LLC

Neighborhood Enterprise Zone, PA 147 of 1997 as amended – Current taxes frozen at pre-construction values, local taxes abated for up to 15 years, years 13-15 have a phase out	
DEGC Recommendation	Approval of the NEZ District
Request Type	NEZ District
Location	
Address	2205 Cass
City Council District	District 6
Neighborhood	Downtown
Building Use	
Total Rentable Units	261 Units (54 Affordable)
Residential Rentable Square Footage	187,000
Retail Square Footage	8,750
Parking Spaces	N/A
Project Description	
<p>The DCI Residential Project is planned new construction of a mixed-use development, with first floor retail and 18 floors of multifamily residential units above. The building is proposed to be located at 2505 Cass Avenue on the northeast portion of the block bounded by Cass Avenue to the east, Elizabeth Street to the south, Grand River Avenue to the west and W. Columbia Street to the north. This building is intended to be a significant component of the new Detroit Center for Innovation (“DCI”) campus, a world-class research, education, innovation and entrepreneurial center, anchored by the University of Michigan.</p> <p>The newly constructed building is projected to contain approximately 256,050 GSF which would include 261 apartments, utilizing 187,000 NRSF, 54 of which will be affordable at 50% AMI, as well as 8,750 NRSF for retail.</p>	
Rental Breakdown	
Total Units	261 Units (54 Affordable)
Studio	64 Units (13 Affordable) – 545 SF
1 Bedroom	131 Units (27 Affordable) – 670 SF
2 Bedroom	66 Units (14 Affordable) – 975 SF
Project Costs	
Total Investment	\$150,140,000
Uses	\$105,906,000 Hard Construction (71%), \$44,234,000 Soft Costs (29%)
Sources	\$28.6 Equity (19%), \$84.7M Debt(56%), \$8.7M DDA AHLF (5.8%), \$13.1M DDA Infrastructure (8.7%), \$3.9M TBP Exemption (2.6%), \$7.8M AHP (5.2%), \$3.4M LIHTC Equity (2.2%)

¹³ Source: District Detroit Transformational Brownfield Plan

Project Benefits (15 years)	
Estimated jobs	44 FTE / 1,410 Construction
Estimated city benefits before tax abatement	\$13,328,170
Less cost of services & utility deductions	\$1,109,999
Net benefit to city	\$12,218,171

City of Detroit Gross Benefits Summary over the First 35 Years (Prior to Abatement)

	Amount
Real Property Taxes, before abatement	\$0
Personal Property Taxes, before abatement	\$0
New Residential Property Taxes	\$0
Municipal Income Taxes - Direct Workers	\$976,897
Municipal Income Taxes - Indirect Workers	\$310,555
Municipal Income Taxes - Corporate Income	\$378,650
Municipal Income Taxes - Construction Period	\$1,309,629
Municipal Income Taxes - New Residents	\$8,773,411
Utility Revenue	\$257,043
Utility Users' Excise Taxes	\$235,089
State Revenue Sharing - Sales Tax	\$5,762
Building Permits and Fees	\$0
Miscellaneous Taxes & User Fees	\$1,081,134
<u>Subtotal Benefits</u>	<u>\$13,328,170</u>
Cost of Providing Municipal Services	(\$852,957)
Cost of Providing Utility Services	(\$257,043)
<u>Subtotal Costs</u>	<u>(\$1,109,999)</u>
Net Benefits	\$12,218,171

Charts courtesy of DEGC

Conclusion

The investment in this project is estimated at **\$150 million**. The proposed tax abatement is projected to be worth a tax savings of **\$10,717,439** to the developer. The estimated investment and new residents are projected to produce a positive cost benefit to the City of Detroit of **\$12,218,171** and over **\$43,288,660¹⁴** to all the impacted taxing units, in addition to 44 FTEs, 1,410 temporary construction jobs and 261 new housing units.

