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TO: COUNCIL MEMBERS

FROM: David Whitaker, Director
Legislative Policy Division Staff

DATE: November 15, 2023

RE: Establishment of a **Neighborhood Enterprise Zone (PA 147 of 1992)**, as requested
by **6465 Sterling, LLC**

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.

By statute, every NEZ must contain not less than 10 platted parcels of land that are compact and contiguous. The statute allows for an exception if a NEZ is 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.

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

¹ As defined in Section 2 (k) MCL 207.772

² PA 197 of 1975, MCL 125.1651 - 125.1681

- 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

6465 Sterling, LLC NEZ

6465 Sterling, LLC,⁵ is the project developer and the owner of the 4-story building located at 6465 Sterling, on 6,973 square feet of land⁶ proposed for the new NEZ district, in the Northwest Goldberg⁷-Elijah McCoy area of Detroit. The developer plans to redevelop the vacant building into 20 apartments. If approved by Council, the development will involve the conversion of 11,724 sq. ft. of building space, for a total of 20 residential units with 100% affordable rents, ranging from 60%-80% AMI (area median income).

The apartments will fill a void for rental residential needs of the developments in and around Henry Ford Hospital amongst otherwise, largely nearby vacant parcels.

Total Residential Units 20 Units (100% affordable @ 60%-80% AMI)

Studios	5 Units; 330 Avg. SF; \$750/mo. Avg. Rent
1-Bed	15 Units; 531 Avg. SF; \$1,187/mo. Avg. Rent
2-Bed	N/A
3-Bed	N/A

DEGC Property Tax Abatement Evaluation

Project: 6465 Sterling
Developer: 6465 Sterling, LLC

Description of Incentive: Neighborhood Enterprise Zone, PA 147 of 1997 as amended – Current taxes frozen at pre-rehab construction values. Local taxes abated for up to 15 years, with a phase out period in years 13-15.	
DEGC Abatement Term Recommendation	15 years
Location	
Address	6465 Sterling
City Council District	District 5
Neighborhood	Elijah McCoy
Located in HRD/SNF Targeted Area	N/A
Building Use	
Total Square Footage (SF)	8,960
Residential SF	8,960
Commercial SF	N/A
Retail SF	N/A
Industrial SF	N/A
Total Residential Units	17 Units⁸

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.

⁵ The principals are Andrew Casazza and John Walton, who are working on the Belcrest Apartments project at 5440 Cass.

⁶ Approximately 0.16 acres (6,973 square feet = 0.1600780533 acres)

⁷ The NW-Goldberg Community boundaries are John C. Lodge and I-94 expressways, West Grand Boulevard and Grand River. The area is home to the Motown Museum, Henry Ford Hospital, Cole Funeral Home, Tabernacle Church and DCP-Northwestern High School.

⁸ According to the letter from the developer and the letter from the Assessor, there will be 5 studios and 15 one-bedroom units, for a total of 20 units.

Studios	3 Units; 330 Avg. SF; \$750/mo. Avg. Rent
1-Bed	14 Units; 531 Avg. SF; \$1,187/mo. Avg. Rent
2-Bed	N/A
3-Bed	N/A
Project Description	
6465 Sterling is a long-vacant apartment building in the Elijah McCoy neighborhood of Detroit. During its vacancy, the building has suffered significant structural and other damage as a result of a fire and exposure to many seasons of weather. The developer intends on restoring the property into 17 apartments utilizing and accentuating the existing materiality, from the brick façade to wood floors. The project will bring much needed safe, secure and affordable housing to this neighborhood. The abatement is needed for a viable project because of the significant capital investment required to restore the building and property.	
Sources and Uses of Capital Summary	
Total Investment	\$2,188,791
Sources	Debt: \$1.5M (68.53%); Equity: \$688.8K (31.47%)
Uses	Acquisition: \$55K (2.51%); Hard Costs: \$2M (91.66%); Soft Costs: \$127.6K (5.83%)
Project Economic Benefits Summary	
Estimated Jobs (FTE/Construction)	0 FTE 20 Construction
Estimated City benefits before tax abatement	\$526,403
Total estimated City value of abatement	\$122,234
Less cost of services & utility deductions	\$163,693
Net Benefit to City with abatement	\$240,477

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

	Amount
Real Property Taxes, before abatement	\$151,153
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	\$20,033
Municipal Income Taxes - New Res. Inhabitants	\$106,165
Utility Revenue	\$69,675
Utility Users' Excise Taxes	\$17,022
State Revenue Sharing - Sales Tax	\$48,684
Building Permits and Fees	\$35,000
Miscellaneous Taxes & User Fees	\$78,671
<u>Subtotal Benefits</u>	<u>\$526,403</u>
Cost of Providing Municipal Services	(\$94,017)
Cost of Providing Utility Services	(\$69,675)
<u>Subtotal Costs</u>	<u>(\$163,693)</u>
Net Benefits	\$362,711 ⁹

