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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 24, 2019

RE: Application for an **Obsolete Property Rehabilitation Certificate** by
2220 Gratiot, LLC (OPTIK) Public Act 146 of 2000 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.

2220 Gratiot

The project developer 2220 Gratiot, LLC. plans to open an optical office/showroom to provide eye exams and eye health care as well as to sell prescription lenses and contacts, frames, non-prescription sunglasses and related accessories, in the community at 2220. The target market is on mid to high-quality or luxury eyewear and meeting Medicare requirements that allows for availability to all demographics. The eye business, OPTIK, currently has a Birmingham, Michigan location,¹ this proposed new Detroit location would be an expansion of its current operations. Commercial optical chains cannot be providers of the #1 optical insurance in the USA (VSP).² OPTIK has the ability to and will be a provider of that insurance.

¹ OPTIK Birmingham website: <https://www.optikbirmingham.com/>

² VSP Global comprises five complementary businesses that combine eye care insurance. <https://vspglobal.com/cms/about-us/home.html>

If approved by Council, this incentive would allow OPTIK's projected cash flow to stabilize and support the debt payments. The DEGC has recommended an **eight (8) year tax abatement³** for this project, four years short (33%) of the 12 year maximum allowed for OPRA certificates.

DEGC Project Evaluation Checklist
OPTIK Detroit
Developer: Joseph Ales

Obsolete Property Rehabilitation Act, PA 146 of 2000 as amended – Current taxes frozen at pre-rehab values, local taxes for improved values abated for up to 12 years	
DEGC Recommendation	8 Years
Location	
Address	2220 Gratiot
City Council District	District
Neighborhood	McDougall-Hunt
Located in HRD Targeted Area	No
Building Use	
Total Rentable Square Footage	4,168
Commercial/Retail Square Footage	4,168
Project Description	
<p>This will be a start-up location in the community. The building will be renovated as an office/showroom to provide eye exams and eye health care as well as to sell prescription lenses and contacts, frames, non-prescription sunglasses and related accessories. The target market is on mid to high-quality or luxury eyewear and meeting Medicare requirements that allows for availability to all demographics. There are no private optical offices nearby. There are no privately-owned offices like OPTIK Birmingham in Detroit at this time. Commercial optical chains cannot be providers of the #1 optical insurance in the USA (VSP). OPTIK has the ability to and will be a provider of that insurance.</p> <p>The term of the incentive is allows the projected cash flow to stabilize and support the debt payments.</p>	
Underwriting	
Debt Service Coverage Ratio	1.24 with abatement (1.12 without abatement)
Cash on Cash	9.64% with abatement (7.52% without abatement)
Project Costs	
Total Investment	\$1.22M
Uses	\$380k Acquisition (31%), \$675k Hard Construction Costs (55%), \$164k Soft Costs (14%)
Project Benefits (8 years)	
Estimated jobs	2 FTE

³ MCL 125.2787 (3) If the number of years determined by the legislative body of the qualified local governmental unit for the period a certificate remains in force is less than 12 years, the review of the certificate for the purpose of determining an extension shall be based upon factors, criteria, and objectives that shall be placed in writing, determined and approved at the time the certificate is approved by resolution of the legislative body of the qualified local governmental unit and sent, by certified mail, to the applicant, the assessor of the local tax collecting unit in which the obsolete property is located, and the commission. OBSOLETE PROPERTY REHABILITATION ACT

FTE average salary	\$60,000
Estimated city benefits before tax abatement	\$195,675
Total nominal value of OPRA	\$25,999
Less cost of services & utility deductions	\$124,298
Net benefit to city	\$45,378

City of Detroit: Benefits, Costs, and Net Benefits over the Next 12 Years

	Amount
Real Property Taxes, before abatement	\$36,131
Personal Property Taxes, before abatement	\$0
New Residential Property Taxes	\$0
Municipal Income Taxes - Direct Workers	\$14,461
Municipal Income Taxes - Indirect Workers	\$2,541
Municipal Income Taxes - Corporate Income	\$4,002
Municipal Income Taxes - Construction Period	\$4,777
Utility Revenue	\$114,314
Utility Users' Excise Taxes	\$1,470
State Revenue Sharing - Sales Tax	\$5,887
Building Permits and Fees	\$3,825
Miscellaneous Taxes & User Fees	\$8,268
Subtotal Benefits	\$195,675
Cost of Providing Municipal Services	(\$9,985)
Cost of Providing Utility Services	(\$114,314)
Subtotal Costs	(\$124,298)
Net Benefits	\$71,377

