

# Taxation of Assisted Lower-Income Housing

## Tax Exemption and Payment in Lieu of Taxes (PILOT)

### Proposed Ordinance Amendment - Discussion

City Commission Workshop  
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# Legislative Background

- State Housing Development Authority Act (Public Act 346 of 1966)
  - Authorizes exemption from ad valorem property taxes and payment of a service charge in lieu of taxes
  - Annual service charge is based on shelter rent receipts
  - Supports housing developments that serve lower-income households and have qualifying financing
- Chapter 9, Article 5 of the City Code, entitled *Taxation of Assisted Lower-Income Housing* (referred to as PILOT Ordinance)
  - Adopted in 1968 and most recently amended in 2018
  - Allows granting property tax exemptions and payment in lieu of taxes (PILOT) for projects serving lower-income households
  - Intended to encourage creation and preservation of affordable housing units
- Senate Bill 432 amended the State Housing Development Authority Act (late 2022)
  - Authorizes exemption from ad valorem property taxes for workforce housing projects
  - “Workforce housing” defined as households not exceeding 120% of Area Median Income (AMI)
  - Intended to encourage increasing the supply of housing

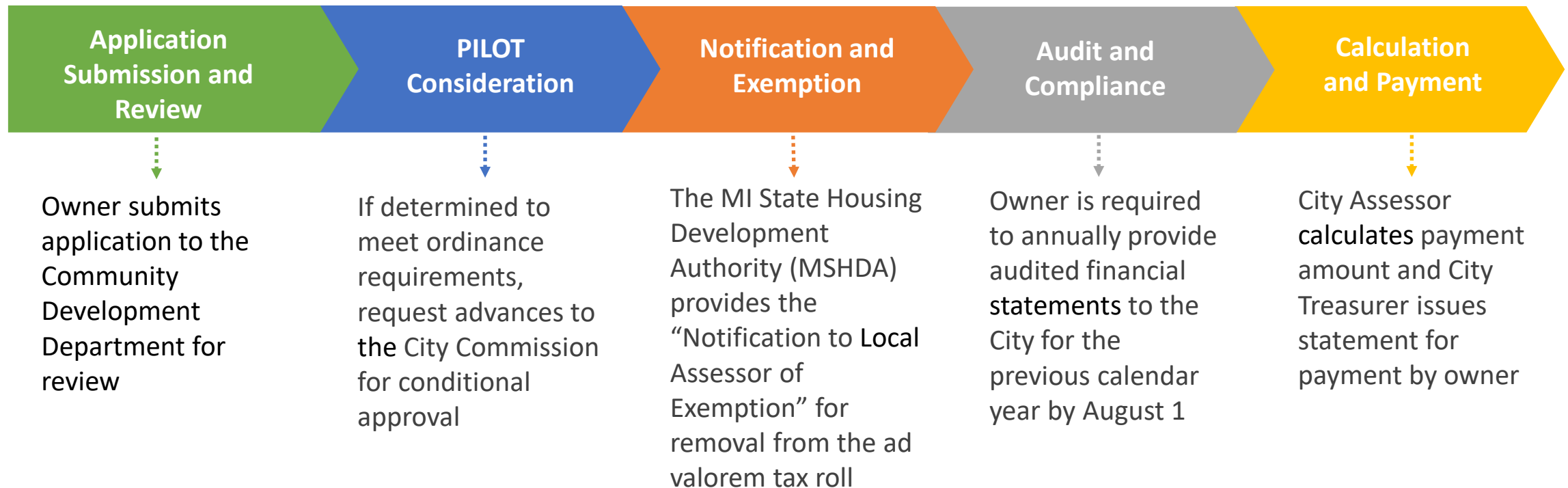
# Traditional v. Workforce Housing PILOT