⁹ Chart courtesy of the DEGC

Impacted Taxing Units: Incentive Summary over the First 15 Years

	Additional Benefits	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	\$526,403	(\$163,693)	(\$122,234)	\$0	\$0	\$240,477
Wayne County	\$49,146	(\$11,025)	(\$29,509)	\$0	\$0	\$8,612
Detroit Public Schools	\$627,115	(\$470,400)	(\$104,872)	\$0	\$0	\$51,843
State Education	\$27,006	\$0	(\$20,944)	\$0	\$0	\$6,061
Wayne RESA	\$24,429	\$0	(\$18,946)	\$0	\$0	\$5,483
Wayne County Comm. College	\$14,494	\$0	(\$11,241)	\$0	\$0	\$3,253
Wayne County Zoo	\$446	\$0	(\$346)	\$0	\$0	\$100
Detroit Institute of Arts	\$894	\$0	(\$693)	\$0	\$0	\$201
Total	\$1,269,933	(\$645,117)	(\$308,786)	\$0	\$0	\$316,030

DEGC Chart of Taxes Before, During & After the Incentive¹⁰

	Existing Taxes	New Taxes With Incentive(s)	New Taxes Without Incentive
City of Detroit	\$3,202	\$3,204	\$10,890
Library	\$512	\$512	\$1,742
Wayne County	\$883	\$883	\$3,001
Detroit Public Schools	\$3,323	\$3,324	\$11,300
State Education	\$664	\$664	\$2,257
Wayne RESA	\$600	\$601	\$2,041
Wayne County Comm. College	\$356	\$356	\$1,211
Wayne County Zoo	\$11	\$11	\$37
Detroit Institute of Arts	\$22	\$22	\$75
Total	\$9,573	\$9,577	\$32,554

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Conclusion

The investment in this project is estimated at **\$2,188,791**. The abatement is projected to be worth a tax savings of **\$308,786** for the developer. The estimated investment and new residents are projected to produce a positive cost benefit to the City of Detroit of **\$240,477** and **\$316,030** to all the impacted taxing units, in addition to 20 temporary construction jobs and 20 new housing units.¹² The result of this finished project revitalizes a building that has been blighted and abandoned in the neighborhood, and provides it a benefit, by returning a distressed property to a productive use, as a residential investment in the community.

NEZ Acreage Status:¹³

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.”*¹⁴

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

6465 Sterling, LLC NEZ: 0.16 acres

Total Acreage for the Entire city of Detroit: 88,260¹⁵

Total Acreage Remaining 7,557.77¹⁶

Total Acreage Designated 5,681.23¹⁷

¹⁰ EXISTING Annual Taxes: \$9,573 - Annual Taxes DURING the Incentive: \$9,577 & Taxes after the Incentive EXPIRES: \$32,554

¹¹ Charts courtesy of the DEGC

¹² The developer anticipates a creation of 30 tenant positions; however, those additions are associated with the commercial elements of the project.

¹³ This is a ballpark estimate by LPD, based on current available data.

¹⁴ MCL 207.773 (2)

¹⁵ 88,260 Acres = 137.90625 Square Miles

¹⁶ 57% of total NEZ acreage remaining (9% of the total acreage of the entire city of Detroit)

¹⁷ 43% of total NEZ acreage designated (6% of the total acreage of the entire city of Detroit)

