



MEMORANDUM

TO: Mayor and City Council
Howard Lazarus, City Administrator

FROM: Tom Crawford, Chief Financial Officer
Michael Gonzales, Interim City Assessor

DATE: August 23, 2018

SUBJECT: **Request for Commercial Rehabilitation District**

REFERENCES: Commercial Rehabilitation Act, PA 210 of 2005

PURPOSE: This memorandum provides background material for Council consideration related to a request by Barbara Herzig (“Applicant”) to establish a Commercial Rehabilitation District at 3500 South State Street (“Proposed District”) for the purpose of obtaining a Commercial Rehabilitation Exemption Certificate (“Exemption”) in accordance with PA 210 of 2005. The Proposed District is more particularly described in the resolution’s attachment but it includes the property where the Kensington Hotel and Holiday Inn Express are currently located on South State Street. The Applicant wants to build a new conference and training facility in the Proposed District (with additional parking). If granted, the Exemption would exempt certain property in the District from certain taxes, as described below.

BACKGROUND: Creation of a Commercial Rehabilitation District (“District”) is the first step to receive an Exemption, which abates the property taxes generated from new investment in the District for a period up to 10 years. If a District is created and if an Exemption is granted therein, the Exemption essentially “freezes” the taxable value of a building in the District based on the previous year (prior to rehabilitation) for the duration of the Exemption while exempting the new investment from local taxes. Unaffected are the school operating tax and the State Education Tax (SET), which are still levied on the new investment. Personal property cannot be abated under the Commercial Rehabilitation Act.

The City received the Applicant’s request to create a District on August ____, 2018. The City must now prepare to hold a public hearing as to whether the District should be created and give the statutorily required notice of the same. The resolution for consideration at the August 23, 2018 Council Meeting will call this hearing on September 17, 2018 and instruct the Clerk to give the required notices.

At the September 17th hearing, the Applicant (who is the sole owner of the real property that comprises the District) will be heard, along with any Ann Arbor resident or taxpayer that wishes to be heard, as to whether the District should be created.

If the City passes a resolution creating the District, it must send Washtenaw County a copy of the resolution via certified mail. The County Board of Commissioners will then have 28 days (from the date of receipt of the resolution) to reject the District’s creation. If that does not happen, the District is created.

If the District is created, the owner of a “qualified facility” (discussed below) in the District can file an application for an Exemption with the City Clerk. The City Council would then pass a resolution calling a hearing as to whether the Exemption should be granted and instructing the City Clerk to give the statutorily required notices prior to such hearing.

At such hearing, the City Council would either approve or disapprove the Exemption Application and, if approved, state the number of years (no more than ten) for which such Exemption would be authorized. In determining whether to approve the Exemption Application, the City Council would consider various factors including whether “[c]ompletion of the qualified facility is calculated to, and will at the time of issuance of the [Exemption] certificate have the reasonable likelihood to, increase commercial activity, create employment, retain employment, prevent a loss of employment, revitalize urban areas, or increase the number of residents in the community in which the qualified facility is situated.”

If the City Council approves the Exemption Application, the application and resolution are forwarded to the State Tax Commission who then decides whether to approve or disapprove the application. If the Commission approves the Exemption Application before December 31, 2018, the Exemption will apply to the applicant’s 2019 Taxes.

As a point of information, Commercial Rehabilitation Districts and Exemptions should not be confused with Industrial Facility Exemption Certificates, for which the City adopted a policy on December 4, 2006. In 2011, the policy’s sunset provision took effect and in 2012 the State of Michigan enacted several personal property tax reforms, which significantly changed the taxation of personal property and ultimately phased out tax abatements for personal property.

PROJECT DESCRIPTION: The Applicant advises the following: That Graham Hotel Systems, the entity that operates the Kensington Hotel and the Holiday Inn Express, intends to add a new 43,000 square foot conference and training facility to the east end of the Kensington Hotel and a 300-space parking garage located between Kensington Hotel and the Holiday Inn Express. According to Daniel Fine, the Managing Director for the hotels, construction for the project is estimated to take two years, which is planned to begin in July 2019, with an estimated completion date of July 2021. Construction activities are projected to add 100 to 150 jobs during the project and 50 permanent jobs upon completion. Current event space in Ann Arbor currently allows Destination Ann Arbor to seek events of up to 400 people. With this added facility, events with up to 1,500 people could be accommodated. These larger events are projected to increase current income of the owner from \$11 million to \$15 million per year and increase sales to other local businesses.

CITY COUNCIL CONSIDERATIONS: The City Council may create the District by resolution if it finds that: (1) the District is at least three acres in size; and (2) a “qualified facility” is located in the District. A “qualified facility” means, amongst other things, a building or group of contiguous buildings of commercial property that are 15 years old or older. Because this Proposed District is for one parcel, that parcel is greater than three acres in size, and the buildings located thereon are older than 15 years, commercial properties, and contiguous, the request appears to meet the statutory requirements for establishment of a district.

NEXT STEPS: The following is a summary of the necessary steps for the Applicant to obtain an Exemption:

8/23/2018 - Resolution setting a public hearing for consideration of the District’s establishment

9/17/2018

- Public hearing on the District’s establishment

- Resolution to establish the District

28-day period for the County to reject the District’s establishment

If the District is established (i.e., the City Council approves the District's establishment and the County does not reject it) and the property owner within the District files a timely application for an Exemption, then...

11/8/2018 - Resolution setting a public hearing for consideration of the Exemption Application

11/19/2018 - Public Hearing on Exemption Application

11/19/2018 - Resolution to Approve the Exemption Application (for 1 to 10 years). If approved, it is forwarded to the State Tax Commission for consideration.

0 Attachments