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TO: COUNCIL MEMBERS
FROM: David Whitaker, Director 
Legislative Policy Division Staff
DATE: July 15, 2020
RE: Establishment of a Neighborhood Enterprise Zone as requested by
GW1 Cass, LLC at 3444 Second ***REVISED***¹

Neighborhood Enterprise Zone Act (Public Act 147 of 1992)

The Neighborhood Enterprise Zone Act (NEZ), 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,² a NEZ may contain less than 10 platted parcels if the platted parcels together contain 10 or more facilities.

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,

¹ This report was revised due to the fact that in the previous version, it was reported to LPD that the project would include 28 FTE's. The DEGC has revised its figures to reflect 2 FTE's, now this report reflects 2 FTE's.

² As defined in Section 2 (k) MCL 207.772

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.³
- A principal shopping district or a business improvement district as defined in the principal shopping district Act (BID Act).⁴
- An area of the local unit zoned and primarily used for business, as determined by the local governmental unit.⁵

GW1 Cass, LLC

GW1 Cass, LLC,⁶ the project developer plans to develop 3444 Second, a 70-unit 11 story apartment building constructed in 1924. The plans for the building are to renovate it as mixed income multi-family building, with market-rate and affordable units, which will include ground floor retail that will provide additional conveniences to the neighborhood.⁷

The developer's plans to renovate the property include improving the building's electrical and plumbing systems, façade and masonry work and to upgrade the boiler and radiators. Also included are plans for extensive apartment upgrades, such as the replacement of the kitchen and bathroom components, a new roof and updated common areas.

The Developer will retain the existing residential tenants and has negotiated an agreement with the Housing and Revitalization Department (HRD) (*Council may want to inquire about the specifics of the agreement between HRD and the developer, as it pertains to the building's existing residents*). The Developer will reserve 20% of the units for households at or below 80% AMI, which may include the existing tenants. It is estimated that the project will create 2 FTE jobs and 15 temporary construction jobs. The projected level of investment in the project is \$10.9 million.

DEGC Project Evaluation Checklist 3444 Second

Developer: Greatwater Opportunity Capital, LLC

Principal: Jed Howbert

Neighborhood Enterprise Zone, PA 147 Rehab - exemption for the development and rehabilitation of residential housing located within eligible distressed communities; taxable value frozen at previous year's value and taxed at ad valorem rate until the final three years when phase out occurs	
Request Type	NEZ District
DEGC Recommendation	Approval of District
Location	
Address	3444 Second
City Council District	District 6
Neighborhood	Midtown

³ PA 197 of 1975, MCL 125.1651 - 125.1681

⁴ Principal shopping Districts and Business Improvements Districts Act 120 of 1961, MCL 125.981 - 125.990n

⁵ 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.

⁶ Greatwater (GW)

⁷ Greatwater has commenced working with Motor City Match and TechTown in an effort to recruit a diverse pool of entrepreneurs to fill the ground floor retail space.

Building Use	
Total Rentable Square Foot	37,600
Retail Square Foot	2,130
Residential Square Foot	35,470
Project Description	
3444 Second (Heather Hall) is a 70-unit apartment building constructed in 1924. The building has 11 stories and is planned to be renovated as mixed income multi-family with market-rate and affordable components, including ground floor retail that will provide additional amenities to the neighborhood.	
Given the extent of deterioration to the buildings systems and facade, market-rate rental rates are not at a high enough level to overcome the prohibitive cost associated with the rehabilitation, therefore, a property tax abatement is required to provide relief on operating expenditures in order to make this a financially viable project.	
Greatwater has begun working with Motor City Match and TechTown in an effort to recruit a diverse pool of entrepreneurs to fill the ground floor retail space. The Developer will retain the existing residential tenants and has negotiated an agreement with HRD. The Developer will reserve 20% of the units for households at or below 80% AMI which may include existing tenants.	
Sources and Uses	
Total Investment	\$10.9M
Uses	\$3.7M Acquisition (34%), \$5.9M Hard Construction (54%), \$1.3M Soft Costs (12%)
Project Benefits	
Estimated Jobs	2 FTE, 15 Construction Employees
Estimated City benefits before tax abatement	\$2,404,425
Total estimated City value of NEZ	\$691,418
Less cost of services & utility deductions	\$579,329
Net Benefit to City with abatements	\$1,133,679

