



## Legislation Text

File #: 09-0169, Version: 1

An Ordinance to Amend Sections 1:651 of Chapter 19 (Tax Exemptions for Housing Projects) of Title I of the Code of the City of Ann Arbor (Ordinance No. ORD-09-11)

Attached for your review and approval is an amended Section 1:651 of Chapter 19, which is the PILOT (Payment in Lieu of Taxes) ordinance for affordable housing providers. The Office of Community Development and Housing and Human Services Advisory Board are recommending that the PILOT ordinance be amended to increase the income limit of the PILOT from 50% of Area Median Income (AMI) to 60% AMI. Following is the most recent income limits as published by HUD:

Household Size	1	2	3	4	5	6		
60% AMI	\$34,620	\$39,540	\$44,520	\$49,440	\$53,400	\$57,360		
50% AMI	\$28,850	\$32,950	\$37,100	\$41,200	\$44,500	\$47,800		

The City currently provides operating support to the non-profit housing providers in the City on an annual basis. These funds are necessary to ensure adequate administrative funds to manage and maintain the units in the City's portfolio. Each year the City collects both property taxes and PILOT's from non-profit housing providers. In essence, the City collects taxes and fees and gives the funds back to the nonprofits in the form of operating grants.

The City executes a Housing Affordability Agreement with the non-profit to ensure that the non-profit is maintaining safe and decent affordable housing for the target population. This agreement generally limits the income of the tenants to 50% AMI at the time the tenant moves into the unit. Most tenants tend to be under 30% AMI. The tenant's income is checked annually by the nonprofit and this information is provided to the City to qualify the units for a PILOT.

The nonprofits are not just providing housing, they are also providing emergency and ongoing support services to the tenants so that they can stabilize their living situations and improve their physical, mental and economic health. As a consequence, some tenants are able to find jobs and increase their income above 50% AMI. This is a positive outcome. However, when this occurs in the middle of a signed lease period, the nonprofit must pay full taxes for the unit even though the rent has not increased to cover the increase in taxes. Because the nonprofits must income-certify the tenants at the time they apply for their annual PILOT, the over-income tenant taxes are always an unexpected expenditure. Federal regulations prohibit the non-profit from increasing the rent during a lease agreement or evicting the tenant due to an increase in income. The nonprofit can increase the tenant's rent at the annual renewal of their lease if the tenant is over 80% AMI. A tenant may then choose not to renew the lease.

### Impact on City Budget

Currently about 5-7 units/yr out of 329 units, pay full taxes in affordable housing projects that are otherwise eligible for a PILOT. The impacted nonprofits are Avalon Housing, Community Housing Alternatives (CHA), Michigan Ability Partners (MAP), and the Washtenaw Affordable Housing

Corporation (WAHC) which is merging with Avalon. Following is a chart showing the number of over-income units and the taxes charged.

Non Profits	2007 units	2007 taxes	208 units	2008 taxes
Avalon	4	\$4,561	2	\$2,148
CHA 1	\$1,119	0	\$0	
MAP 1	\$1,119	0	\$0	
WAHC	1	\$1,211	3	\$3,744
TOTAL	7	\$8,010	5	\$5,892

In addition, this change in the PILOT will enable future new affordable housing projects to have greater financial predictability. The Housing and Human Services Advisory Board (HHSAB) reviewed and approved this recommendation at their meeting on December 9, 2008.

Prepared by: Jennifer Hall, Housing Manager

Reviewed by: Jayne Miller, Community Services Administrator

Approved by: Roger Fraser, City Administrator

**for an official copy of this ordinance, please print from attachment ORD-09-11 Briefed & Approved**

ORDINANCE NO. ORD-09-11

First Reading : March 16, 2009

Public Hearing : April 6, 2009

Approved: April 6, 2009

Published: April 12, 2009

Effective: December 31, 2009

#### TAX EXEMPTIONS FOR HOUSING PROJECTS

AN ORDINANCE TO AMEND SECTION 1:651 OF CHAPTER 19 (TAX EXEMPTIONS FOR HOUSING PROJECTS) OF TITLE I OF THE CODE OF THE CITY OF ANN ARBOR.

The City of Ann Arbor ordains:

Section 1. That Section 1:651 of Chapter 19 of Title I of the Code of the City of Ann Arbor is amended as follows:

#### **1:651. Exemption not applicable.**

1. The tax exemption established in subsection (1) of Section 15a of Act No. 334 of the Michigan Public Acts of 1968 (amending Act No. 346 of the Public Acts of 1966) shall not apply to any class of housing projects covered by said subsection within the boundaries of the city, except:

- A. Housing exclusively for elderly persons if the owner pays to the city a municipal service charge equal to 4% of the contract rents (as defined by the rules pursuant to the Housing and Community Development Act of 1974, as amended) of the preceding calendar year exclusive of the amount paid to the city during the previous year for the annual service charge.

- B. Housing projects initiated after January 1, 1990 exclusively for the housing of persons or families with incomes not greater than 50%60% of the Ann Arbor area median income as determined by the U.S. Department of Housing and Urban Development. A municipal service charge shall not apply to or be payable by the owner for this class of housing projects.
  - C. The tax exemption authorized by this section shall be allocated by the owner exclusively for the benefit of elderly or low income persons. The owner shall, at the request of the city, submit to it such evidence as may be reasonably necessary to assure taxpayer's compliance with this requirement. If a qualified housing project is in compliance with an agreement with a governmental agency which regulates the income or age of the tenants, it shall be deemed to be in compliance with this section.
  - D. The service charge to be paid each year in lieu of taxes for that part of a housing project that is tax exempt pursuant to this section and that is occupied by other than low-income or elderly persons or families as defined herein, shall be equal to the full amount of the taxes that would be paid on that portion of the project if the project was not tax exempt.
2. The exemptions and service charges authorized under this section shall be in effect for the life of the federally-aided or state-aided mortgage loan or other eligible assistance, not to exceed 50 years.

Section 2. That this ordinance shall take effect on January 1, 2007December 31, 2009.