

# Payment in Lieu of Taxes (PILOT) Policy



## Overview

The City of Mt. Pleasant recognizes that providing affordable housing<sup>1</sup> for people of low income is a public necessity. A PILOT (or Payment in Lieu of Taxes) is an effective incentive that helps remove barriers to the construction of housing for low-income households. Authorized under the Michigan State Housing Development Authority Act of 1966, a PILOT agreement is a negotiable legal document that allows the owner to pay a defined percentage of net shelter rent (or total owner revenue) instead of the local property tax rate.

This document outlines the objectives, timeline, and requirements for a residential housing development to be considered for a PILOT in the City of Mt. Pleasant.

## Goals of the PILOT Policy

The City of Mt. Pleasant's PILOT policy has the following objectives:

- Increasing affordable housing opportunities for residents
- Reducing functional obsolescence of existing facilities, buildings, etc.
- Encouraging expansion of the population
- Providing for improved housing amenities for the community
- Encouraging attractive, viable building sites
- Enhancing the available economic development tools to attract and retain affordable housing development

## Eligibility:

1. The applicant must be a nonprofit housing corporation, consumer housing cooperative, limited dividend housing association limited partnership, limited dividend housing association limited liability company, or limited dividend housing corporation, and must be financed with a federally-aided or Michigan State Housing Development Authority (MSHDA) aided mortgage, advance, or grant.
2. To be eligible to apply for a PILOT, an applicant must own the property or have an option or other right to purchase the property under consideration.
3. Eligible projects must consist of a minimum of 80 percent of the units for affordable housing.

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<sup>1</sup> Affordable housing is defined as housing that costs 30 percent or less of a household's gross income if the household makes no more than 80 percent of the area median income (AMI).

## **Procedure**

1. **Mandatory Pre-Submittal Conference:** A meeting with the Director of Community Services & Economic Development, Director of Planning & Community Development, City Engineer, City Treasurer, and City Assessor must occur before submitting a PILOT application. This meeting is to acquaint all parties with the scope of the project and any related issues. Also, it serves to familiarize the applicant with the PILOT process.
2. **Submission of Application:** An application packet must be assembled and submitted based upon the requirements as set forth in the Application Requirements section below.
3. **City Staff Review:** City staff will review the submitted application packet for completeness and will utilize the attached scoring matrix to determine compatibility with the Mt. Pleasant Master Plan, Zoning Ordinance, and objectives of the City's PILOT program. After receiving the application, the City will either:
  - a. Forward the application to the City Commission with a recommendation for their consideration, or
  - b. Send the application back to the applicant for additional information or clarification.
4. **City Commission Review:** For applications forwarded to the City Commission, the City's Director of Community Services and Economic Development will forward the completed application packet and recommendation and will schedule the request as an agenda item. The City's Director of Community Services and Economic Development will also prepare a proposed ordinance regarding the request for a PILOT. In reviewing each request, the City Commission shall utilize the attached scoring matrix.
5. **Approval:** If the project and PILOT application is approved by the City Commission, the City Clerk will submit a certified copy of the resolution approving the PILOT to the applicant. Additionally, the Clerk's office will e-mail digital copies of the application packet and resolution approving the PILOT to the City Manager, City Assessor, City Engineer, and Director of Planning and Community Development.
6. **Reporting to City Treasurer After PILOT Approval:** For the PILOT to remain in effect, annual statements of net shelter rents must be filed with the City Treasurer. The City Treasurer's Office shall verify the accuracy of payments and distribute them accordingly among taxing jurisdictions.

## **Application Requirements**

The applicant must supply all the following information in its PILOT proposal:

1. **Applicant and Guarantors:** Brief overview of applicant organization, including its corporate or partnership structure, and the name, address, email address and telephone number of the applying entity. The proposal shall also include the name of the applying entity's representatives, financial guarantors of the project, and name of principals of those entities, addresses, emails, and telephone numbers.

2. Background Information: Description of the applicant's development experience (if any) and any other relevant information the City may need to consider while reviewing the application.
3. The Proposed Project: Describe the proposed project, including the following:
  - a. The location of the proposed project by street address and legal description
  - b. Project scope, including rental units broken down by bedrooms and estimated rents
  - c. Architectural renderings
  - d. Timeline with projected milestones
  - e. Brief narrative describing how the project is consistent with the Mt. Pleasant Master Plan and the City's Zoning Ordinance
  - f. Impact on City services such as police, fire, emergency medical transport, and code enforcement
  - g. Any other information needed to fully explain the project
4. Development Team: Name all of the following that will be involved with the Project (with mailing addresses, email addresses, and phone numbers):
  - a. Applicant (primary point of contact)
  - b. Architects and engineers
  - c. Construction project manager
  - d. General contractor for project
  - e. Other professionals
5. Pro Formas: The applicant must provide a detailed development and operating pro forma. The development pro forma must outline the proposed hard, soft, and financing costs associated with the proposed development. It must also identify all sources of financing and terms including the applicant's equity, construction, and permanent financing and any government assistance. The detailed operating pro forma shall include all anticipated major revenues and expenses for the full term of the requested PILOT.
6. MSHDA Application: Include a copy of the completed MSHDA application for Low Income Housing Tax Credits within thirty (30) days of submittal to MSHDA.

