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# City of Detroit CITY COUNCIL

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TO: COUNCIL MEMBERS   
FROM: David Whitaker, Director  
Legislative Policy Division Staff  
DATE: September 4, 2019  
RE: Establishment of a Neighborhood Enterprise Zone as requested by  
Herman Kiefer Development, LLC, in the Virginia Park (Herman Keifer) Area

## Neighborhood Enterprise Zone Act (Public Act 147 of 1992)

The Neighborhood Enterprise Zone Act, 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. NEZ applications are filed, reviewed and approved by the local unit of government.

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

<sup>1</sup> As defined in Section 2 (k) MCL 207.772

## Downtown Revitalization District

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.<sup>2</sup>
- A principal shopping district or a business improvement district as defined in the principal shopping district Act (BID Act).<sup>3</sup>
- An area of the local unit zoned and primarily used for business, as determined by the local governmental unit.<sup>4</sup>

## Herman Kiefer Development, LLC

Herman Kiefer Development, LLC<sup>5</sup> is the project developer. In June of 2017, the City Council approved the Former Herman Kiefer Health Complex Brownfield Redevelopment Plan, which involved reuse of the former Herman-Kiefer Health Complex, two adjacent former Detroit Public school buildings, and a significant number of residential parcels scattered throughout the surrounding neighborhood.<sup>6</sup> This was detailed in a LPD report on the brownfield, dated June 13, 2017.

The current project to be reviewed and approved by Council involves the approval of a newly established Neighborhood Enterprise Zone, which is a part of the Herman Kiefer development plan. As a part of the proposed new NEZ "district," which is outlined in a letter from Finance Assessors (attached), dated October 9, 2017. The proposed (NEZ) "district," will include 1,830 properties, and 7 properties that were previously acquired by the developer. Also included in the district is the former Herman Keifer Hospital property located at 1151 Taylor Street. The current true cash value of the proposed area is \$28,131,060, and it includes approximately 224.227 acres of land. The true cash value of the this area is expected to increase due to the (anticipated) rehabilitation and construction (in the district).

Included in this proposed NEZ designation, is the developer's residential parcels, which will include 131 of the 500 available homes from the Detroit Land Bank Authority (DLBA). The developer will rehabilitate these homes, based on a timeline as described in an agreement with

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<sup>2</sup> PA 197 of 1975, MCL 125.1651 - 125.1681

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

<sup>4</sup> Under the DDA Act, "downtown district" means that part of an area in a business district that is specifically designated by ordinance of the governing body of the municipality pursuant to the Act. A downtown district may include one or more separate and distinct geographic areas in a business district as determined by the municipality.

<sup>5</sup> Herman Kiefer Development, LLC (HKD), lead by New York developer and architect Ron Castellano, will adaptively reuse and renovate the Herman Kiefer hospital complex and the former Hutchins and Crosman school buildings and will work with the City and community residents and stakeholders to stabilize and revitalize the surrounding neighborhood. HKD is expecting to invest over \$100 million to renovate the buildings included in the 18-acre hospital complex site for commercial use. <https://detroitmi.gov/departments/planning-and-development-department/citywide-initiatives/community-benefits-ordinance/past-cbo-engagement/herman-kiefer>

<sup>6</sup> The TIF (Tax Increment Financing) reimbursement to the developer is estimated at \$47.6 million, based on the total investment for all four phases of the project. The phases are to be completed within the following timeline from approval of the Plan: Phase I three (3) years, Phase II five (5) years, Phase III seven (7) years, and Phase IV ten (10) years.

the DLBA. Once the homes are rehabilitated, they will either be leased to tenants or sold outright to new homeowners.

