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TO: COUNCIL MEMBERS
FROM: David Whitaker, Director
Legislative Policy Division Staff
DATE: March 12, 2019
RE: AK Owner, LLC Brownfield Redevelopment Plan
PA 381 of 1996 **PUBLIC HEARING**

The Brownfield Redevelopment Financing Act 381 of 1996

The Brownfield Redevelopment Financing Act 381 of 1996 provides tax incentives (i.e. tax increment financing) to develop brownfields properties in an area at or on which there has been a release (or threat of release) or disposal of a hazardous substance.

AK Owner, LLC Brownfield Redevelopment Plan

AK Owner, LLC, is the project developer. The project, the redevelopment of the Albert Kahn Building to create at least approximately 190 apartments (approximately 156 one-bedroom units, 21 two-bedroom units and 13 three-bedroom units) and rehabilitate or create up to 64,000 to 108,000 square feet of retail and other commercial space on the main floor and lower level concourse of the building. At least 20% of the building's residential apartments will be affordable units offering rents considered affordable to residents with incomes of not more than 80% of the area median income. The overall building restoration will include improvements to the exterior and interior, including full redesigns of public areas. One of the parcels will be used for surface parking for residential tenants and may be available for customers of retail and other commercial tenants.

The total investment is estimated to be \$48 million. The Developer is requesting \$2,976,700.00 in TIF reimbursement. There will be 300 temporary construction jobs and 6 FTE jobs. The 300 temporary construction jobs are expected to be created over a 2-year period once construction begins. The 6 FTE jobs may be related to property management.

The building at its inception, known as the New Center Building and now the Albert Kahn Building, was placed on the National Register of Historic Places in 1980.¹ According to the Detroit Free Press, “The rental apartments will likely be aimed at young professionals. No decision has been made on whether a portion of the apartments would be set aside as “affordable” units.”² The for rent apartment component of this project are subject to the NEZ request. In May 2018, the Albert Kahn Associates architecture firm is moved from the Albert Kahn Building to the Fisher Building. Prior to moving to the Fischer Building in May, the Albert Kahn Building had been home to the firm since 1931.³

Property Subject to the Plan

The eligible property (the “Property”) consists of two (2) parcels located in Detroit’s New Center area, east of Second Avenue, on the south sides of Bethune Street.

Basis of Eligibility

The Property is considered “eligible property” as defined by Act 381, Section 2 because (a) it was previously utilized for a commercial purpose and/or public purpose; (b) it is located within the City of Detroit, a qualified local governmental unit under Act 381; (c) it is functionally obsolete as defined by Act 381 and an historic resource, or, as to certain parcels, are adjacent and contiguous to the functionally obsolete property and historic resource and the development of the adjacent or contiguous parcels is estimated to increase the captured taxable value of the remainder of the eligible property.

Eligible Activities and Projected Costs

The “eligible activities” that are intended to be carried out at the Property are considered “eligible activities” as defined by Sec 2 of Act 381, because they include demolition, asbestos and lead based paint assessment and abatement, infrastructure improvements, development and preparation of a brownfield plan and work plan, and brownfield plan implementation. The eligible activities and budgeted costs are intended as part of the development of the Property and will be financed solely by the Developer.⁴ The Authority is not responsible for any costs of eligible activities and will incur no debt. The eligible activities are estimated to commence within 18 months of approval of the Plan and be completed within 3 years.

In addition to the Brownfield, he developer is in the process of completing a requests for a NEZ⁵ and a possible PA 255⁶ abatement. **The capture period for this Brownfield requests is for 20 years.**⁷

¹ <http://historicdetroit.org/building/albert-kahn-building/>

² <https://www.freep.com/story/money/2018/06/04/albert-kahn-building-new-center-sold-200-apartments/668600002/>

³ <https://www.crainsdetroit.com/article/20180328/news/656401/albert-kahn-associates-to-move-from-namesake-building-to-fisher>

⁴ Mr. Matthew Sosin purchased the Albert Kahn Building in May 2018 from The Platform and is the current owner of the Albert Kahn Building.

⁵ Neighborhood Enterprise Zone, PA 147 of 1992 as amended – Rehabilitation allocation; current taxes frozen at pre-rehab values, local taxes abated for up to 15 years (up to 17 years for a historic building).

⁶ Commercial Redevelopment Act, PA 255 of 1978 as amended – Restoration allocation; current taxes frozen at pre-rehab values, local taxes abated for up to 12 years.

⁷ The DBRA public hearing for the Plan was held on Thursday, February 7, 2019 at 5:30 pm at the Fisher Building located at 3011 W. Grand Blvd. in Detroit, Michigan. There was no public comment.