### **PILOT Rate**

In lieu of property taxes, the developer of a PILOT project shall be assessed a PILOT rate and municipal services fee. The PILOT rate is a defined percentage of net shelter rent (or total property owner revenue). The municipal services fee covers any shortfall in funds to service the site with essential public services. Depending on the project, a PILOT rate shall be set between 4 and 6 percent and supplemented by a municipal services fee which will typically be around 3 percent but may vary based on the specific recommendations of City departments such as police and fire. The specific PILOT rate and municipal services fee shall be established on a case-by-case basis and negotiated between the City and the developer. The maximum service charge

(consisting of the PILOT rate and municipal services fee) to be paid in lieu of property taxes shall never exceed the amount of property tax that would have been paid but for the project's PILOT eligibility.

### **PILOT Term**

The term of the PILOT shall be determined by the length of the developer's debt service.

### **Extension to Existing PILOT Development**

Extensions to existing PILOT agreements need to be considered on a case-by-case basis due to the limitations on the programs available for rehabilitation. As with all other tax incentive programs, the staff will consider the merits of each proposal following certain guidelines and make a recommendation to the City Commission. In these instances, a less stringent method will be used in the review process. However, an extension will only be granted where the annual income to the city is increased. The staff recommends setting the following objectives and developing a PILOT application that features them:

Objectives:

- Investment in building and units
- Investment in outdoor site amenities
- Term extension less than 20 years
- Upgrade to visitability ADA standards
- Increase to average AMI by minimum of 10 percent

### **Tax Abatement Application Fee**

The City Commission has authorized the implementation of a non-refundable application fee for Payment in Lieu of Taxes applications. The fee is published in the city's fee schedule as adopted by resolution of the City Commission and included on the application.

## Affordable Housing / PILOT Scoring Matrix

Point Scoring: N/A, 1, 2 or 3. N/A = either not applicable or no information supplied. 1 = poor, or below expectations. 2 = average or meets minimum standards. 3 = exceeds standards.			
<b>Building Type / Design</b>			
	The City places a high value on land efficiency, a maximization of limited housing credits, and high-quality construction.	Possible Points	Points Scored
[1]	Maximize Land Utilization	3	
[2]	Green Infrastructure	3	
	Universal Accessibility (i.e., ADA, Aging in Place)	3	
[3]	Quality & Durability of Exterior Construction, Efficiency	3	
<b>Location / Connectivity</b>			
	The City places a high value on integrating affordable housing throughout the community and locating housing near services and places of employment.		
	Access to Transportation Choices (Transit/Trail Orientated)	3	
	Walk Accessible Services (Grocery, Schools, Employment)	3	
	Serves Corridor Redevelopment	3	
[4]	Quality of Site Improvements, Place Making	3	
<b>Context / Need</b>			
	The City places a high value on PILOT requests that appeal to a broad range of demographic groups.		
	Unit Diversity (i.e., studio, 1, 2 bedroom)	3	
	Meets minimum state housing authority thresholds of at least 20% of units for residents whose incomes do not exceed 50% of AMI or 40% of units for residents whose incomes do not exceed 60% of AMI	3	
	Provides higher percentage of affordable units and/or reaches a lower percentage of AMI than the minimum state housing authority thresholds	3	
	Demographic Groups Served	3	
<b>Total Points: Possible / Received</b>			36

Interpretation	Total Score	Total Points
Poor	< 23	
Acceptable	24-28	
Excellent	29-36	

## Notes

- [1] To encourage efficiencies in land use and cost of services, the City awards maximum points to projects that use space most efficiently in compliance with the City's zoning ordinance within applicable zoning districts.
- [2] Green infrastructure is utilized to reduce impacts on stormwater infrastructure. Green infrastructure may include, but not be limited to green roof technology, rain gardens, permeable pavements, maintaining existing or increasing tree canopy.
- [3] Quality & Durability Definitions: *Exterior construction* shall be of durable materials (i.e. wood, composite, brick, concrete or steel siding). *Efficiencies* refers to energy efficiencies that meet Energy Star standards.
- [4] Place making promotes people's health, happiness, and well-being. Points are awarded based on the quality of improvements made to the common space surrounding the proposed development. Those improvements may include, but not be limited to improved sidewalk access, covered bike parking, increased tree sizes.