

CITY COMMISSION AGENDA ITEM

TITLE	Consideration of an Ordinance Amendment to Chapter 671 Taxation for a Payment In Lieu Of Taxes, Second Reading
SUBMITTING DEPARTMENT	City Attorney
PRESENTER	Niccolas Grochowski
MEETING DATE	July 14, 2025
SECOND READING REQUIRED	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
CERTIFIED RESOLUTION	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No

EXECUTIVE SUMMARY

Lockwood Development Company, LLC (Lockwood) has created a separate domestic limited partnership - 400 E Third Limited Dividend Housing Association Limited Partnership – for its proposed Workforce and Affordable housing project to be developed at the surface parking lot at 3rd St. and Knowles St. Lockwood is seeking additional financial assistance to make its mixed-income housing development a reality by requesting a PILOT (Payment In Lieu of Taxes) which results in approximately \$6,744,625 in local tax breaks over the requested forty (40) year period.

One of the requirements for a Municipality to approve a PILOT under Michigan law is a new Ordinance that would amend Chapter 671 Taxation of the City Code of Ordinances. This is the second reading of the proposed ordinance.

The development of the surface parking lot on E. 3rd St. at Knowles St. will offer a variety of housing that works for everyone by providing 59 new affordable and workforce units. New residents will save on rent and contribute to the vibrancy and workforce of downtown.

The draft ordinance was first presented to the City Commission for a first reading during the June 23rd City Commission meeting.

Project Background

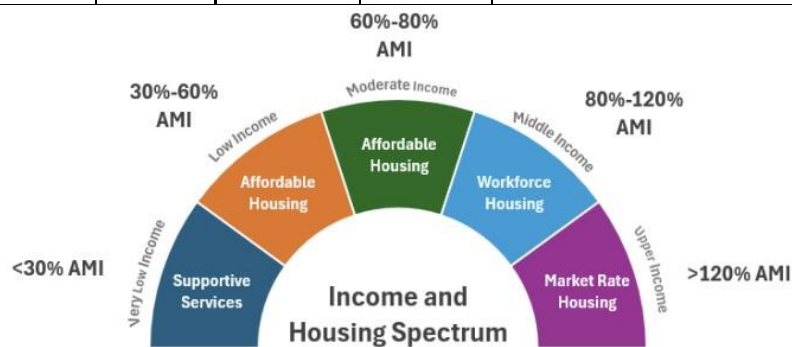
Lockwood received development approvals for:

- 7 story (77 foot tall) multiple-family building
- 2 floors of parking (63 spaces)
- 4 floors of attainable apartments (59 units).



The tables below note the number, type of unit, rent, and income limits.

# of units by type				
# of 1 bedroom	# of 2 bedroom	#	%	type
24	7	31 units	52.5%	affordable @ $\leq 60\%$ AMI
20	8	28 units	47.5%	workforce @ $\leq 120\%$ AMI
44	15	59 units	100%	



2025 income limitation by household size*				
	1 person	2 persons	3 persons	4 persons
50% AMI	\$35,350	\$40,400	\$45,450	\$50,500
60% AMI	\$42,420	\$48,480	\$54,540	\$60,600
120% AMI	\$84,840	\$96,960	\$109,080	\$121,200
AMI = Area Median Income *2025 income limits released April 1, 2025				

2025 rent limitation vs. <i>market rate pricing</i>		
	1 bedroom	2 bedroom
50% AMI	\$801	n/a
60% AMI	\$902 - \$1,037	\$1,168 - \$1,240

120% AMI	\$2,173	\$2,604
<i>market rate</i>	<i>\$2,180</i>	<i>\$2,980</i>
AMI = Area Median Income		

Lockwood has noted that all units will feature like amenities. Units will not be reserved or designated for households by income amount or funding source.

Rents that modest-income households can afford to pay are often too low to cover the full costs of owning and managing a rental property. The shortfall between funding the development and operation and the resulting revenues is referred to as a funding gap.

Lockwood is pursuing gap financing from a variety of sources and programs including the Michigan State Housing Development Authority (MSHDA), the Oakland County Board of Commissioners (OCBC), and the City of Royal Oak. The gap financing is in addition to a \$9,462,233 permanent mortgage from MSHDA.

Lockwood is pursuing funding that support affordable & workforce housing and reduces their financial gap	
MSHDA LIHTC HOME	\$3,677,834 \$3,882,061
OCBC OC Housing Trust Fund	\$5,000,000
city ARPA PILOT	\$1,950,000 \$6,744,625

MSHDA financing would provide a \$8.5 million permanent mortgage loan, \$3.6 million HOME / MRF loan, and \$3.7 million Low Income Housing Tax Credits (LIHTC) loan. The permanent mortgage and HOME / MRF loans are simple low rate, long term direct loans from MSHDA.