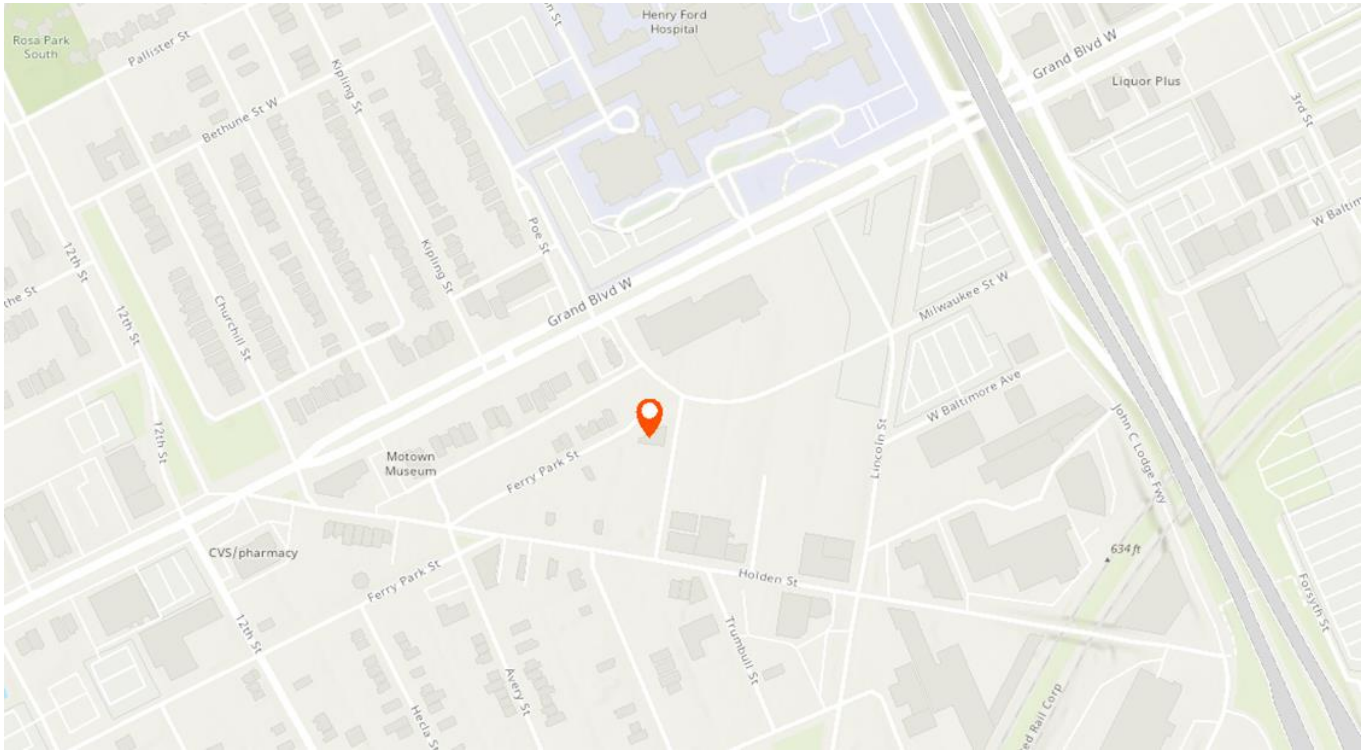
Please contact us if we can be of any further assistance.

Attachment: September 19, 2023 - Letter from Finance Assessors

cc: Auditor General's Office
Donald Rencher, Chief of Services and Infrastructure
Antoine Bryant, Planning and Development Department
Julie Schneider, HRD
Veronica Farley, HRD
Stephanie Grimes Washington, Mayor's Office
Gail Fulton, Mayor's Office
Malik Washington, Mayor's Office
Kenyetta Bridges, DEGC
Jennifer Kanalos, DEGC
Brian Vosburg, DEGC



Current view of 6465 Sterling



Map of Area¹⁸

¹⁸ Current view of 6465 Sterling and Map of Area courtesy of the 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

September 19, 2023

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

RE: **Neighborhood Enterprise Zone – 6465 Sterling LLC**
Property Address: 6465 Sterling
Parcel ID: 08005972.
Property Owner: 6465 Sterling LLC

Dear Mr. Bryant:

The Office of the Chief Financial Officer, Office of the Assessor, has reviewed the proposed **6465 Sterling Neighborhood Enterprise Zone**, located at 6465 Sterling, submitted by 6465 Sterling LLC for the neighborhood located in the **NW Goldberg- Elijah** 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 one 4-story vacant apartment building approximately 6,973 square ft built in 1926. The developer intends to rehabilitate into an approximately 11,724 square foot apartment building consisting of twenty (20) residential apartment units, which will possess five (5) units on each floor. The project will include 5 studio and 15 one-bedroom apartments. The proposed rents are expected to range from \$975 – \$1,000 for studios and \$1,295 for on-bedroom apartments. The apartments are expected to fill a void of rental residential needs of development in an around the Henry Ford Hospital. Twenty Percent (20%) of the rental rates will be offered at rates considered affordable to those with income not greater than 80% of the Area Median Income for the Detroit-Warren-Livonia Metropolitan Statistical Area.

Per MCL 207.772 Sec 2 (m) "Rehabilitated Facility" means the following:

"Rehabilitated facility" means, except as otherwise provided in section 2a, an existing structure or a portion of an existing structure with a current true cash value of \$120,000.00 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 \$10,000.00 per owner-occupied unit or 50% of the true cash value, whichever is less, or \$15,000.00 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.



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Neighborhood Enterprise Zone
6465 Sterling
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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 at **6465 Sterling** is eligible for designation as a Neighborhood Enterprise Zone per PA 147 of 1992, as amended.

Sincerely,

Charles Ericson, MMAO
Assessor, Board of Assessors



Neighborhood Enterprise Zone
6465 Sterling
Page 3

Parcel: 08005972.
Owner: 6465 Sterling LLC
Property Address: 6465 Sterling
Legal Description: W STERLING 78 AND VAC FERRY PARK ADJ LOTHROP & DUFFIELD LAND CO LTDS SUB L23 P38
PLATS, W C R 8/77