The Developer is requesting a \$2,976,700 TIF⁸ reimbursement and the total costs under the plan is a \$8,365,060 TIF, as illustrated below:

COST TO BE REIMBURSED WITH TIF	Tax Capture
1. Environmental Assessments	\$4,300
2. Demolition	\$1,857,400
3. Lead and Asbestos Activities	\$855,000
4. Infrastructure Improvements	\$200,000
5. Brownfield Plan & Act 381 Work Plan	\$30,000
6. Cost Tracking Compliance	\$30,000
*Total Reimbursement to Developer	\$2,976,700
7. Authority Administrative Costs	\$987,890
8. State Brownfield Redevelopment Fund	\$835,877
9. Local Brownfield Revolving Fund	<u>\$3,564,593</u>
TOTAL Estimated Costs	\$8,365,060

Tax increments are projected to be captured and applied to (i) reimbursement of eligible activity costs and payment of DBRA administrative and operating expenses, (ii) make deposits into the State Brownfield Redevelopment Fund, and (iii) make deposits into the DBRA's Local Brownfield Revolving Fund, as follows:

School Capture	Totals	Reimbursement of costs	DBRA Admin. Costs	State Revol. Fund	Local Brownfield Revolving Fund
State Education Tax (as capped in 2034)	\$ 350,027	\$ 129,110	\$ -	\$ 175,013	\$ 1,075
School Operating Tax (as capped in 2034)	<u>\$ 1,050,080</u>	<u>\$ 1,091,684</u>	\$ -	\$ -	<u>\$ 3,225</u>
School Total	\$ 1,400,107	\$ 1,220,794	\$ -	\$ 175,013	\$ 4,300
Local Capture					
City Operating	\$ 2,559,405	\$ 834,264	\$ 408,858	\$ -	\$ 1,316,283
Library	\$ 594,018	\$ 193,626	\$ 94,893	\$ -	\$ 305,499
Wayne County Operating	\$ 1,003,392	\$ 327,865	\$ 160,289	\$ -	\$ 516,037
Huron Clinton Metropolitan Authority	\$ 29,365	\$ 9,572	\$ 4,691	\$ -	\$ 15,102
Wayne County ISD	\$ 477,832	\$ 155,754	\$ 76,332	\$ -	\$ 245,745
Wayne County BNH	\$ 275,861	\$ 89,919	\$ 44,068	\$ -	\$ 141,873
Wayne County Community College	<u>\$ 447,004</u>	<u>\$ 145,706</u>	<u>\$ 71,408</u>	<u>\$ -</u>	<u>\$ 229,891</u>
Local Total	\$ 5,386,876	\$ 1,755,906	\$ 860,539	\$ -	\$ 2,770,431
Total Captured School and Local Taxes	\$ 6,786,984	\$ 2,976,700	\$ 860,539	\$ 175,013	\$ 2,774,731

In addition, the following taxes are projected to be generated but shall not be captured during the life of this Plan:

⁸ Tax Increment Financing (TIF) subsidizes an entity by refunding or diverting a portion of their taxes to help finance development in an area or on a project site.

Non-Capturable Millages	
City Debt	\$ 965,512
School Debt	\$ 1,793,093
Wayne County DIA	\$ 27,586
Wayne County Zoo	\$ 13,793
Total Non-Capturable Taxes	\$ 2,799,984

Description of the Eligible Property

Address	7430 Second Avenue, tax parcel 02-001104-14; and 101 W. Bethune Street, tax parcel 02-001124-32
Parcel ID	See above
Owner	AK Owner LLC
Legal Description	<p>LAND SITUATED IN THE COUNTY OF WAYNE, CITY OF DETROIT, STATE OF MICHIGAN, IS DESCRIBED AS FOLLOWS:</p> <p>LOT(S) 86, 87, 88 AND 89, EXCEPT THE EAST 20 FEET OF THE WEST 25 FEET OF SAID LOT 89; LOT 90, EXCEPT THE EAST 15.57 FEET; ALSO LOT 105, EXCEPT THE EAST 15.57 FEET; ALL OF LOTS 106, 107, 108, 109 AND ALL OF VACATED PUBLIC ALLEY (20 FEET WIDE) ADJOINING THE SOUTHERLY LINE OF LOTS 86, 87, AND 88 AND ADJOINING THE SOUTHERLY LINE OF THE WEST 5 FEET OF LOTS 89 OF LOTHROP AND DUFFIELD'S SUBDIVISION OF PART OF 1/4 SECTION 55 AND 56 OF 10,000 ACRE TRACT, ACCORDING TO THE PLAT THEREOF RECORDED IN LIBER 17 OF PLATS, PAGE 22 OF WAYNE COUNTY RECORDS.</p> <p>EASEMENT PARCEL: TOGETHER WITH A NON-EXCLUSIVE EASEMENT FOR SKYWALK AS CREATED LIMITED AND DEFINED IN INSTRUMENTS RECORDED IN LIBER 22315, PAGE 738 AND LIBER 23105, PAGE 12, WAYNE COUNTY RECORDS.</p> <p>AND ALL ADJACENT RIGHTS OF WAY.</p>