The LIHTC loan provides transferable tax credits to developers in exchange for building or renovating affordable rental housing. Developers sell their non-refundable and transferable tax credits to investors to raise equity for their construction or rehabilitation project. This allows developers to borrow less than they would have otherwise and to charge lower rents as a result. In return, investors that purchase the developer's tax credits may claim credit against their annual tax liability over a period of time.

The OCBC may help finance the development via a low interest loan from their established housing trust fund (OCHTF).

The city has expressed its financial commitment to the development. As noted above, at their August 12, 2024 meeting, the city commission adopted a motion directing the city attorney to make final revisions to an agreement, for future consideration, to transfer \$1.95 million of gap financing to the OCHTF to financially support Lockwood's project.

Request for a PILOT

Lockwood requests that the city commission amend Chapter 671 Taxation of the City Code of Ordinances to create a PILOT associated with its approved development.

PILOTs are a *required* local financial incentive, under MSHDA LIHTC funded projects, that subsidize the creation or preservation of affordable rental housing.

Amending Chapter 671 Taxation would establish a PILOT that exempts the development from certain “local” ad valorem tax types (city operating, publicity tax, library, refuse state law, refuse voted, DDA, CH.20 drain debt, public safety, roads, senior services, parks, animal shelter) based on the incremental taxable value of the property.

Many other ad valorem taxes, such as state education tax, school district operating and debt, county government and parks, community college, metroparks, zoo, institute of arts, etc. are unaffected by a PILOT.

Annual ad valorem tax payments tend to fluctuate given changes in factors related to the development’s taxable value. By comparison, a PILOT provides the developer with a predictable, low-cost annual service charge / payment. Predictable expenses provide the developer with greater financial stability and make their tax credits more appealing to investors.

The rental units must be reserved and occupied by income qualified households. The funding sources establish rent rates as noted in the table above. The developer can accurately predict their annual shelter rent / gross potential income from units occupied by low-income persons or households. The annual shelter rent is the total amount of rent collected excluding charges for natural gas, electricity, heat, or other utilities furnished to the occupants.

A PILOT’s annual service charge / payment for public services shall be equal to a defined percentage of the annual shelter rents collected during each operating year for units occupied by low-income persons or households.

The annual PILOT payment is proportionally distributed to each “local” tax type as listed above. Therefore, “local” taxing jurisdictions still receive money, all be it at a very reduced amount compared to the absence of the PILOT. All taxing jurisdictions will capture a greater dollar amount that they are currently capturing due to the increase in taxable value.

The city currently collects approximately \$910 in “local” taxes. After the first year, “local” tax types would receive a pro rata share of PILOT payment totaling approximately \$5,018.

The property is in the Downtown Development Authority’s (DDA) Tax Increment Finance district and subject to the DDA’s millage. If the PILOT Ordinance is adopted, it would exempt the development from the DDA’s millage. Like other “local” tax types, the DDA would receive a pro rate share of the annual PILOT payment. By comparison, if the PILOT Ordinance did not exist, the DDA would capture most “local” taxes associated with the incremental growth in taxable value.

Lockwood requests a PILOT at a rate of 2% for a duration of forty (40) years. The percentage associated with the PILOT shall be determined by city commission. PILOTs range in percentage based on the factors like the number of affordable units, the maximum income range for the household, unit size, etc.

The lower the PILOT percentage, the greater the subsidy. The higher the PILOT percentage, the lesser the subsidy.

The typical trade-off finds local communities authorizing a lower percentage in exchange for a greater number of units reserved for modest income households.

Resulting Tax Break

An annual 2% PILOT payment results in an additional financial incentive of approximately \$6,744,625 in tax breaks over the requested forty (40) year period.

The table below provides comparisons for consideration.

	PILOT initial service charge / payment	estimated initial tax break after first year**	estimated total tax break over 40 years***
proposed mixed income development 0% PILOT - \$0 service charge	\$0	\$136,336	\$7,433,895
proposed mixed income development 2% REQUESTED PILOT	\$20,070[^]	\$121,283	\$6,744,625
proposed mixed income development 4% PILOT	\$40,140 ^{^^}	\$106,231	\$6,055,356

*18.7226 total "city" revenue includes the following mills per tax type: 6.7425 city operating, 0.0122 publicity tax, 0.9898 library, 1.8381 refuse state law, 0.5000 refuse voted, 0.0502 CH.20 drain debt, 3.6242 public safety, 2.4746 roads, 0.1979 senior services, 0.6928 parks, animal shelter, 1.6003 DDA

**estimated annual taxbreak is the difference between traditional ad valorem tax collection on the full taxable value of a 100% market value versus proposed PILOT annual service charge / payment

***assumption that the taxable value will increase 1.5% per year

[^]2% of Lockwood's identified, initial ~\$1,003,508 of annual shelter rent / gross potential income increasing at 0.68% each year thereafter

^{^^}4% of Lockwood's identified, initial ~\$1,003,508 of annual shelter rent / gross potential income increasing at 0.68% each year thereafter

Annual Municipal Services Fee

The PILOT creates a substantial tax break from the city's Public Safety millage (3.6242 mills). The residents will undoubtedly require public safety assistance from the Royal Oak Police and Fire departments. Therefore, the administration has requested a separate agreement to establish a fee in lieu of the PILOT's tax break from the Public Safety millage. This proposed community benefits agreement will ensure that the development is paying its fair share toward these services.

