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TO: COUNCIL MEMBERS 
FROM: David Whitaker, Director
Legislative Policy Division Staff
DATE: September 24, 2019
RE: Establishment of a Neighborhood Enterprise Zone as requested by
Bagley Development Group, LLC, at 150 Bagley

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,¹ a NEZ may contain less than 10 platted parcels if the platted parcels together contain 10 or more facilities.

¹ 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.²
- 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

Bagley Development Group, LLC

Bagley Development Group, LLC, the project developer plans to renovate 150 Bagley. Constructed in 1927, the developer plans on renovating and converting this 18-story building commonly known as the United Artists Building, into 148 apartment units (20% affordable) with ground floor retail.

Originally designed by theater architect C. Howard Crane,⁵ coupled with a movie theater on the ground floor, the 18-story, 200,000-square-foot office tower was built just in case the theater became unprofitable. The building originally housed furriers, tailors, beauty salons, and travel agents. The Peoples' State Bank occupied the corner at Bagley and Clifford Street. The initial cost of construction of 150 Bagley was approximately \$5 million (*about \$70 million⁶ in 2019 dollars, when adjusted for inflation*).⁷

The developer is leasing the building. The Project will include significant interior renovations including new flooring, countertops, cabinetry, appliances and wall coverings. The building's common areas will be updated, and the existing parking lot will be resurfaced. If approved by Council, this project will significantly improve the site and the surrounding areas by revitalizing a historic vacant building in the downtown area and providing affordable and market rate residential space, in addition commercial space. The total investment by the Bagley Development Group is expected to be approximately \$56 million. In addition to the current NEZ request, the developer will be seeking further assistance via a PA 146 OPRA abatement. This will cover a separate tax parcel that will be established for the first floor and the basement.

² PA 197 of 1975, MCL 125.1651 - 125.1681

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 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.

⁵ Charles Howard Crane was an American architect who designed more than 50 theaters in Metro Detroit and 250 other theaters nationwide. His designs include Detroit's Fox Theatre and Olympia Stadium.

<https://detroithistorical.org/learn/encyclopedia-of-detroit/crane-c-howard>

⁶ Adjusted for inflation, \$5,000,000.00 in 1927 is equal to \$70,969,774.01 in 2019.

⁷ Legendary theater architect C. Howard Crane designed the theater and adjoining office building in the Spanish Gothic and Art Deco styles in 1927, the office building opened Jan. 28, 1928. The United Artists Theatre was one of several in Detroit that helped define the term "movie palace." It thrilled hundreds of thousands of Detroiters with its movies and interiors, wowed listeners as a recording studio for the Detroit Symphony Orchestra *Source:* United Artists Theatre By DAN AUSTIN of HistoricDetroit.org <https://historicdetroit.org/buildings/united-artists-theatre>

The requested 15-year NEZ and 12-year OPRA abatements are necessary to make the project financially feasible. According to the DEGC, without the abatements, it is unlikely the proposed project would be financially viable.

