

City of Detroit

Fast Track Payment In Lieu of Taxes (PILOT) Affordable Housing Program

Frequently Asked Questions

October 2024

What projects are eligible?

Housing developments of 4 or more units for low or moderate income residents may apply. This includes new construction and rehabilitation. Projects must commit to a minimum of 15 years of affordability.

Projects with affordability averaging below 80% of the Area Median Income (AMI) or rehabs of vacant properties are eligible for the streamlined approval process. Other projects offering units up to 120% AMI could also be eligible with City Council approval.

What is AMI and how is it calculated?

Area Median Income (AMI) is the median income for a region calculated by HUD based on Census data. Developments with affordable units almost always layer local funding tools with others that use national standard for AMI. Many cities have lower medians than their region, but local policy can target lower percentages of AMI without changing the standard definition. Detroit does this, evidenced by the fact that 70% of affordable units currently under construction in Detroit are at 60% AMI or below.

Affordable rents are calculated based on 30% of monthly income for people at a given income level. (Example: 50% AMI for a single person is \$33,600, which is a monthly income of \$2,800. The maximum rental expense per month would be \$840, or 30% of that monthly income. If residents have to pay their own utilities, the maximum rent may be reduced to account for that, which is known as a “utility allowance.”)

What are the requirements to qualify?

Projects must have an affordability restriction in place for a minimum of 15 years. In addition, they must meet per unit hard cost thresholds of \$15,000/unit as an initial investment and \$6,000/unit for a re-investment. Projects must have an active Certificate of Occupancy and/or Certificate of Compliance issued by the City’s Building Safety Engineering and Environmental Division (BSEED).

Projects that received a Certificate of Occupancy (for new construction or change of use) and/or Certificate of Acceptance (for rehabs) from BSEED after December 13, 2022 will be eligible to apply.

How does the program improve the development process?

Currently, only projects that receive state or federal subsidy (“government-aided”) are eligible for PILOTs, which require approval by City Council. While today’s process for PILOT approval only adds 4-6 weeks to the timeline, applying for the subsidy it takes to qualify is a multi-year process. In addition, the PILOT rate is subject to change at various points based on underwriting by multiple City and state agencies.

The new process would save time and reduce risk by setting the PILOT rate through the ordinance and entitling qualified applicants for government-aided projects to swift administrative approvals. Moreover, the program would expand those same benefits to a new “Fast Track” category of affordable housing projects that does not require a state or federal subsidy for eligibility.

For those Fast Track projects, the PILOT represents a new option that saves significant time and cost compared with existing tools. Today, to qualify for the tax relief needed to make residential development feasible, these projects pursue tax abatements (e.g., through the NEZ, OPRA, or PA 210 programs) that typically take 8-9 months from application to approval. This process requires intake and underwriting by DEGC, approvals at multiple points within the City administration, and 2 public hearings at City Council at the district and certificate stages, and ultimately is subject to City Council’s discretion. Administrative approval of the PILOT, with an anticipated timeline of 6-8 weeks, would streamline the process significantly and provide much-needed predictability to applicants. In addition, setting the PILOT rate through the ordinance would also eliminate the risk that key project terms could change at the last minute, which often creates a financial gap.

For Workforce projects (i.e., those that have an average affordability of up to 120% AMI but do not qualify as a Government-aided or Fast Track project), HRD underwriting and City Council approval would add several weeks to the expedited process described above but there would still be project time and cost savings compared to the 8-9 month approval process for other tax abatements.

How does the PILOT incentivize deep affordability?

The ordinance proposes the lowest rates for deepest affordability, with 1% PILOTs for projects with average rents below 60% of AMI. The ordinance also proposes \$1/unit for Permanent Supportive Housing (PSH) projects serving the formerly homeless with units at and below 30% AMI.

The PILOT is one of many tools needed to provide deeply affordable housing. While it is unlikely to create large numbers of 30% AMI units on its own, it can work well in conjunction with other tools.

For example: Because the cost to operate units at 30% AMI are so much greater than the rental income they bring in, owners often need to seek project-based vouchers, which allow the renters to pay based on their income and lets the owner collect the difference from the state or local agency providing the vouchers.

Another example: Many projects with units below 60% of AMI are financed with Low Income Housing Tax Credits (LIHTC), which developers across the state compete for through the Michigan State Housing Development Authority (MSHDA). While LIHTC by statute requires 50% and 60% AMI units, MSHDA incentivizes lower AMI units by awarding extra points for projects that offer deeper affordability at 20, 30 and 40% of AMI. The 1% PILOT rate will enable Detroit developers to propose more lower AMI units as the proposed PILOT ordinance will reduce operating costs for units targeted at extremely low-income households.