Assurance of Affordability

Lockwood must report annual income verification data to MSHDA for the 31 households living in the "affordable" units. This is a requirement under the terms of MSHDA's gap financing programs (LIHTC and HOME).

Lockwood's PILOT request describes that income verification will occur during the in-take process to occupy any of the 28 households living in the "workforce" units. Households only need to qualify prior to occupancy. There is no annual income verification thereafter. No household would be penalized or evicted should their household income rise after the initial qualification. The income restricted housing required documentation and reporting requirements will be solidified by an interlocal agreement between the city and OCBC. Wherein the city reserves the right to audit, inspect, and review the use of its funds and annual documentation.

Lastly, the city and Lockwood will also file, with the Oakland County Register of Deeds, a mutually agreed upon Income Restricted Housing Restrictive Covenant. The restrictive covenant acts to further ensure compliance with income restrictions for the full 40-year term of the PILOT ordinance,

allows enforcement by the city and OCBC, and binds future property owners to its terms, supporting long-term affordability and economic feasibility of the project.

RENO Fee Waiver

It should be noted that Lockwood's development may utilize the Royal Oak City Commission's newly adopted RENO (Residential Enhancement and Neighborhood Opportunity) program. This initiative incentivizes targeted residential improvements that advance key community priorities – sustainability, housing affordability, and aging in place. Under the RENO program, Lockwood will be eligible to receive a waiver from construction inspection and permitting fees performed by the employees covered under the State Construction Code Fund i.e. building division of the community development department. The fees are valued at approximately \$220,000.

FISCAL IMPACT

BUDGET SUMMARY	
EXPENDITURE REQUIRED	n/a
AMOUNT CURRENTLY BUDGETED	n/a
BUDGET AMENDMENT REQUIRED	\$0.00 (BA between dept; net -0- effect on FB)
FUNDING SOURCE/ GL NUMBER	n/a
WAS THIS A BUDGETED EXPENSE?	<input type="checkbox"/> Yes <input type="checkbox"/> No

OTHER FISCAL IMPACTS: (Select all that apply.)

- | | |
|--|--|
| <input type="checkbox"/> No fiscal impact | <input checked="" type="checkbox"/> Revenue impact (details below) |
| <input type="checkbox"/> Workload impact (details below) | <input type="checkbox"/> Operations Impact (details below) |

REVENUE IMPACT:

Approximately \$6,744,625 in tax breaks over the requested forty (40) year period.

WORKLOAD IMPACT :

NA

OPERATIONS IMPACT:

NA

ALIGNMENT WITH COMMISSION APPROVED PLANS, POLICIES, AND PROGRAMS

This item provides a “variety of housing that works for everyone” to fulfill the city commission's strategic goal of being a “welcoming, engaged, and livable community”.

COMMUNITY ENGAGEMENT

NA

BOARD AND COMMISSION FEEDBACK

NA

LEGAL COMMENTS

The city attorney's office has drafted the proposed ordinance and all the documents related to this project as mentioned herein. The proposed PILOT Ordinance has been updated to reflect the new name of the project as "The Civic" from the previous name of "Third Street Lofts." No other changes between first and second reading of the ordinance have been made.

PROPOSED COMMISSION RESOLUTION:

Should the city commission support Lockwood's request for a PILOT, the following resolution is offered for adoption.

Whereas the Royal Oak City Commission has determined that 400 E. Third Limited Dividend Housing Association Limited Partnership's affordable and workforce housing development is a public necessity because it provides a "variety of housing that works for everyone" and fulfills the strategic goal of the city being a "welcoming, engaged, and livable community".

Whereas the Royal Oak City Commission understands that a Payment In Lieu of Taxes is a required local financial incentive under the Michigan State Housing Development Authority's Low Income Housing Tax Credit program that subsidizes the creation or preservation of affordable rental housing.

Whereas 400 E. Third Limited Dividend Housing Association Limited Partnership has requested a Payment In Lieu of Taxes as an additional financial incentive to make its mixed-income housing development a reality.

Therefore, be it resolved, the Royal Oak City Commission hereby approves, upon second reading, Ordinance Amendment 2025-04, to add a new Article III, Sections 671-24 through 671-33, to Chapter 671 Taxation of Part II: General Legislation; to provide for a service charge in lieu of taxes for a housing project for affordable and workforce housing financed with federal low income housing tax credits ("LITHC") pursuant to the provisions of the State Housing Development Authority Act of 1966 (1966 PA 346, as amended; MCL 125.1401, et seq) (The "Act")."

ATTACHMENTS:

1 – Ordinance 2025-04

2 - 2025 05-07 Lockwood PILOT request.pdf