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

	Amount
Real Property Taxes, before abatement	\$1,083,147
Personal Property Taxes, before abatement	\$0
New Residential Property Taxes	\$0
Municipal Income Taxes - Direct Workers	\$16,013
Municipal Income Taxes - Indirect Workers	\$6,364
Municipal Income Taxes - Corporate Income	\$7,332
Municipal Income Taxes - Construction Period	\$36,870
Municipal Income Taxes - New Res. Inhabitants	\$565,552
Utility Revenue	\$560,375
Utility Users' Excise Taxes	\$47,101
State Revenue Sharing - Sales Tax	\$11,176
Building Permits and Fees	\$54,800
Miscellaneous Taxes & User Fees	\$15,695
Subtotal Benefits	\$2,404,425
Cost of Providing Municipal Services	(\$18,954)
Cost of Providing Utility Services	(\$560,375)
Subtotal Costs	(\$579,329)
Net Benefits	\$1,825,096

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	\$2,404,425	(\$579,329)	(\$691,418)	\$0	\$0	\$1,133,679
Wayne County	\$278,822	(\$3,467)	(\$178,290)	\$0	\$0	\$97,065
Detroit Public Schools	\$1,078,186	(\$14,205)	(\$648,413)	\$0	\$0	\$415,568
State Education	\$205,774	\$0	(\$125,499)	\$0	\$0	\$80,274
Wayne RESA	\$133,363	\$0	(\$85,106)	\$0	\$0	\$48,257
Wayne County Comm. College	\$111,145	\$0	(\$67,786)	\$0	\$0	\$43,359
Wayne County Zoo	\$3,430	\$0	(\$2,092)	\$0	\$0	\$1,338
Detroit Institute of Arts	\$6,859	\$0	(\$4,183)	\$0	\$0	\$2,676
Total	\$4,222,003	(\$597,001)	(\$1,802,786)	\$0	\$0	\$1,822,215

Charts courtesy of DEGC

Conclusion

The investment in this project is estimated at \$10.9 million. The proposed tax abatement is projected to be worth a tax savings of \$1,802,786 to the developer. The estimated investment and new residents are projected to produce a positive cost benefit to the City of Detroit in the amount of **\$1,133,679**, and over **\$1,822,215** to all of the impacted taxing units,⁸ in addition to 2 FTE jobs and 15 temporary construction jobs. & 70 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

Heather Hall Midtown NEZ: 0.204 acres
Total Acreage for the Entire City of Detroit: 88,260¹¹

Total Acreage Remaining 7,605.00
Total Acreage Designated: 5,634.00

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

⁸ Existing Taxes: \$10,785 - New Taxes AFTER Incentive: \$29,043

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



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Attachment: June 22, 2020 Letter from Finance Assessors

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

¹² Map and photo courtesy of DEGC



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

COLEMAN A. YOUNG MUNICIPAL CENTER
2 WOODWARD AVE., SUITE 824
DETROIT, MI 48226
PHONE: 313•224•3011
FAX: 313•224•9400

June 22, 2020

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

RE: **Neighborhood Enterprise Zone – Heather Hall Midtown**
Property Address: 3444 Second
Parcel ID: 02002340.
GW1 Cass LLC

Dear Ms. Trudeau:

The Office of the Chief Financial Officer, Office of the Assessor, has reviewed the proposed **Heather Hall Midtown Neighborhood Enterprise Zone**, located at **3444 Second**, submitted by the **GW1 Cass LLC** for the neighborhood located in the **Midtown** area of Detroit.

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 an 11-story apartment building constructed in 1924, with 55,732 square feet and 70 apartment units. Land area is a total of 0.204 acres. The applicant plans to rehabilitate the property, including improvements such as electrical, plumbing, façade and masonry work, boiler and radiator upgrades. Other improvements include extensive work to the apartment units, including replacement of kitchen and bathroom components, new roof, and updates to common areas. The current True Cash Value of the proposed area is \$3,216,086. The True Cash Value of this area would be expected to increase due to the new construction of this project.

Per MCL 207.773, Sec 3 describes a Neighborhood Enterprise Zone as:

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 **Midtown area** is eligible for designation as a Neighborhood Enterprise Zone per PA 147 of 1992, as amended.

Sincerely,

Charles Ericson, MMAO
Assessor, Board of Assessors



NEZ District
GW1 Cass LLC
Page 2

Parcel Number: 02002340.
Property Address: 3444 SECOND
Property Owner: GW1 CASS LLC
Legal Description: E SECOND S 76 FT 15-16 & S 76 FT OF W 17 FT 14 BLK 87--PLAT PT CASS FARM L1 P172 PLATS, W
C R 2/72 76 X 116.8