For projects without government subsidy, the PILOT encourages greater affordability than existing tools, which generally require only 20% of units affordable at 80% of the Area Median Income (AMI). The PILOT is only applied to restricted units, so the benefit is tied directly to the affordability. Because the Fast Track option is available for projects with average rents below 80% AMI, developers are incentivized to create mixed income communities that offset moderate income units with more deeply affordable units to stay under that threshold.

How does this process encourage new or emerging developers?

PILOTs are a critical tool for fully or majority affordable housing projects. To get a PILOT today, a developer has to obtain competitive financing that requires experience, capacity, and a strong balance sheet, which makes it difficult for new developers to participate. The expanded PILOT would create a pathway for new developers to build affordable units without always having to access those complex tools.

Emerging developers have a particularly low appetite for risk, because the consequences of a deal not working can be financially disastrous to them. The PILOT would significantly reduce risk, time and cost compared with the traditional tax abatement process, which requires time and money for expensive lawyers and consultants.

How will approvals work?

Developers will submit applications for eligible projects through HRD. Projects will have to meet readiness thresholds to apply, including evidence of site control. The developer will enter into an affordability agreement contingent on receipt of the PILOT, and then submit to MSHDA for the tax exemption status which makes them eligible for the PILOT. The City Office of the Assessor will add the project to the PILOT once it has achieved occupancy as demonstrated through the applicable BSEED certifications. The full process will be detailed in Implementation Guidelines to be established and published by HRD.

What oversight of the program will be required? Which departments will be involved?

HRD and the Office of the Assessor will both be involved in different aspects of compliance. The Assessor will monitor for active Certificate of Compliance issued through BSEED as well as PILOT payment status. HRD will monitor for initial income certification for new renters and annual rental rate compliance through its third party compliance provider. HRD will also produce required reporting to City Council, per the ordinance.

What will happen to residents in occupied buildings receiving a PILOT?

The City of Detroit is committed to preventing displacement of any residents associated with redevelopment of occupied properties, which requires intentional planning for tenant retention. The Housing & Revitalization Department requires that occupied buildings receiving City support through direct funding and/or tax incentives produce and follow a Tenant Retention Plan, which limits rent increases for returning low-income residents and identifies strategies for communication, and safety during rehabilitation. These standards can be found attached to HRD's most recent Multifamily Housing Notice of Funding Availability (NOFA), available [here](#). This requirement will apply to properties in the expanded PILOT program.

Is a Fast Track or Workforce PILOT renewable after 15 years?

Unlike other tax abatements (NEZs, OPRA, etc), PILOTs are renewable after 15 years. If the property owner commits to another 15 years of affordability, they may apply for a 15 year renewal. To qualify, they would need to meet the re-investment threshold of \$6,000/unit and have an active certificate of compliance.

What happens if a project is sold to a new owner?

Fast track and Workforce PILOTs will be tied to the project through affordable housing restrictions that can be assigned to a new owner. The agreement with the City will require that any ownership changes are reported so the City can continue to collect compliance information.

PILOTS for government-aided projects are currently approved for specific ownership entities. This is based on requirements in the state statute and will not change. Ownership entity change for these properties will require application for a new PILOT by the new entity.

Can projects with existing PILOTS or tax incentives receive a PILOT under the new ordinance?

Yes. Projects with an existing PILOT or other tax incentive can apply for a PILOT, even before their previous PILOT/ abatement reaches expiration, provided they meet the qualifications. These projects will be required to meet the *reinvestment threshold* rather than the *initial investment threshold*. Projects with an existing PILOT may also apply for a PILOT under the new rates outside of a reinvestment if they are able to demonstrate financial hardship, as established in administrative guidelines to be published by HRD.

How does PILOT work with other tools?

PILOTS have traditionally been layered with various government subsidy programs, including LIHTC, HOME, and Section 8 project-based vouchers, and continue to be an important tool for projects with these funding sources.

On a given parcel, PILOTS cannot be layered with traditional tax abatements as they are calculated based on rental income rather than property values. However, a phased project with multiple parcels or condos may consider a PILOT on one parcel and an abatement on another.

PILOT may be paired with a Brownfield/Housing TIF incentive, if the PILOT payment is large enough to generate substantial TIF reimbursement.