OFFICE OF THE
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OFFICE OF BUDGET

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May 20, 2021

Honorable Mary Sheffield, Council President Pro Tem
Detroit City Council
Coleman A. Young Municipal Center
2 Woodward Avenue
Detroit, MI 48226

Re: Fiscal Impact of Proposed Amendments to the Community Benefits Ordinance

Dear Council President Pro Tem Sheffield:

Please see attached Fiscal Impact Statement prepared by the Office of Budget for the above referenced item, pursuant to CFO Directive 2018-101-029: Fiscal Impact Statements. Upon review, please do not hesitate to contact me to discuss further.

Best regards,

Steven Watson
Deputy CFO / Budget Director

Att: CFO Fiscal Impact Statement No. 2021-110-011

cc: Honorable Detroit City Council
Jay B. Rising, Acting CFO
John Naglick, Jr., Chief Deputy CFO/Finance Director
Tanya Stoudemire, Chief Deputy CFO/Policy & Administration Director
Avery Peeples, City Council Liaison
David Whitaker, Director-Legislative Policy Division

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CFO FISCAL IMPACT STATEMENT
NO. 2021-110-011

SUBJECT: Fiscal Impact of Proposed Amendments to the Community Benefits Ordinance
PREPARED BY: Office of the CFO – Office of Budget
DATE ISSUED: May 20, 2021

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1. AUTHORITY

   1.1. State of Michigan Public Act 279 of 1909, Section 4s(2)(d), as amended by Public Act 182 of 2014, states the chief financial officer shall submit in writing to the mayor and the governing body of the City his or her opinion on the effect that policy or budgetary decisions made by the mayor or the governing body of the City will have on the City's annual budget and its four-year financial plan.

   1.2. CFO Directive No. 2018-101-029 Fiscal Impact Statements states that the CFO shall issue Fiscal Impact Statements for all items requiring fiscal impact statements, as defined in that Directive, to provide financial information to the Mayor and the City Council as they consider action on proposed local policy or budgetary decision items.

2. PURPOSE

   2.1. To provide financial information to the Mayor and the Detroit City Council as they consider the effect of proposed amendments the Community Benefits Ordinance (the "CBO Amendments").

3. OBJECTIVE

   3.1. This Memorandum serves as the report on the fiscal impact of the CBO Modifications to the City's annual budget for FY 2021 and four-year financial plan for FY 2022 – FY 2025 (the "City budget").

4. SCOPE

   4.1. This Memorandum is not intended to convey any statements nor opinions on the advisability of the proposal, except for those components that have or may have a fiscal impact on the City budget.

   4.2. This fiscal impact analysis is based on the proposal as described below in Section 5 of this Memorandum. Should the proposal change prior to final approval, an updated CFO Memorandum on its fiscal impact would need to be issued.

5. STATEMENT

   5.1. Conclusion: Of the 17 suggested amendments to the Community Benefits Ordinance (CBO), 7 were found to have a fiscal impact to the City budget. Reducing the current investment threshold for Tier 1 projects from $75 million to $50 million would have the largest impact by influencing the decision making of potential developers. Regardless of what decision developers make, the amendments would have a **negative fiscal impact** on the City budget.

5.2. Background: The Community Benefits Ordinance (CBO) was enacted in November 2016 as a ballot initiative with the purpose of "outreach and engagement that promotes transparency and accountability and ensures development projects in the City of Detroit benefit and promote economic growth and prosperity for all residents." To do so, the CBO established two tiers of mandated developer engagement with the City and the community. Tier 1 projects, which incur an investment of $75 million or greater or request at minimum $1 million in City government assistance in the form of land sales or tax abatements, must participate in City organized meetings with residents in the project impact area to establish community benefits and mitigate negative impacts set in a community benefit agreement. Tier 2 projects, which do not qualify for Tier 1 but incur an investment of $3 million or greater or request at minimum $300,000 in City assistance, are required to partner with City staff for workforce development and to mitigate negative impacts as codified in a development agreement.