|                     | Existing Ordinance<br>(Article 5, Chapter 9 of Title I of City Code)   | Public Act 346 of 1966<br>as amended by SB 432   |
|---------------------|--|--|
| Project Eligibility | <p>Housing projects that:</p> <ol style="list-style-type: none"> <li>1) Are financed with a Federally-aided or Michigan State Housing Development Authority-aided mortgage, or with an advance or grant from the Authority;</li> <li>2) Serve <i>lower-income households</i>, elderly, and/or handicapped (household incomes at or below 60% AMI); and</li> <li>3) Are owned by consumer housing cooperatives, qualified nonprofit housing corporations, or limited dividend housing associations</li> </ol> | <p>The Act allows PILOT for workforce housing projects that:</p> <ol style="list-style-type: none"> <li>1) Do not have a qualifying mortgage or grant financing;</li> <li>2) Serve households with incomes at or below 120% AMI (workforce housing); and</li> <li>3) Do not have a required ownership type/structure</li> </ol>  |
| Duration            | Life of the Federally-aided or State-aided mortgage loan or other eligible assistance, not to exceed fifty (50) years  | For workforce housing, project is subject to a covenant running with the land restricting its use to workforce housing, not to exceed 15 years   |
| Other Action        | None for lower-income household PILOT  | <p>For workforce housing projects:</p> <ol style="list-style-type: none"> <li>1) City must provide the County Treasurer a copy of the Notice to Local Assessor within 5 days of receipt</li> <li>2) Within 45 days of receipt, the County Board of Commissioners may adopt a resolution requiring payment of an amount equivalent to that which the County would receive if the PILOT were not in place – referred to in Act as “additional amount”</li> </ol> |

# PILOT Benefit and Process

- Reduced property cost helps keep operating expenses predictable and rents affordable
- Predictability provides certainty to developers and investors, reducing risk and helping secure project financing



# Initial Recommendations

## Current Ordinance

### Clarify Definitions

- Define “lower-income household” as those with income not exceeding 60% Area Median Income (AMI)
- Specify LIHTC units may go to 80% AMI using income averaging not exceeding 60% AMI

### Change Service Charge

- Eliminate % difference between traditional payment and voluntary Affordable Housing Fund (AHF) contribution options
- Retain 1% service charge and increase AFH contribution from 2% to 3%

## Workforce Housing

### Add Exemption

- Add tax exemption and PILOT for workforce housing projects, with a minimum of 5 units (includes scattered site)
- Define workforce housing as households with income not exceeding 80% of AMI

### Establish Service Charge

- Set service charge at 10%
- Establish option for 5% service charge and 5% voluntary contribution to AHF

### Define Rehabilitation

- Define rehabilitation to require at least \$25,000 of improvement per unit

### Establish Terms

- Set PILOT duration at 15 years (maximum allowed)

