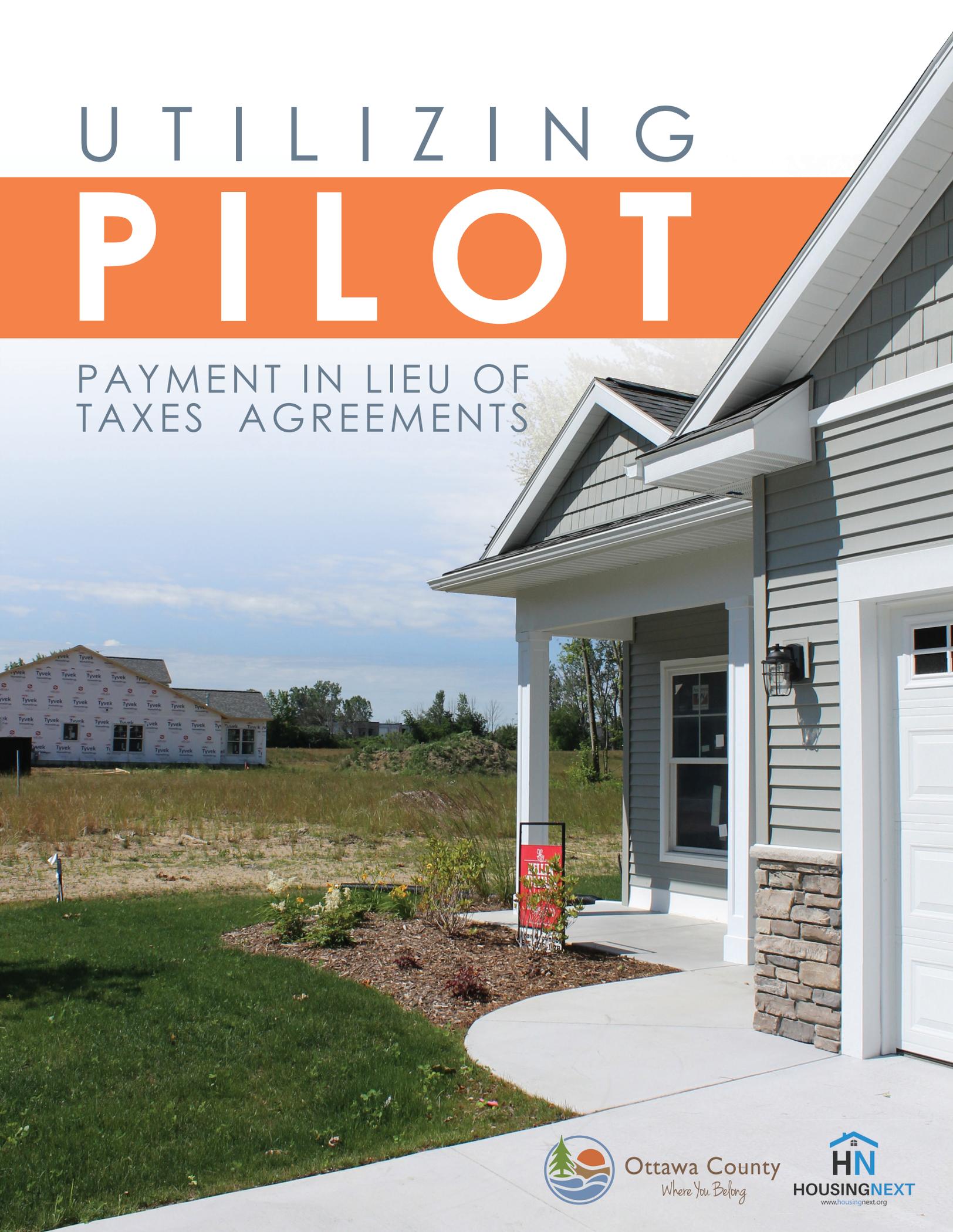


# UTILIZING PILOT

## PAYMENT IN LIEU OF TAXES AGREEMENTS

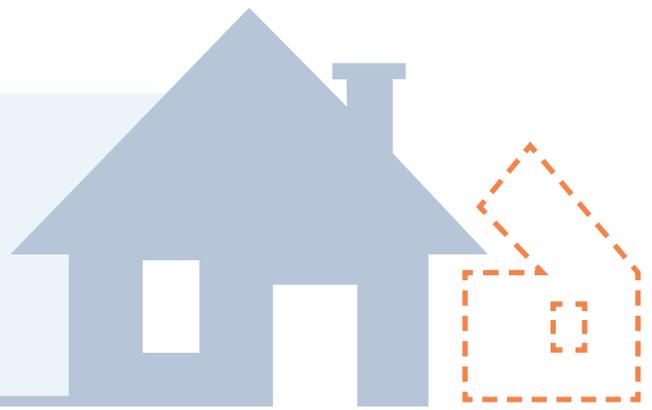


Ottawa County  
*Where You Belong*



# PILOT

## AN AFFORDABLE HOUSING SOLUTION



Ottawa County is facing a critical shortage of housing. In 2018, the United Way of Greater Ottawa County and Housing Next conducted a Housing Needs Assessment and found a shortage of more than 7,800 homes, condos and apartments at all price points.