Since inception, twelve projects have gone through the Tier 1 process with involvement from multiple City departments, residents, and community advocacy groups. 64 amendments were received to the CBO as of October, 2018 and were pared down to 17 amendments by recommendation of a workgroup led by Legislative Policy Division from October 2018 to January 2019. Of the 17 amendments, 7 are expected to have a fiscal impact. The impacts are centered primarily on the change in the Tier 1 investment threshold being lowered to $50 million and staffing needs to accommodate new projects within the lowered boundary.

5.3. Assumptions: The following assumptions are made in development of this analysis:

(a) Lowering the investment threshold for Tier 1 projects from $75 million to $50 million would require two additional projects per year to conduct community benefit meetings. This assumption is based on the average number of projects with an investment size between $50 million and $75 million since CBO inception.

(b) Lowering the investment threshold for Tier 2 projects from $3 million to $300,000 would require four additional projects per year to meet CBO guidelines. This assumption is based on the average number of projects with an investment size between $3 million and $300,000 since CBO inception.

(c) Of the two projects with an investment size between $50 million and $75 million, one per year will have CBO home repair program benefit in their community agreement.

(d) CBO compliance cost for any project will not end within the four-year time frame of this analysis, thus costs are cumulative.

(e) Assumes proposed amendments are implemented in Fiscal Year 2022.

5.4. Fiscal Impact: Our analysis illustrates developers with a $50 million to $75 million project choosing one of two outcomes, not to develop in Detroit or develop in Detroit with a larger tax abatement to offset their CBO costs as part of the standard "but for" reasoning. For simplicity, the following analysis shows all developers in the four-year timeframe choosing the same outcome. The loss from developers choosing a different site would be forgone income tax revenue and property tax revenue as shown in Table 1. The income tax loss is inclusive of construction jobs, new jobs created by the project, and indirect jobs related to commercial activity from the project. The property tax loss is net of tax abatements. The forgone revenue streams are continuous and cumulative through the 4-year timeframe. The estimated impact is based on the average of the last 9 projects with investment sizes falling between $50 million and $75 million and includes residential, commercial, industrial, mixed-use, and hotel projects. For relative scale, the impact would be similar to losing two projects in similar size to the Dakkota-Kettering plant project per year. The Dakkota-Kettering project had an investment size of $66.95 million and created an estimated 419 jobs.

Table 1

Lost potential revenue if $50M - $75M projects relocate to avoid CBO process [3]

Impact of Amendment 1 (in dollars)

	FY22	FY23	FY24	FY25
Forgone Income Tax [1]	$ 465,080	$ 887,581	$ 1,370,655	$ 1,884,871
Forgone Property Tax [2]	7,526	16,024	24,709	33,585
Total Revenue Impact	**$ 472,605**	**$ 903,605**	**$ 1,395,364**	**$ 1,918,456**

Notes

[1] Potential income tax includes estimated construction worker income taxes, income taxes from direct and indirect workers, and income taxes from net new residents per DEGC analysis.

[2] Potential property taxes are net of property tax abatements.

[3] Assumes an additional 2 projects per year will qualify for Tier 1 status by lowering investment threshold from $75M to $50 based on average frequency since CBO inception.

*Data used is the average revenue impact from 2018 and 2019 projects between $50M and $75M as previously estimated by DEGC

Table 2 shows the impacts of developers instead choosing to develop in Detroit with a larger tax abatement to offset additional CBO costs. The majority of the costs in this outcome are city staffing, involving DEGC, HRD, JET, PPD, CRIO, DON, and Detroit at Work. Staffing costs can be broken down into two categories: staffing needs during an active CBO, which are non-recurring, and staffing needs for CBO compliance, which are recurring. The recurring CBO compliance costs are cumulative, following the assumption of 2 additional projects per year as detailed in section 5.3. Home repair program grants have often been a component of community benefit agreements and are highlighted separately as a likely potential staffing cost that has a finite 12 to 14-month implementation timeline. For simplicity, the city staffing costs for that component are confined to one fiscal year.