Feasibility of the Brownfield Approval⁹

- The current configurations do not meet market demand for the original commercial office and retail purposes of the building, nor does it meet market demand for its future residential use.
- Mechanical and electrical systems must be replaced.
- The elevators must be updated or replaced.
- Life safety systems (smoke detectors, fire alarm systems, exit signs and fire sprinklers) must be updated or replaced.
- The windows must be rehabilitated.

⁹ The Phase I ESA (Environmental Site Assessment) is generally considered the first step in the process of environmental due diligence.

- Asbestos containing materials must be removed or encapsulated.
- The entire roof must be replaced.

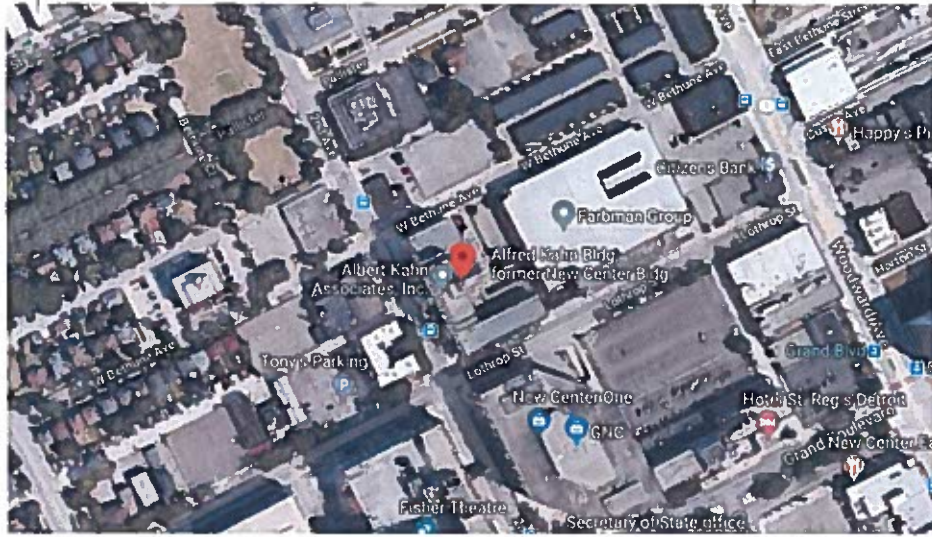
Please contact us if we can be of any further assistance.

Attachments: **ATTACHMENT E: Estimated Cost of Eligible Activities Table**

cc: Auditor General's Office
Arthur Jemison, Chief of Services and Infrastructure
Maurice Cox, Planning and Development Department
Donald Rencher, HRD
Dinah Bolton, Planning and Development Department
John Saad, Planning and Development Department
Stephanie Grimes Washington, Mayor's Office
Malinda Jensen, DEGC
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Jennifer Kanalos, DEGC
Brian Vosburg, DEGC



Albert Kahn Building



Site of the Albert Kahn Building Project

ATTACHMENT E

Estimated Cost of Eligible Activities Tables

The estimated total cost of eligible activities is \$2,976,700. For informational purposes, the eligible activities are presented below based upon their expected characterization as “Department Specific Activities” or “MSF Activities”, provided that the activities will be considered eligible activities regardless of if and how they are included in a work plan subsequently approved by the Michigan Department of Environmental Quality or Michigan Strategic Fund.

Eligible Activities Expected To Be Considered Department Specific Activities

Description	Costs	Category Totals	Completion Season/Year
Phase I	\$4,300	<u>\$4,300</u>	2018
Total		\$4,300	

Eligible Activities Expected To Be Considered MSF Activities

Description	Costs	Category Totals	Completion Season/Year
Asbestos Assessment and Abatement (including related architectural fees)	\$855,000	\$855,000	Summer, 2019
Demolition (interior; including related architectural fees and property condition assessment)	\$1,857,400	\$1,857,400	Summer, 2019
Public Infrastructure Improvements	\$200,000	<u>\$200,000</u>	2020
Subtotal		\$2,912,400	
Brownfield Plan & Work Plan Preparation		\$30,000	
Brownfield Plan Implementation		<u>\$30,000</u>	
Total		\$2,972,400	