Impacted Taxing Units: Incentive Summary over the First 12 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	\$195,675	(\$124,298)	(\$25,999)	\$0	\$0	\$45,378
Wayne County	\$10,929	(\$1,826)	(\$6,614)	\$0	\$0	\$2,488
Detroit Public Schools	\$43,378	(\$7,483)	(\$10,702)	\$0	\$0	\$25,193
State Education	\$6,864	\$0	\$0	\$0	\$0	\$6,864
Wayne RESA	\$4,747	\$0	(\$3,636)	\$0	\$0	\$1,111
Wayne County Comm. College	\$3,707	\$0	(\$2,668)	\$0	\$0	\$1,040
Wayne County Zoo	\$114	\$0	(\$82)	\$0	\$0	\$32
Detroit Institute of Arts	\$229	\$0	(\$165)	\$0	\$0	\$64
Total	\$265,644	(\$133,607)	(\$49,866)	\$0	\$0	\$82,171

Charts courtesy of the DEGC

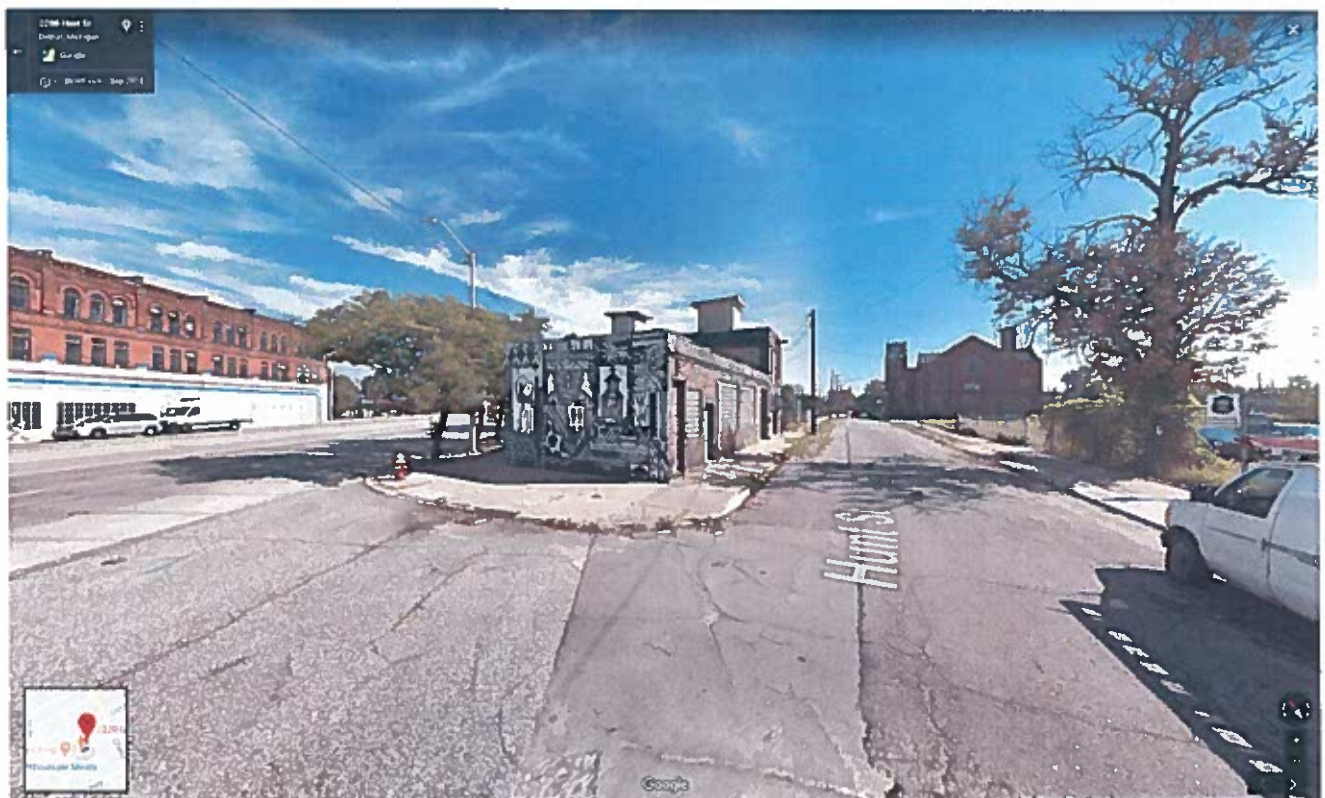
Conclusion

The estimated total capital investment from the developer for this project is approximately \$1.22 million. It is also estimated that completed project will create 2 full-time jobs. The total value of the 12 year OPRA tax abatement is estimated at \$49,866.

Based on the investment and jobs, this project is estimated to provide the City of Detroit a net benefit of \$45,378 and all of the impacted taxing units, a net benefit of \$82,171 over the 8 years of the OPRA abatement.

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
Veronica M. Farley, HRD
Stephanie Grimes Washington, Mayor's Office
Malinda Jensen, DEGC
Kenyetta Bridges, DEGC
Jennifer Kanalos, DEGC
Brian Vosburg, DEGC



2220 Gratiot

Assessor's letter stating the eligibility of the OPRA certificate:



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

COLEMAN A. YOUNG MUNICIPAL CENTER
2 WOODWARD AVENUE, SUITE 824
DETROIT, MICHIGAN 48226
(313) 224-3011 - TTY 711
(313) 224-9400
WWW.DETROITMI.GOV

September 13, 2019

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

RE: *Obsolete Property Rehabilitation Certificate – 2200 Gratiot LLC*
Property Address: 2220 Gratiot and 2228 Gratiot
Parcel Numbers: 09001284. and 09001283.

Dear Ms. Trudeau:

The Office of the Chief Financial Officer, Office of the Assessor, has reviewed the proposed Obsolete Property Rehabilitation certificate application for the properties located at 2220 Gratiot and 2228 Gratiot in the McDougall Hunt area in the City of Detroit.