Table 2

Additional costs if $50M - $75M projects move forward with CBO process [1]

Impact of Amendments 1, 5, and 16 (in dollars)

	FY22	FY23	FY24	FY25
Developer Costs/Minimum Additional Tax Abatement	$ 210,500	$ 214,710	$ 219,004	$ 223,384
Costs with Potential CBO Home Repair Program Benefit [2]	135,259	137,964	140,724	143,538
Active CBO Staffing Costs[3]	22,893	23,350	23,817	24,294
Ongoing CBO Compliance Staffing Costs[3]	473,722	966,393	1,478,581	2,010,870
Mailing Notice Costs [4]	5,474	5,474	5,474	5,474
Total Tier 1 CBO costs	**$ 847,847**	**$ 1,347,891**	**$ 1,867,600**	**$ 2,407,560**

Notes

[1] Assumes an additional 2 projects per year will qualify for Tier 1 status by lowering investment threshold from $75M to $50 based on average frequency since CBO inception.

[2] Assumes of the 2 projects per year requiring a $50M to $75M investment, one will have a CBO home repair program

[3] Staffing costs were estimated by using time commitments from past CBOs as provided by DEGC, HRD, JET, PPD, CRIO, DON, and Detroit at Work.

[4] Mailing costs are estimated with average mailing cost per household, occupied household density, average census tract size.

The combination of lowering the Tier 2 investment threshold and reallocating 80% of proceeds from Tier 2 project land sales will have a negative impact on general fund revenue as shown in Table 3. In 2019 and 2020, land sales with proceeds between $3 million and the proposed lower threshold of $300,000 totaled $2 million, on average. If 80% of those proceeds went to the Neighborhood Improvement Fund and the Skilled Trades Fund instead, the General Fund would see a loss $1.6 million per fiscal year if current land sale activity continues. Staffing costs varies with each project and will have a fiscal impact, but difficult to quantify and forecast with available data.

Table 3

Tier 2 Project Land Sales to be Reallocated to NIF and Skilled Trade Fund

Impacts of Amendments 3 and 17 (in dollars)

	FY22	FY23	FY24	FY25
80% of average land sales of $3M to $300k projects	$ 1,604,800	$ 1,604,800	$ 1,604,800	$ 1,604,800

Notes

Assumes an additional 4 projects per year will qualify for Tier 2 status by lowering land sales threshold from $3M to $300k based on average frequency since CBO inception.

Lastly, Table 4 shows the known additional costs to projects requiring a CBO within existing Tier 1 investment thresholds. The two known drivers include the staff hours related to the additional representative from Civil Rights, Inclusion, and Opportunity (CRIO) and mailing notice costs from the change in notification area.

Table 4

Additional costs for new projects within current Tier 1 thresholds[1]

Impacts of Amendments 5 and 16 (in dollars)

	FY22	FY23	FY24	FY25
CRIO staff for Enforcement Committee[2]	$ 959	$ 470	$ 978	$ 998
Mailing Notice Costs[3]	5,747	5,747	5,747	5,747
Total Tier 1 CBO costs	$ 6,706	$ 6,217	$ 6,725	$ 6,745

Notes

[1] Assumes an average of 4 projects per year based on average frequency since CBO inception.

[2] Assumes 4 additional staff hours needed for each annual meeting.

[3] Mailing costs are estimated with average mailing cost per household, occupied household density, average census tract size.

5.5. Unquantified Considerations: With available data, only two fiscal impacts of developers' decision making with the Tier 1 threshold changes were possible. If implemented, the observed effect would be some combination of the impacts shown in Table 1 and Table 2. In combination with external market pressures moving against developers, CBO costs could make the Table 1 outcome, where developers choose another city, more likely. Developers could choose to limit the amount of investment for a potential project so that it falls just under the $50 million threshold and avoids the required community benefit meetings. There not enough data to accurately capture incremental potential revenue per dollar invested, but would remain a loss nevertheless. Known developer costs for CBO meetings as quantified in Table 2 are the minimum costs for a developer as part of the Tier 1 CBO process. There will likely be additional cost to the developer based on commitments outlined in the community benefit agreement. Developers are likely to hedge these unknown costs in the form of more tax abatements on top of their known costs.

APPROVED

Steven Watson, Deputy CFO / Budget Director