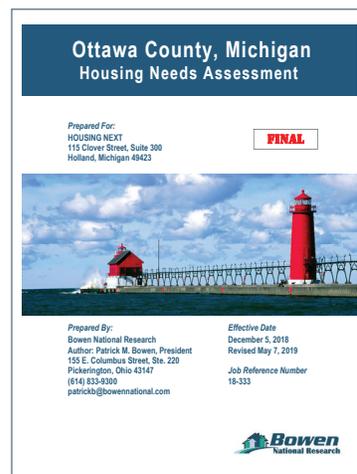
The most significant needs identified in the County were for apartments priced below \$1,250 per month and for-sale homes priced below \$250,000.

Prior to the Great Recession, these moderately priced homes and apartments were easy to build within the local market and did not need any state or local support to get built at a modest profit.

Those opportunities, unfortunately, have diminished over time, due largely to:

- The loss of local construction labor
- An increase in material prices

There is a partnership of organizations working to address wages and labor supply, but the need for more housing is immediate and growing. This demand ultimately prompted the reinvigoration of the Ottawa County Housing Commission.



### Municipalities play a role

Local cities, villages and townships can play a role in ensuring more housing at the right price points can be built for our regional workforce.

Reevaluating some zoning standards to ensure that minimum lot size and frontage requirements are still allowing for middle-class housing to be built is one way our communities can help. Another way to assist is by offering support for multi-family projects that are funded using state tax incentives.

When compared to all other multi-family developments in a region, multi-family tax credit projects can be some of the highest quality developments, with superb property maintenance and management. This is because the Michigan State Housing Development Authority (MSHDA) prioritizes a healthy reserve balance to fund property maintenance. The state also requires that tax credit units are comparable in quality and finish to any other market-rate project in the region.



## PILOT agreements

In Michigan, any housing project that requests to utilize a housing tax credit must enter into a Payment in-lieu of Tax (PILOT) Agreement with the local municipality.

This agreement is a negotiable legal document that allows the housing developer to pay a defined percentage of net shelter rent (total property owner revenue) instead of the local tax rate.

The Michigan legislature permits the local municipality broad authority to negotiate the terms of a PILOT Agreement, and funds collected can range from 0% of projected net shelter rent up to 10%.

The PILOT program is designed to require the project developer to establish rent levels that are affordable to the local workforce. This is defined as a percentage of the county-wide area median income (AMI).

Local municipalities have the ability to negotiate a PILOT agreement that best fits both the project and the community.

When combined with a municipal services agreement (MSA), the local community can often earn the same amount of local revenue from the project that they would earn under the normal ad valorem (according to the value) tax model. Calculating the PILOT and MSA require a close working relationship with the development team and a clear understanding of how comparable market-rate developments will be taxed in the years after construction is completed.

## CALCULATING AMI FOR PILOT

Ottawa County Area Mean Income (AMI) is ...



**\$58,600**

for a  
single  
adult



**\$75,300**

for a  
family of  
three



**AVERAGE RENT** in a development must be affordable to residents who earn **60% of AMI or less**

**60% AMI = \$35,000-\$45,000** per year, or the average income for ...



**Public  
safety  
workers**



**Young  
teachers**



**Skilled  
nurses**

### Breaking it down

The average rent in a PILOT development must be affordable to residents who earn 60% of the AMI or less.

Some units will be priced for residents earning 80-100% of the median income, while others may be priced for residents earning 40-50% of the median income.

In Ottawa County, the AMI for the year 2020 is \$58,600 for a single adult, or \$75,300 for a family of three.

So, a typical resident who earns 60% of the AMI would have an income between \$35,000 and \$45,000 per year.

According to the most recent Michigan Works data, this income range would include most young teachers, public safety officers and skilled nurses.



## A PILOT scenario

The average rent for a one-bedroom apartment in a tax credit-supported project will be roughly \$900 per month. In order to estimate the annual payment in lieu of taxes, the municipality can multiply the average rent by 12, and multiply again by the number of units proposed. This will provide the estimated annual net shelter rent revenue for the project. If we assume 100 apartment units, that equation would be as follows:

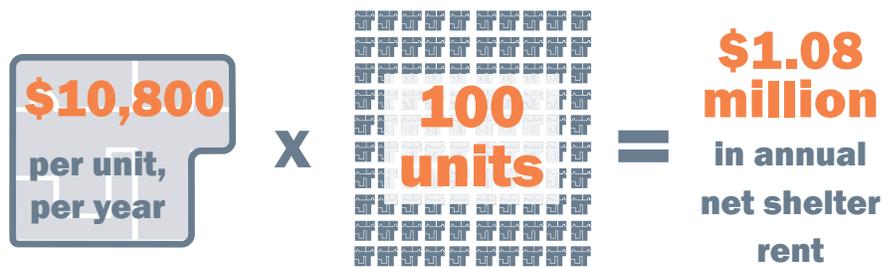
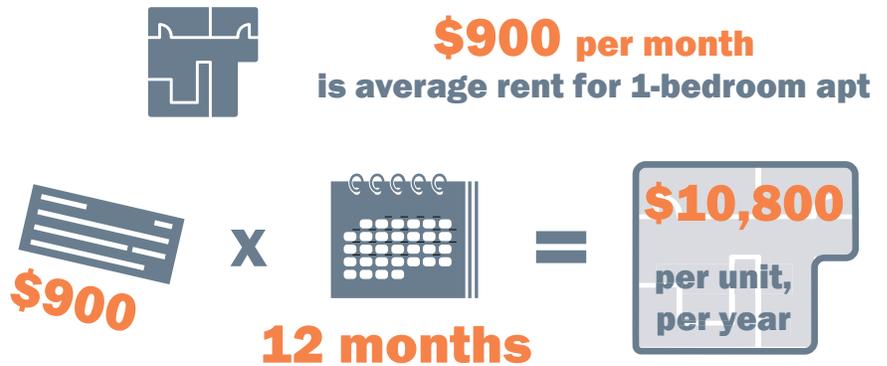
$\$900/\text{month} \times 12 \text{ months} =$   
 $\$10,800 \text{ per unit}$

$\$10,800 \times 100 \text{ units} = \$1,080,000$   
 $(\$1.08 \text{ million}) \text{ annual net shelter rent}$

The municipality may then negotiate a payment of between 0% and 10% of annual net shelter rent revenues. The typical PILOT fee in most municipalities is set at 4% of net shelter rent revenues. In this example, that would amount to \$43,200 in annual local tax revenue. These funds are then distributed proportionately to each local taxing jurisdiction just as a typical tax payment would be. Local schools, libraries and similar jurisdictions would collect their pro-rata share of the PILOT fee.

It is important to keep in mind the PILOT fee is based on annual net shelter rents. The project owner must still pay for on-site management, maintenance, utilities, repairs and mortgage payments. With nearly all tax credit funded projects, the development will have a sizable mortgage used to finance the project. The MSHDA financed mortgage, combined with property maintenance requirements

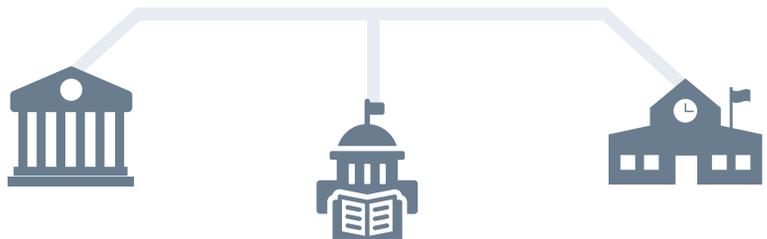
## CALCULATING ANNUAL PILOT PAYMENTS TO MUNICIPALITIES



If a typical municipality **PILOT** fee is **4%** of net revenue, this amounts to

**\$43,200**

in annual PILOT revenue, which is distributed proportionally to the local taxing jurisdiction, schools, libraries, etc.



and restricted rent amounts for middle-income residents, leaves limited room to offer a significant payment in lieu of tax for many projects.

Most developments can handle a 4-6% PILOT, but the larger the payment the less likely it is that the project will ultimately make financial sense.



## **Municipal Service Fees: Offsetting public service costs**

In addition to a PILOT fee, which is distributed proportionately to all local taxing jurisdictions, the local municipality may also impose a Municipal Services Agreement (MSA) fee.

This fee can be implemented where it is estimated that the amount of the PILOT fee being directed to the local unit will not be enough to properly service the site with essential public services.

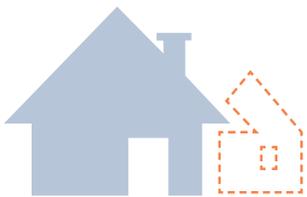
Where a strong rationale can be made to impose the additional service fee, this can be an important tool to make up for any potential revenue shortfalls stemming from a tax credit-funded project.

In communities where MSA fees are commonly imposed, the average fee ranges from \$10,000 per year to \$20,000 per year, depending upon the size of the project and its proximity to local services.

## **Resource support**

In an effort to support local communities in Ottawa County with as much information and resources as possible, the Ottawa County Housing Commission has offered a series of template documents, including:

- **Development Agreement (PILOT)**
- **Municipal Services Agreement**
- **Resolution (Approving MSA and PILOT between city/developer)**



The Ottawa County Housing Commission is here to serve as a community informational resource as local decision makers consider supporting critical housing needs across our County.

**For more information, visit**

 [miottawa.org/Departments/Planning/housing\\_commission.htm](http://miottawa.org/Departments/Planning/housing_commission.htm)

 616.738.4852  [plan@miottawa.org](mailto:plan@miottawa.org)



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