The rationale for granting Obsolete Property Rehabilitation certificates under PA 146 of 2000, as amended, is based on the anticipation of increased market value upon completion of new construction and /or significant rehabilitation of existing commercial property and commercial housing property. Normal repair and maintenance are not assessed and do not necessarily generate additional market value.

2220 Gratiot LLC plans to rehabilitate the buildings for use for eye exams and eye healthcare, including the sale of frames and prescription lenses, non-prescription sunglasses, contact lenses and accessories for glasses and contact lenses. The one-story building at 2220 Gratiot is currently vacant and consists of 2,140 square feet of retail building area, built in 1915 and situated on .058 acres of land. The two-story building at 2228 Gratiot is currently vacant and consists of 2,685 square feet of mixed-use building area, built in 1915 and situated on .031 acres of land. Rehabilitation will include selective demolition for complete interior and exterior wall removal for new entrance, structure steel and joist work, dormers on second floor roof, new roof, carpentry and millwork, and new plumbing, HVAC and electrical.

The 2019 values are:

Parcel #	Address	Building Assessed Value (SEV)	Building Taxable Value	Land Assessed Value (SEV)	Land Taxable Value
09001283.	2228 Gratiot	\$ 17,700	\$ 17,700	\$ 1,400	\$ 1,400
09001284.	2220 Gratiot	\$ 11,600	\$ 11,600	\$ 2,500	\$ 2,500

This property meets the criteria set forth under PA 146 of 2000, as amended. It applies to blighted, functionally obsolete and contaminated properties. "Rehabilitation," meaning that changes to qualified facilities that are required to restore or modify the property, together with all appurtenances, to an economically efficient condition.

The project is expected to increase commercial activity and create employment.



Obsolete Property Rehabilitation Certificate
2220 Gratiot LLC
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A field investigation indicated that the properties located at 2220 Gratiot and 2228 Gratiot are eligible as it pertains to the Obsolete Property Rehabilitation Act under P.A. 146 of 2000, as amended

Sincerely,

A handwritten signature in black ink, appearing to read 'CE' followed by a flourish.

Charles Ericson, MMAO
Assessor, Board of Assessors

mmp