NEZ Acreage Status:¹⁵

NEZ allocations are limited by state statute: *“The total acreage of the neighborhood enterprise zones containing only new facilities or rehabilitated facilities, or any combination of new facilities or rehabilitated facilities designated under this act shall not exceed 15% of the total acreage contained within the boundaries of the local governmental unit.”*¹⁶

Total acreage available (15% of Detroit acreage): 13,239.00

2205 Cass NEZ:

3.74 acres

¹⁴ The second spreadsheet with all taxing jurisdictions that we usually provide was not included, due to the fact that all or partial millages are subject to DDA capture.

¹⁵ This is a ballpark estimate by LPD, based on current available data.

¹⁶ MCL 207.773 (2)



CITY OF DETROIT
OFFICE OF THE CHIEF FINANCIAL OFFICER
OFFICE OF THE ASSESSOR

COLEMAN A. YOUNG MUNICIPAL CENTER
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PHONE: 313•224•3011
FAX: 313•224•9400

January 5, 2023

Katy Trudeau, Deputy Director
Planning & Development Department
Coleman A. Young Municipal Center
2 Woodward Ave, Suite 808
Detroit, MI 48226

RE: **Neighborhood Enterprise Zone – 2205 Cass Ave**
Property Address: 2121 Cass
Parcel ID: 02000353-6
Olympia Development of Michigan

Dear Ms. Trudeau:

The Office of the Chief Financial Officer, Office of the Assessor, has reviewed the proposed **2205 Cass Neighborhood Enterprise Zone** submitted by **Olympia Development of Michigan (ODM)** for the neighborhood located in the **Central Business District** area of Detroit.

The rationale for creating NEZ projects under PA 147 of 1992, as amended, must be based on the anticipation of market value added to the neighborhood upon completion of new construction and/or significant rehabilitation of existing housing stock.

The proposed area consists of 1 vacant parcel currently used as a parking lot with a total of 3.739 acres of land. The developer intends to construct a 19-floor, 256,050 sq.ft. apartment building with first floor retail and 261 apartments, 54 of which will be affordable housing. The current True Cash Value of the proposed area is \$10,895,158. The True Cash Value of this area would be expected to increase due to the new construction of this project.

Per MCL 207.772 Sec 2 (g) "New facility" means 1 or both of the following:

- (i) A new structure or a portion of a new structure that has as its primary purpose residential housing consisting of 1 or 2 units, 1 of which is or will be occupied by an owner as his or her principal residence. New facility includes a model home or a model condominium unit. New facility includes a new individual condominium unit, in a structure with 1 or more condominium units, that has as its primary purpose residential housing and that is or will be occupied by an owner as his or her principal residence. Except as provided in subparagraph (ii), new facility does not include apartments.
- (ii) A new structure or a portion of a new structure that meets all of the following: (A) Is rented or leased or is available for rent or lease. (B) Is a mixed use building or located in a mixed use building that contains retail business space on the street level floor. (C) Is located in a qualified downtown revitalization district.



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Neighborhood Enterprise Zone
2205 Cass Ave
Page 2

Per MCL 207.773 Sec. 3. (1) The governing body of a local governmental unit by resolution may designate 1 or more neighborhood enterprise zones within that local governmental unit. Except as otherwise provided in this subsection, a neighborhood enterprise zone shall contain not less than 10 platted parcels of land. A neighborhood enterprise zone located in a qualified downtown revitalization district may contain less than 10 platted parcels if the platted parcels together contain 10 or more facilities. All the land within a neighborhood enterprise zone shall also be compact and contiguous. Contiguity is not broken by a road, right-of-way, or property purchased or taken under condemnation if the purchased or condemned property was a single parcel prior to the sale or condemnation.

Upon review, it has been determined that this proposed district located in the **Central Business District area** is eligible for designation as a Neighborhood Enterprise Zone per PA 147 of 1992, as amended.

Sincerely,

Charles Ericson, MMAO
Assessor, Board of Assessors



Neighborhood Enterprise Zone
2205 Cass Ave
Page 3

Parcel: 0200353-6
Owner: OLYMPIA DEVELOPMENT OF MI LLC
Property Address: 2121 CASS
Legal Description: W CASS 3 THRU 25 INCLUDING ALL OF VAC ALLEY ADJ TO SAID LOTS BLK 74--SUB PT CASS FARM L1 P74 PLATS, W C R 396.58 IRREG