# Workforce Housing PILOT Questions

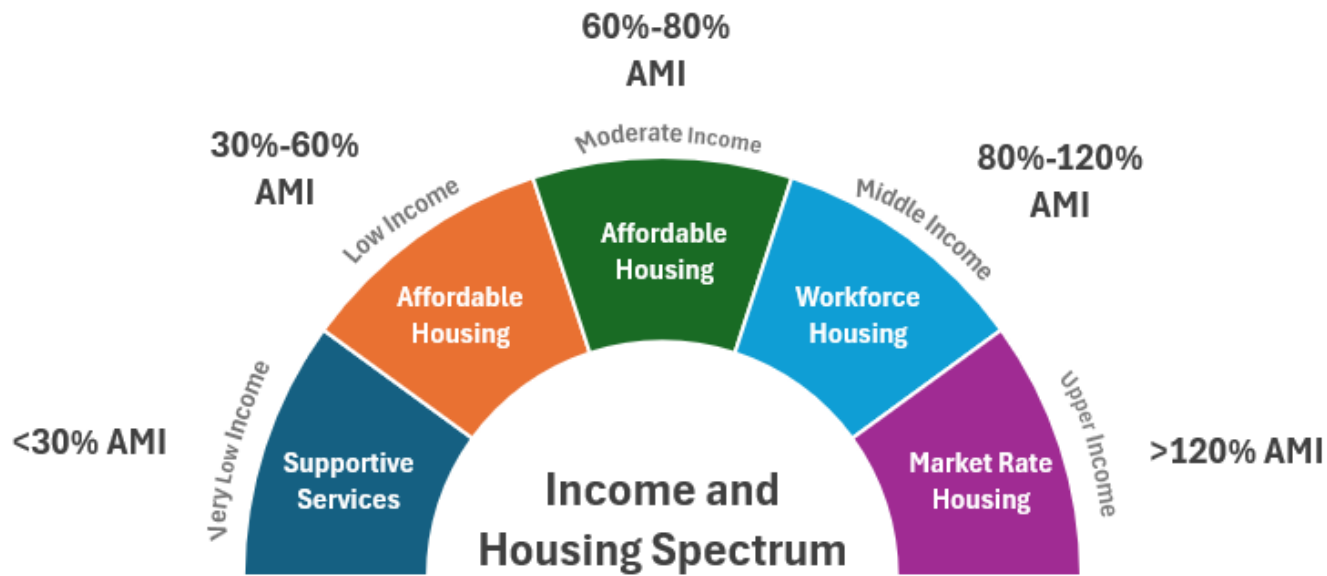
- What nonprofit and for-profit developers were engaged about the PILOT program? **SLIDE 7**
- Who is earning at the various AMI levels? **SLIDES 8,9, 10**
- What is the rental housing demand or gap for households at 80% and 120% of Area Median Income (AMI)? **SLIDE 11**
- Can a sliding scale be used to provide necessary housing supply at various income levels? Can we apply different percentages for different AMI thresholds? **SLIDE 12**
- How might the City Commission be more explicit about preserving affordability, particularly in the bottom two thirds of the income brackets? How do we achieve more of those units? How do we focus more on lower AMI? **SLIDE 12**
- How might the sliding scale impact developers of different types and sizes? How might this help or hinder their efforts? Will it support emerging smaller scale developers? **SLIDE 13**
- How does workforce housing PILOT benefit organizations that already serve low-income residents, and help them continue to serve that population? **SLIDE 13**
- What is the impact on revenue? **SLIDE 14**
- Can PILOT be used for owner-occupied units? **SLIDE 15**

# Workforce Housing PILOT Research/Input

| State/Municipalities   | External Stakeholders  | Internal Stakeholders  |
|--|--|--|
| <p>MSHDA</p> <p>Municipalities</p> <ul style="list-style-type: none"> <li>▪ Battle Creek</li> <li>▪ Detroit</li> <li>▪ Flint*</li> <li>▪ Frankfort*</li> <li>▪ Hastings</li> <li>▪ Jackson</li> <li>▪ Kalamazoo</li> <li>▪ Lansing</li> <li>▪ Muskegon*</li> <li>▪ Portage</li> <li>▪ Traverse City</li> </ul> | <p>For profit and nonprofit entities that expressed interest in the PILOT program</p> <ul style="list-style-type: none"> <li>▪ Community Rebuilders</li> <li>▪ Dwelling Place</li> <li>▪ Eenhoorn</li> <li>▪ Habitat for Humanity of Kent County</li> <li>▪ ICCF Community Homes</li> <li>▪ LINC Up</li> <li>▪ Ludell White Development</li> <li>▪ Pinnacle Construction</li> <li>▪ Well House</li> </ul> <p>*Currently, no workforce housing ordinance.</p> | <p>City Assessor’s Office</p> <p>City Attorney’s Office</p> <p>City Treasurer’s Office</p> <p>Economic Development</p> |

| Implementation  |
|---|
| <ul style="list-style-type: none"> <li>▪ All up to 120% AMI, service charges ranging from 1% to 10% with the majority at 10%</li> <li>▪ Detroit - tiered scale, \$1/unit for permanent supportive housing, negotiating service charges for all 80% - 120% AMI unit projects</li> <li>▪ Kalamazoo - sliding scale incentivizing 60% AMI units</li> <li>▪ Lansing and Detroit - administrative approvals (Detroit 80% AMI and below)</li> </ul> |