DEGC Project Evaluation Checklist

United Artists Building

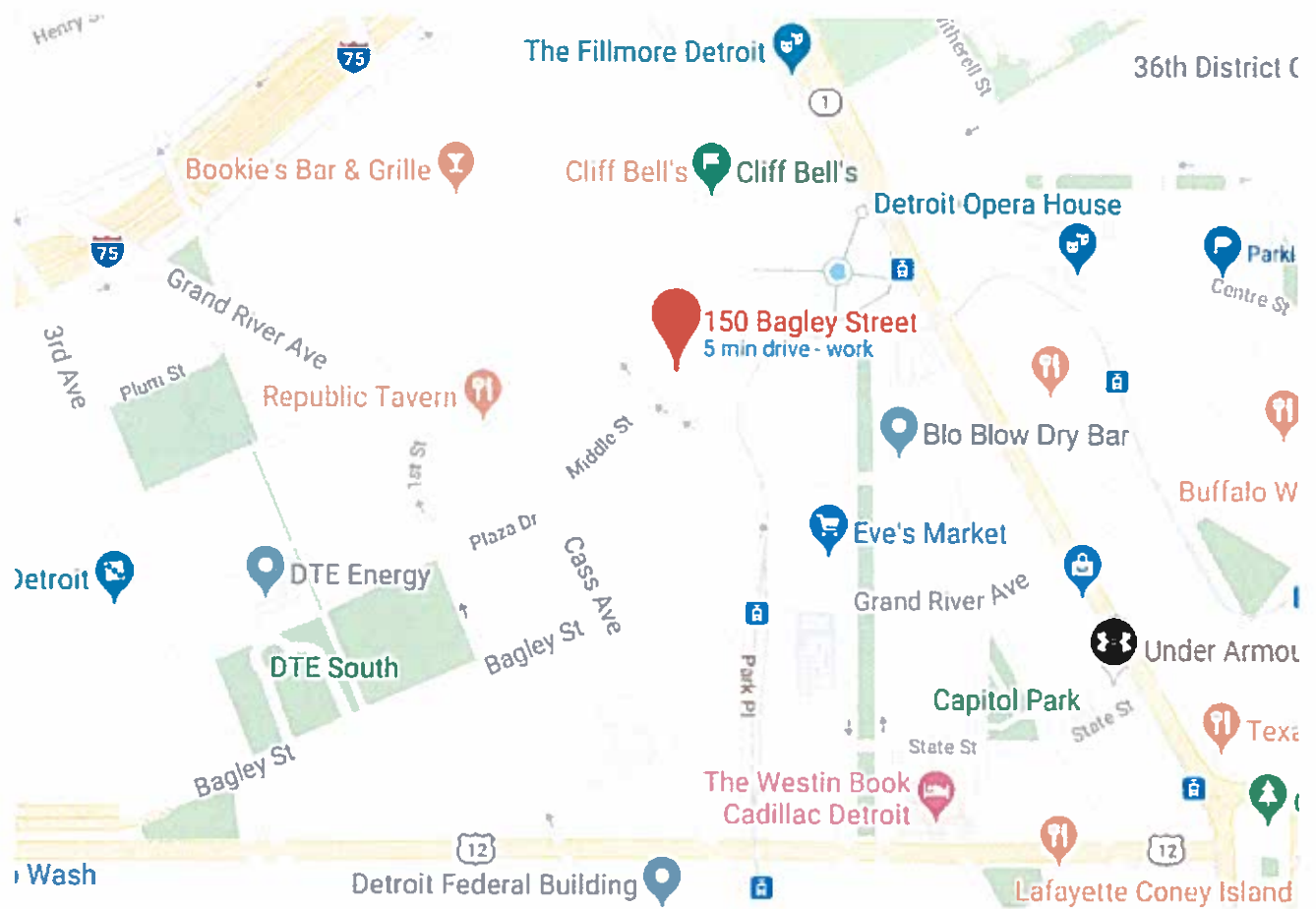
Developer: Bagley Development Group, LLC

Principal: Emmet Moten⁸

<p>Obsolete Property Rehabilitation Act, PA 210 of 2005 as amended – current taxes frozen at pre-rehab values, local taxes abated for up to 12 years.</p>	
<p>Neighborhood Enterprise Zone, PA 147 or 1992 as amended – rehabilitation allocation; property taxes frozen at pre-rehab values for 12 years. Then 3-year phase out in years 13-15.</p>	
Request Type	District
DEGC Recommendation	12-Yr OPRA; 15-Yr NEZ
Location	
Address	150 Bagley
City Council District	District
Neighborhood	Downtown
Located in HRD Targeted Area	No
Building Use	
Total Rentable Square Foot	148,415
Retail Square Foot	10,535
Residential Square Foot	137,880
Project Description	
<p>Bagley Development Group, LLC ("Bagley") proposes to renovate the existing 18-story building that was constructed in 1935, commonly known as the United Artists Building, into 148 apartment units (20% affordable) with ground floor retail (the "Project"). The developer of the subject is leasing the building and ground from the owner. The Project will include significant interior renovations including flooring, countertops, cabinetry, appliances and wall coverings. Common areas will be developed, the entrance will be updated, and the existing surface parking lot will be resurfaced. The Project will significantly improve the site and the surrounding areas by replacing an historic vacant building in the heart of the downtown with much needed affordable and market rate residential space and commercial space. The total investment by Bagley is expected to be approximately \$56 million. The requested 15-year NEZ abatement and the requested 12-year OPRA abatement are necessary to make the Project financially feasible. Without the abatements, the proposed project would not be financially viable.</p>	
Housing Breakdown	
Total Units	148 units (20% affordable)
1 Bedroom	100 units, 475-1,305sf, \$886-\$2,806/mo rent
2 Bedroom	48 units, 1,280sf, \$2,752/mo rent
Underwriting	
Internal Rate of Return	10.7% with abatement (9.0% without abatement)
Debt Service Coverage Ratio	1.44x stabilized with abatement (1.06x without abatement)

⁸ The principal Emmet Moten currently has a workout proposal with the City of Detroit for a Section 108 Loan for the Hotel Fort Shelby, and the parties are proceeding.