DEGC Project Evaluation Checklist

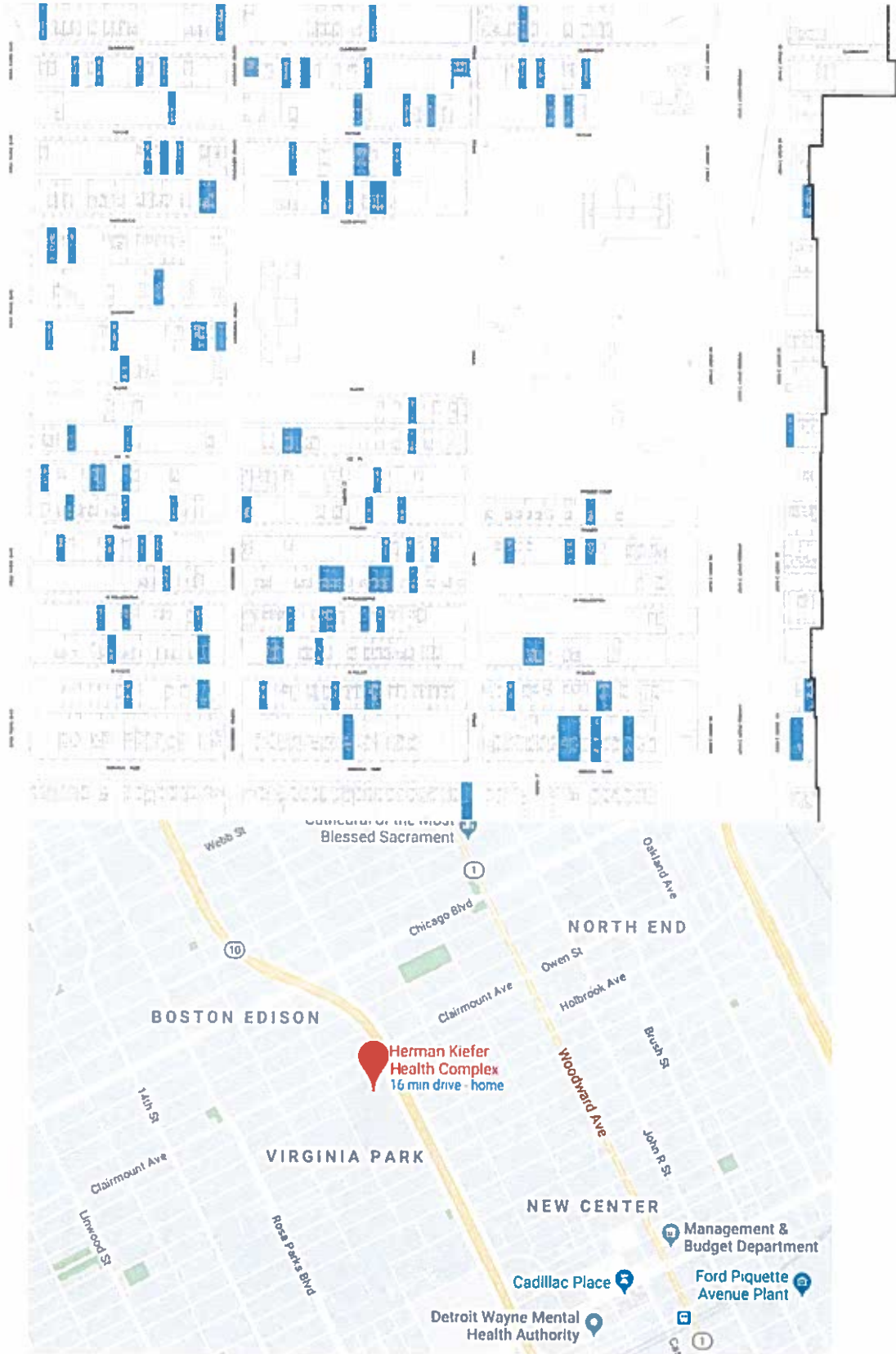
**Herman Kiefer**

Developer: Herman Kiefer

Principal: Hazel Balaban

<b>Neighborhood Enterprise Zone Act, PA 147 of 1992 as amended – rehab allocation; taxable value frozen at pre-rehab value for first 12 years, 3 year phase out in years 13-15</b>	
<b>Request Type</b>	<b>District</b>
<b>DEGC Recommendation</b>	<b>Approval of NEZ District</b>
<b>Location</b>	
Address	Many Addresses
City Council District	District 5
Neighborhood	Herman Kiefer
Located in HRD Targeted Area	Yes, greater Downtown
<b>Building Use</b>	
Total Usable Square Foot	124,450
Residential Square Feet	124,450
<b>Project Description</b>	
As a part of the Herman Kiefer development plan the developer will acquire a 131 of houses from the Detroit Land Bank Authority (DLBA). The developer will rehabilitate these houses on a timeline as set out in an agreement with the DLBA. Once the houses are rehabilitated, they will either be leased to tenants or will be sold outright to homeowners.	
<b>Housing Breakdown</b>	
Total Units	131 units
<b>Sources and Uses</b>	
Total Investment	\$7.1M
<b>Project Benefits</b>	
Estimated Jobs	0 FTE
Estimated City benefits before tax abatement	\$1,196,268
Total estimated City value of NEZ abatement	\$598,465
Less cost of services & utility deductions	\$0
Net Benefit to City	\$597,803

# Location Map



## City of Detroit Gross Benefits Summary over the First 15 Years (Prior to Abatement)

	Amount
Real Property Taxes, before abatement	\$780,226
Personal Property Taxes, before abatement	\$0
New Residential Property Taxes	\$0
Municipal Income Taxes - Direct Workers	\$0
Municipal Income Taxes - Indirect Workers	\$0
Municipal Income Taxes - Corporate Income	\$0