# Area Median Income

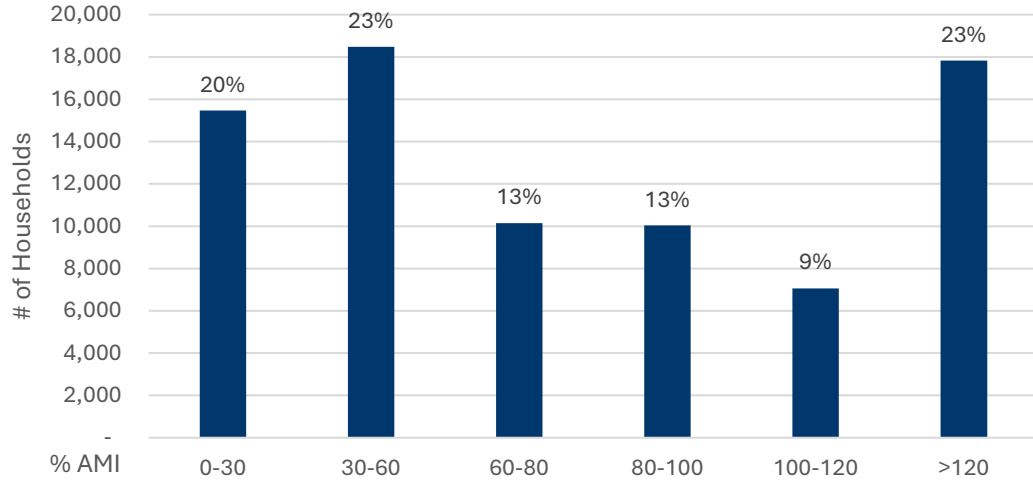


- Area Median Income (AMI) is the midpoint of a region's income distribution (half of households earn more and half earn less than the median)
- AMI is calculated for geographic areas by household size
- Federal housing programs generally support creation and preservation of affordable housing for households at or below 80% AMI