Sources and Uses	
Total Investment	\$55.8M
Uses	\$42.9M Hard Construction (77%), \$12.9M Soft Costs (23%)
Project Benefits	
Estimated Jobs	25 FTE
Estimated City benefits before tax abatement	\$7,332,496
Total estimated City value of OPRA abatement	\$175,305
Total estimated City value of NEZ abatement	\$2,251,310
Less cost of services & utility deductions	\$637,877
Net Benefit to City	\$4,268,004



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

	Amount
Real Property Taxes, before abatement	\$2,905,248
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	\$273,259
Municipal Income Taxes - New Res. Inhabitants	\$1,916,498
Utility Revenue	\$172,934
Utility Users' Excise Taxes	\$88,283
State Revenue Sharing - Sales Tax	\$0
Building Permits and Fees	\$650,312
Miscellaneous Taxes & User Fees	\$0
Subtotal Benefits	\$6,006,534
Cost of Providing Municipal Services	\$0
Cost of Providing Utility Services	(\$172,934)
Subtotal Costs	(\$172,934)
Net Benefits	\$5,833,600

Incentive Summary over the First 15 Years

	Additional Benefits		Real Property Tax Abatement	Business Personal Property Tax Abatement	Utility Users Tax & Corporation Income Tax Exemption	Net Benefits After Tax Abatements & Incentives
	Before Tax Abatements	Additional Costs				
City of Detroit	\$6,006,534	(\$172,934)	(\$2,251,310)	\$0	\$0	\$3,582,290
Wayne County	\$696,714	\$0	(\$542,425)	\$0	\$0	\$154,289
Detroit Public Schools	\$2,688,040	\$0	(\$1,990,831)	\$0	\$0	\$697,210
State Education	\$520,266	\$0	(\$385,322)	\$0	\$0	\$134,944
Downtown Dev. Authority	\$85,731	\$0	(\$63,495)	\$0	\$0	\$22,236
Wayne RESA	\$339,215	\$0	(\$261,301)	\$0	\$0	\$77,914
Wayne County Comm. College	\$281,013	\$0	(\$208,125)	\$0	\$0	\$72,888
Wayne County Zoo	\$8,671	\$0	(\$6,422)	\$0	\$0	\$2,249
Detroit Institute of Arts	\$17,342	\$0	(\$12,844)	\$0	\$0	\$4,498
Total	\$10,643,527	(\$172,934)	(\$5,722,074)	\$0	\$0	\$4,748,518

Charts courtesy of DEGC

Conclusion

The investment in this phase of the project is estimated at \$55.8 million. The proposed NEZ tax abatement is projected to be worth a savings of \$5.72 million to the developer. The estimated investment and new residents are projected to produce a positive cost benefit to the City of Detroit is **\$3.58 million**, and over **\$4.748 million** to all of the impacted taxing units, in addition to 148 new housing units.

NEZ Acreage Status:⁹

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.”*¹⁰

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

United Artist NEZ:	0.69 acres
<u>Total Acreage for the Entire City of Detroit:</u>	<u>88,260</u> ¹¹

Total Acreage Remaining	7,614.34
Total Acreage Designated:	5,624.66

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

Attachment: June 24, 2019 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

⁹ This is a ballpark estimate by LPD, based on current available data.

¹⁰ MCL 207.773 (2)

¹¹ 88,260 Acres = 137.90625 Square Miles



Rendering of the development at 150 Bagley¹²

¹² Courtesy of DEGC



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

COLEMAN A. YOUNG MUNICIPAL CENTER
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June 24, 2019

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

RE: Neighborhood Enterprise Zone – Bagley Development Group LLC
 Property Address: 150 Bagley
 Parcel Number: 02000327.

Mr. Cox:

The Office of the Chief Financial Officer, Office of the Assessor, has reviewed the request from Bagley Development Group LLC proposed United Artist Neighborhood Enterprise Zone, generally located at 150 Bagley in the Downtown area in the City of Detroit. The developer, Bagley Development Group, is a ground lessee for the property located at 150 Bagley. Bagley Development Group LLC's proposed plan is to renovate and repurposed the United Artist building to include 148 apartments and 10,500 square feet of commercial/retail/restaurant on the first ground floor.

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 the vacant United Artist 18 story office/theater building contains 226,008 square feet of building area and was built in 1927 on .690 acres of land. The developer plans to create approximately 148 one and two bedroom units at market rate (20% of which will be affordable) on floors 2 to 18 and 10,500 square feet of commercial/retail/restaurant on the first ground floor. The developer is requesting an Obsolete Property Rehabilitation district for the ground floor and basement, in a separate request, and a Neighborhood Enterprise Zone district for the apartment units. The current True Cash Value of the proposed area (81.19%) is \$10,397,191 and contains .690 acres of land. The True Cash Value of this area would be expected to increase due to the rehabilitation and construction.

MCL 207.772 Sec 2(k) "Qualified downtown revitalization district" means an area located within 1 or more of the following: (i) The boundaries of a downtown district as defined in section 1 of 1975 PA 197, MCL 125.1651; (ii) The boundaries of a principal shopping district or a business improvement district as defined in section 1 of 1961 PA 120, MCL 125.981; (iii) The boundaries of the local governmental unit in an area that is zoned and primarily used for business as determined by the local governmental unit.

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



Neighborhood Enterprise Zone
Bagley Development Group LLC
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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.

Upon review, it has been determined that this proposed district located at 150 Bagley in the Downtown area as a qualified historic building 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 written in a cursive, flowing style.

Charles Ericson, MMAO
Assessor, Board of Assessors

mmp