Municipal Income Taxes - Construction Period	\$37,755
Municipal Income Taxes - New Res. Inhabitants	\$356,268
Utility Revenue	\$0
Utility Users' Excise Taxes	\$0
State Revenue Sharing - Sales Tax	\$0
Building Permits and Fees	\$22,019
Miscellaneous Taxes & User Fees	\$0
<b><u>Subtotal Benefits</u></b>	<b><u>\$1,196,268</u></b>
Cost of Providing Municipal Services	\$0
Cost of Providing Utility Services	\$0
<b><u>Subtotal Costs</u></b>	<b><u>\$0</u></b>
<b>Net Benefits</b>	<b>\$1,196,268</b>

## Incentive Summary over the First 15 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	\$1,196,268	\$0	(\$598,465)	\$0	\$0	\$597,803
Wayne County	\$186,977	\$0	(\$145,800)	\$0	\$0	\$41,177
Detroit Public Schools	\$721,390	\$0	(\$526,629)	\$0	\$0	\$194,761
State Education	\$139,624	\$0	(\$101,928)	\$0	\$0	\$37,696
Wayne RESA	\$88,108	\$0	(\$66,343)	\$0	\$0	\$21,765
Wayne County Comm. College	\$75,415	\$0	(\$55,055)	\$0	\$0	\$20,361
Wayne County Zoo	\$2,327	\$0	(\$1,699)	\$0	\$0	\$628
Detroit Institute of Arts	\$4,654	\$0	(\$3,398)	\$0	\$0	\$1,257
<b>Total</b>	<b>\$2,414,763</b>	<b>\$0</b>	<b>(\$1,499,317)</b>	<b>\$0</b>	<b>\$0</b>	<b>\$915,447</b>

## Conclusion

The investment in this phase of the project is projected at \$7.1 million. The proposed NEZ tax abatement is estimated to be worth a savings of \$1.49 million to the developer. The estimated investment and new residents are projected to produce a positive cost benefit to the City of Detroit is \$597,803, and over \$915,447 to all of the impacted taxing units, in addition to 131 new housing units. Overall, this NEZ designation would qualify approximately 1,830 residential parcels for a NEZ tax reduction, thereby granting the residents in the area who qualify for a NEZ, significant tax relief.