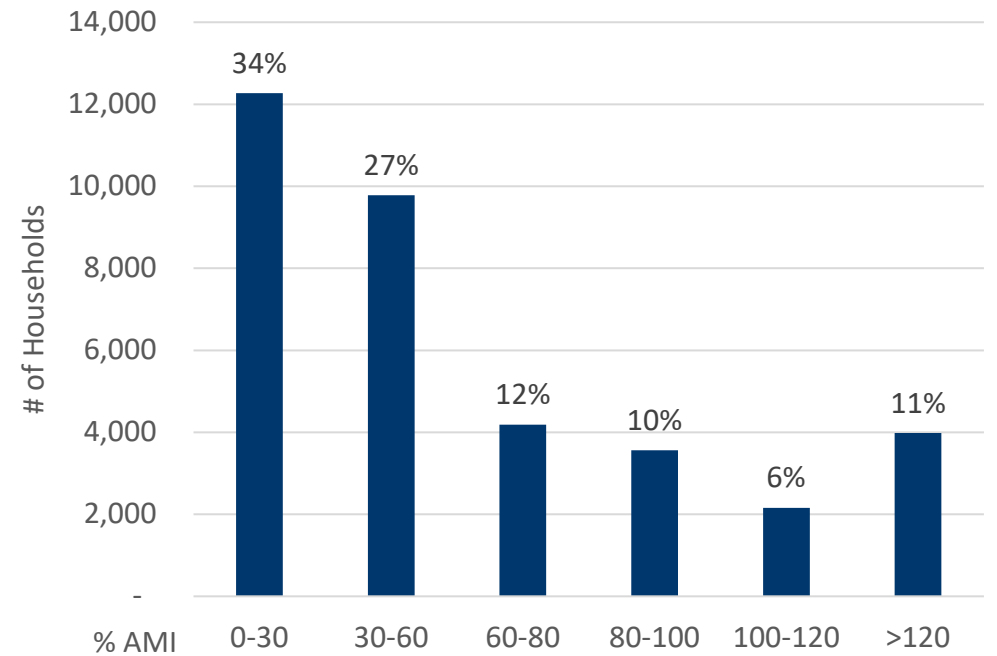


# Households by AMI and Tenure

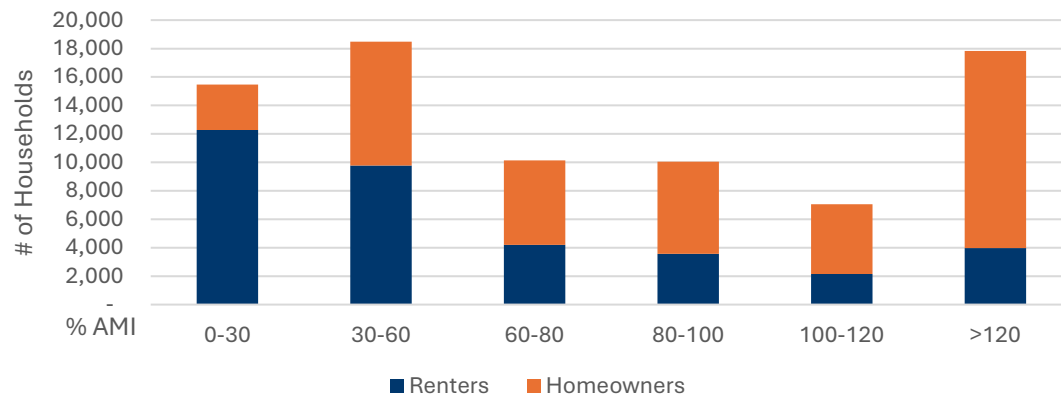
Grand Rapids Households by Area Median Income (AMI)



Rental Households by Area Median Income



Grand Rapids Households by AMI and Housing Tenure



# Example Wages and Area Median Income (AMI)

| Job Type                        | Average Annual Wages |
|---------------------------------|----------------------|
| Fast Food Worker                | \$28,990             |
| Cashier                         | \$29,610             |
| Home Health Aide                | \$32,890             |
| Retail Salesperson              | \$35,920             |
| Landscaping Worker              | \$38,790             |
| Nursing Assistant               | \$39,080             |
| Restaurant Server               | \$40,080             |
| Customer Service Representative | \$42,920             |
| Administrative Assistant        | \$44,150             |
| Machinist                       | \$49,470             |
| Elementary School Teacher       | \$67,170             |
| Accountant                      | \$80,840             |
| Industrial Engineer             | \$93,770             |
| Software Developers             | \$102,490            |

Source: 2023 Bureau of Labor Statistics OEWS Survey (Michigan)

| Percent AMI     | 1-Person HH Limit | 4-Person HH Limit |
|-----------------|-------------------|-------------------|
| ≤ 30%           | \$21,150          | \$30,210          |
| > 30% - ≤ 60%   | \$42,300          | \$60,420          |
| > 60% - ≤ 80%   | \$56,400          | \$80,550          |
| > 80% - ≤ 100%  | \$70,500          | \$100,700         |
| > 100% - ≤ 120% | \$84,600          | \$120,840         |

Source: U.S. Department of Housing and Urban Development (HUD) Kent County limits effective 4/1/2024

# Housing Needs Assessment (2023)

## Rental Housing Gap Estimate

| PSA (Grand Rapids) Housing Gap Estimates – Number of Units Needed |                    |                       |                  |                             |
|---|--------------------|-----------------------|------------------|-----------------------------|
|   | Housing Segment    |                       |                  | Units Needed<br>(2022-2027) |
|   | Household AMI      | Annual Income         | Rent/Price Range |                             |
| Rentals   | ≤ 30%              | ≤ \$28,850            | ≤ \$671          | 1,380                       |
|   | 31%-50%            | \$26,851 to \$44,750  | \$672-\$1,118    | 988                         |
|   | 51%-80%            | \$44,751 to \$71,600  | \$1,119-\$1,789  | 1,710                       |
|   | 81%-120%           | \$71,601 to \$107,400 | \$1,790-\$2,685  | 1,573                       |
|   | 121%+              | \$107,401+            | \$2,686+         | 2,300                       |
|   | <b>Total Units</b> |                       |                  |                             |

