

City of Detroit

CITY COUNCIL

LEGISLATIVE POLICY DIVISION

208 Coleman A. Young Municipal Center

Detroit, Michigan 48226


Phone: (313) 224-4946 Fax: (313) 224-4336

David Whitaker, Esq.
Director
Irvin Corley, Jr.
Executive Policy Manager
Marcell R. Todd, Jr.
Senior City Planner
Janese Chapman
Deputy Director

LaKisha Barclift, Esq.
M. Rory Bolger, Ph.D., AICP
Elizabeth Cabot, Esq.
Tasha Cowen
Richard Drumb

Christopher Gulock, AICP
Derrick Headd
Marcel Hurt, Esq.
Kimani Jeffrey
Anne Marie Langan
Jamie Murphy
Kim Newby
Analine Powers, Ph.D.
Jennifer Reinhardt
Sabrina Shockley
Thomas Stephens, Esq.
David Teeter
Theresa Thomas
Kathryn Lynch Underwood

TO: COUNCIL MEMBERS

FROM: David Whitaker, Director 
Legislative Policy Division Staff

DATE: March 13, 2019

RE: Kercheval East, LLC, Application for an Obsolete Property
Rehabilitation Certificate Public Act 146 of 2000 Abatement Request
PUBLIC HEARING

Obsolete Property Rehabilitation Act Public Act 146 of 2000

The Obsolete Property Rehabilitation Act (OPRA), Public Act 146 of 2000, provides for a tax incentive to encourage the redevelopment of obsolete buildings. This tax incentive is designed to assist in the redevelopment of older buildings, which are contaminated, blighted or functionally obsolete. The primary purpose of this incentive is to rehabilitate and convert vacant, functionally obsolete older buildings into vibrant commercial uses and commercial housing projects and to return them to the tax rolls.

Kercheval East, LLC's PA 146 OPRA Abatement

This project involves the rehabilitation of two separate buildings in the East Village neighborhood. The developments will be mixed-use with retail space and 15 rental residential units (3 affordable). This will be the first retail in the area in many years. The rehabilitation will include the replacement of all windows, mechanical systems, kitchens, bathrooms, doors, and hardware. Additionally there will significant lead-based paint abatement and possible asbestos.

Affordability

The goal expressed by the Duggan Administration for housing development projects with a rental component that are incentivized with City tax abatements, is a 20% affordability allocation. This policy aligns with the Detroit City Council's stated goal of maintaining affordable housing throughout the city of Detroit. Despite the fact that there is an abundance of affordable housing in certain areas of the city of Detroit, that same can't be said of the Downtown, Midtown, New Center, and Corktown areas. The primary group of individuals that

may benefit from this affordable arrangement, are those individuals at 80% of the Area Median Income (AMI), which according to HUD, 80% of AMI¹ is \$39,700.

The total investment for this project is estimated at **\$3.25 million**.

The DEGC recommends an **abatement of 8 years²** for this project.

**DEGC Project Evaluation
Kercheval East
Kercheval East, LLC
Principal: Principal: Alex Decamp**

Obsolete Property Rehabilitation Act, PA 146 of 2000 as amended- Current taxes frozen at pre-rehab values / Improvements taxed at 24mills (school), local taxes abated.	
DEGC Recommendation	8 Years
Location	
Address	8646 Kercheval & 1917 Fischer
City Council District	District
Neighborhood	East Village
Located in HRD Targeted Area	No
Building Use	
Total Square Foot	19,756
Retail Square Foot	6,636
Residential Square Foot	13,120
Project Description	
<p>This project involves the rehabilitation of two separate buildings in the East Village neighborhood. The developments will be mixed-use with retail space and 15 rental residential units. This will be the first retail in the area in many years. The rehabilitation will include the replacement of all windows, mechanical systems, kitchens, bathrooms, doors, and hardware. Additionally there will significant lead-based paint abatement and possible asbestos abatement.</p>	
Housing Breakdown	
Total Units	15 units, 3 affordable
Rent/sf	\$1.66
Underwriting	
Internal Rate of Return	10.51% with abatement (8.8% without abatement)
Debt Service Coverage Ratio	1.42 stabilized with abatement (1.27 without abatement)
Sources and Uses	
Total Investment	\$3.25MM

¹ Detroit-Warren-Livonia Michigan Average Median Income (AMI) is \$49,625 for 2018; 80% AMI = \$39,700, estimated at approximately \$992 per month at an 80% AMI affordable rent level.

² PA 146 allows for a maximum of a 12 year abatement.

Sources	\$2.9MM Capital Impact (90%), \$318k Owner Equity Contribution (10%)
Uses	\$12.5k Acquisition (1%), \$2.6MM Hard Construction (80%), \$650k (19%)
Project Benefits	
Estimated Jobs	4 FTE, 30 construction
Estimated benefits before tax abatement	\$817,333
Total estimated value of OPRA abatement	\$111,000
Less cost of services & utility deductions	\$486,110
Net Benefit to City	\$220,223

Project Cost/Benefit Analysis

All Taxing Units: Incentive Summary over the First 8 Years

	Additional Benefits Before Tax Abatements	Additional Costs	Real Property Tax Abatement	Business Personal Property Tax Abatement	Utility Users Tax & Corporation Income Tax Exemption	Net Benefits After Tax Abatements & Incentives
City of Detroit	\$817,333	(\$486,110)	(\$111,000)	\$0	\$0	\$220,223
Wayne County	\$50,397	(\$6,019)	(\$27,175)	\$0	\$0	\$17,202
Detroit Public Schools	\$200,262	(\$27,685)	(\$43,959)	\$0	\$0	\$128,619
State Education	\$33,828	\$0	\$0	\$0	\$0	\$33,828
Wayne RESA	\$24,482	\$0	(\$16,664)	\$0	\$0	\$7,818
Wayne County Comm. College	\$18,272	\$0	(\$10,959)	\$0	\$0	\$7,313
Wayne County Zoo	\$564	\$0	(\$338)	\$0	\$0	\$226
Detroit Institute of Arts	\$1,128	\$0	(\$676)	\$0	\$0	\$451
Total	\$1,146,265	(\$519,814)	(\$210,771)	\$0	\$0	\$415,680

Chart courtesy of DEGC

This project is estimated at a \$3.25 million investment and its projected positive cost benefit to the Detroit Public Schools of \$128,619, \$220,223 to the City of Detroit and over \$415,680 to all of the impacted taxing units, in addition to four full time jobs, 30 construction jobs and 15 new housing units, 3 of which are affordable.

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

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
Stephanie Grimes Washington, Mayor's Office
Malinda Jensen, DEGC
Kenyetta Bridges, DEGC
Jennifer Kanalos, DEGC
Brian Vosburg, DEGC