### NEZ Acreage Status:<sup>7</sup>

**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."*<sup>8</sup>

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

<b>Virginia Park (Herman Keifer) Area:</b>	<b>224.23 acres</b>
<b><u>Total Acreage for the Entire City of Detroit:</u></b>	<b><u>88,260</u></b> <sup>9</sup>

<b>Total Acreage Remaining</b>	<b>7,615.03</b>
<b>Total Acreage Designated:</b>	<b>5,623.97</b>

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

**Attachment:** October 9, 2017 Letter from Finance Assessors

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

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<sup>7</sup> This is a ballpark estimate by LPD, based on current available data.

<sup>8</sup> MCL 207.773 (2)

<sup>9</sup> 88,260 Acres = 137.90625 Square Miles



CITY OF DETROIT  
FINANCE DEPARTMENT  
BOARD OF ASSESSORS

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DETROIT, MICHIGAN 48226  
PHONE 313•224•6989 TTY 313  
FAX 313•224•9400  
WWW.DETROITMI.GOV

October 9, 2017

Mr. Maurice Cox  
Director, Planning & Development  
2 Woodward Ave, Suite 808  
Detroit, MI 48226

**RE: Neighborhood Enterprise Zone**  
**Herman Kiefer Development LLC**  
**Rosa Parks Boulevard, the alley North of Clairmount Avenue, the alley West of Woodward Avenue, and the**  
**alley South of Virginia Park Street**  
**See Attached Parcel List**

Mr. Cox:

The Office of the Chief Financial Officer, Office of the Assessor, has reviewed the proposed Herman Kiefer Residential Neighborhood Enterprise Zone, bounded by Rosa Parks Boulevard, the alley North of Clairmount Avenue, the alley West of Woodward Avenue, and the alley South of Virginia Park Street of Detroit. The developer's proposed plan is to renovate certain blighted homes to become viable residential properties.

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 district encompasses 1,830 properties including approximately 500 Detroit Land Bank Authority property and 7 parcels which the previously acquired. It also include the parcel containing the former Herman Kiefer Hospital property located at 1151 Taylor Street. The current True Cash Value of the proposed area is \$28,131,060 and contains approximately 224.227 acres of land. The True Cash Value of this area would be expected to increase due to the rehabilitation and construction.

Per MCL 207.772 Sec.2 (m) "Rehabilitated facility" means an existing structure or a portion of an existing structure with a current true cash value of \$80,000.00 or less per unit that has or will have as its primary purpose residential housing, consisting of 1 to 8 units, the owner of which proposes improvements that if done by a licensed contractor would cost in excess of \$5,000.00 per owner-occupied unit or 50% of the true cash value, whichever is less, or \$7,500.00 per nonowner-occupied unit or 50% of the true cash value, whichever is less, or the owner proposes improvements that would be done by the owner and not a licensed contractor and the cost of the materials would be in excess of \$3,000.00 per owner-occupied unit or \$4,500.00 per nonowner-occupied unit and will bring the structure into conformance with minimum local building code standards for occupancy or improve the livability of the units while meeting minimum local building code standards. Rehabilitated facility also includes an individual condominium unit, in a structure with 1 or more condominium units that has as its primary purpose residential housing, the owner of which proposes the above described improvements. Rehabilitated facility also includes existing or proposed condominium units in a qualified historic building with 1 or more existing or proposed condominium units. Rehabilitated facility does not include a facility rehabilitated with the proceeds of an insurance policy for property or casualty loss. A qualified historic building may contain multiple rehabilitated facilities.



Neighborhood Enterprise Zone  
Herman Kiefer Development LLC  
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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 Virginia Park area is eligible for designation as a Neighborhood Enterprise Zone per PA 147 of 1992, as amended.

Sincerely,

A handwritten signature in black ink, appearing to read "Charles Ericson". The signature is fluid and cursive, written over a light blue horizontal line.

Charles Ericson, MMAO  
Assessor, Board of Assessors

mmp





Neighborhood Enterprise Zone  
Herman Kiefer Development LLC  
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Map East of the John C. Lodge Freeway (parcels in green excluded from proposed NEZ District)