Source: Grand Rapids/Kent County, MI Housing Needs Assessment, Bowen National Research, updated 2023

# Workforce Housing PILOT

## Scaled Approach by Area Median Income (AMI)

| Example of Tiered Scale         |       |               |               |                |                 |
|---------------------------------|-------|---------------|---------------|----------------|-----------------|
| Percent AMI                     | ≤ 30% | > 30% - ≤ 60% | > 60% - ≤ 80% | > 80% - ≤ 100% | > 100% - ≤ 120% |
| Service Charge Only             | 4%    | 4%            | 10%           | 10%            | 10%             |
| Service Charge/AHF Contribution | 1%/3% | 1%/3%         | 5%/5%         | 5%/5%          | 5%/5%           |

| Example of Sliding Scale for Targeted Income |  |
|--|--|
| % Units for Households ≤ 60% AMI             | Service Charge % for Units w/Households ≤ 120% AMI |
| 75 - 100%                                    | 4%   |
| 50 - 74.99%                                  | 6%   |
| 25 - 49.99%                                  | 10%  |
| Less than 25%                                | 0%   |

If desire to focus on housing for lower income households, could:

- Limit AMI to lower than 120%
- Require a mix of units and use sliding scale for service charge percentage

# Use of Workforce Housing PILOT Developer Impact

- PILOT benefits property owners as the service charge will not exceed current ad valorem taxes.
- Workforce housing PILOT would be available to developers of any size and experience, including emerging, small-scale developers.
- It may be challenging for developers not accustomed to meeting regulatory and compliance requirements. These will include:
  - Signing a restrictive covenant provided by the City
  - Providing evidence of rehabilitation cost and proof of completion of rehabilitation
  - Conducting income certification at initial occupancy and annually thereafter
  - Submitting to the City an annual tenant income and rent report
  - Filing with the City Assessor annual financial statements
- PILOT may be used by developers already serving lower income populations if new units are constructed or existing units rehabilitated in accordance with the ordinance.

# Workforce Housing PILOT Potential Fiscal Impact

## Fiscal Impact Highly Speculative

- Indeterminate impact due to unknown factors: estimated tax value of subject properties, AMI, and rent receipts
- Off-set from generated income tax revenue cannot be determined due to no experience in these types of projects to establish a baseline

| # of Units | Estimated Market Value | Estimated Monthly Rent | PILOT Amount                       | Estimated Ad Valorem Tax Bill | Estimated Bill with PILOT | Project Benefit |
|------------|------------------------|------------------------|------------------------------------|-------------------------------|---------------------------|-----------------|
| 5          | \$1 million            | \$1,700                | 10% (5% service charge, 5% to AHF) | \$26,028                      | \$8,588                   | \$17,440        |
| 20         | \$3 million            |                        |                                    | \$79,125                      | \$37,452                  | \$41,673        |

Source: Income based on 2024 HUD Kent County limits effective 4/1/2024; Rent based on 2024 affordable rent for 80% AMI households; 9.0325 2023 City millage rate

# Workforce Housing PILOT

## Use for Owner-Occupied Units

- Use for owner-occupied units:
  - Not the intent of the legislation, but not explicitly disallowed
  - Michigan State Housing Development Authority (MSHDA) indicates:
    - Could establish local parameters for owner-occupied units
    - Should carefully consider potential implications (e.g., financial impact when PILOT terminates)
- If to be considered, recommend:
  - Limiting to projects not exceeding 80% AMI
  - Limiting to housing constructed by non-profit housing developers for sale to income eligible households
- Potential benefits from PILOT savings may include:
  - Increased homebuyer funds available for payment of mortgage principal and interest
  - Households with lower AMI might qualify for mortgage financing

# Obtaining Direction

- AMI level
  - Up to 120% AMI, or cap at a lower AMI
- Establishing the service charge
  - Tiered service charge percentage based on AMI
  - Sliding scale service charge percentage based on AMI unit mix to incentives
- Provide option for Affordable Housing Fund contribution
  - Amount of split for service charge and contribution
- Administrative and/or Commission project approval
- Include an owner-occupied housing component