



Date: September 8, 2022

To: Housing and Human Services Advisory Board

From: Teresa Gillotti, Office of Community & Economic Development

- Re: Recommendations for changes to City Ordinance, tax exemption for housing projects.

Each year the Office of Community and Economic Development conducts income and rent certification on all affordable housing developments in the City of Ann Arbor. Part of the review is to assist the Assessor's office with compliance related to the tax exemption or Payment in Lieu of Taxes (PILOT) available to affordable housing developments. Ann Arbor currently charges \$1 per unit in taxes on properties that meet MSHDA standards.

In 2021, HHSAB reviewed the ordinance related to some requested changes from both the Ann Arbor Housing Commission and Avalon Housing noted that there have been changes in federal affordable housing funding that allow for "income averaging." The idea is that residents' income at lease-up can vary from 0-80% of the Area Median Income as long as the average for the entire development is 60% of the Area Median Income.

The City of Ann Arbor's ordinance currently indicates that a unit is eligible if the family occupies has an income up to 60% of the Area Median Income. Jennifer Hall of the Ann Arbor Housing Commission suggested that the City's ordinance be updated to allow for income averaging, in the case that this tool is helpful for development of affordable housing.

In addition to those changes proposed in 2021, as part of the Affordable Housing Educational Series, David Wilkins, managing Director of Real Estate Finance from Walker & Dunlop noted that while the City's PILOT is incredibly generous, one challenge from an underwriting perspective, is related to the 60% Area Median Income limit. As part of the annual review, if a unit is over 60% AMI, then the owner must pay full taxes on that particular unit. This poses a challenge for setting longer term pro-formas that include operating expenses (including taxes) for the affordability periods required by funders (15, 20, 99 years).

In practice, OCED does find a handful of units with over-income households each year, mainly due to tenants who may have started their tenancy with lower incomes, but had their incomes rise over time. To accommodate households growing income over time, but still maintaining compliance with MSHDA and HUD requirements around income, staff is proposing that the PILOT still be applied to these properties. See the attached ordinance with marked up changes as follows:

Related to income averaging:

Housing projects initiated after January 1, 1990 exclusively for the housing of persons or families with incomes not greater than 80% of the Area Median Income for the Ann Arbor Metropolitan Statistical Area (MSA) as determined by the U.S. Department of Housing and Urban Development, when the State or Federal qualifying program allows income averaging of 60% AMI, the owner pays to the city a municipal service charge of \$1.00 for each unit of housing in the project.

Related to compliance with annual household income and potentially over-income households:

A unit with a qualified household under Section 1 at initial move-in, shall continue to qualify if the income of the household changes while living in the unit, as long as the qualifying household continues to meet the State or Federal program requirements that enabled the unit to be eligible for tax exemption.

- **Chapter 19 - TAX EXEMPTIONS FOR HOUSING PROJECTS**

[SHARE LINK TO SECTION](#)[PRINT SECTION](#)[DOWNLOAD \(DOCX\) OF SECTION](#)[EMAIL SECTION](#)[COMPARE VERSIONS](#)

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

[SHARE LINK TO SECTION](#)[PRINT SECTION](#)[DOWNLOAD \(DOCX\) OF SECTION](#)[EMAIL SECTION](#)[COMPARE VERSIONS](#)

1. Eligible Housing Projects

The tax exemption established Section 15a of Act No. 346 of the Michigan Public Acts of 1966, as amended) shall apply to any class of housing projects covered by said subsection within the boundaries of the city, that meet all of the following qualifications:

- A. Projects which are financed with a Federally-aided or State Housing Development Authority-aided mortgage or with an advance or grant from such Authority, and
- B. Projects which serve low-income households or elderly households, and
- C. Projects which are owned by a "consumer housing cooperative," "qualified nonprofit housing corporation," "limited dividend housing corporation", "mobile home park association" or "mobile home park corporation" as defined in Act No. 346 of the Public Acts of 1966, as amended.

2. Property Tax Exemption

- A. Housing exclusively for elderly and disabled families shall pay to the city a municipal service charge equal to 4% of the contract rents (as defined by the rules pursuant General Property Tax Act - Act 206 of 1893 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 households with incomes not greater than 60% of the Area Median Income for the [Ann Arbor Metropolitan Statistical Area \(MSA\)](#) as determined by the U.S. Department of Housing and Urban Development the owner pays to the city a municipal service charge of \$1.00 for each unit of housing in the project.
- C. Housing projects initiated after January 1, 1990 exclusively for the housing of persons or families with incomes not greater than 80% of the Area Median Income for the [Ann Arbor Metropolitan Statistical Area \(MSA\)](#) as determined by the U.S. Department of Housing and Urban Development, when the State or Federal

qualifying program allows income averaging of 60% AMI, the owner pays to the city a municipal service charge of \$1.00 for each unit of housing in the project.

3. Compliance

The tax exemption authorized by this section shall be allocated by the owner exclusively for the benefit of elderly, disabled 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. A unit with a qualified household under Section 1 at initial move-in, shall continue to qualify if the income of the household changes while living in the unit, as long as the qualifying household continues to meet the State or Federal program requirements that enabled the unit to be eligible for tax exemption.

A. 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 or disabled households at the time of initial occupancy 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.

B. 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.

(Ord. No. 69-68, 12-30-68; Ord. No. 46-76, 8-16-76; Ord. No. 31-96, § 1, 7-15-96; Ord. No. 34-00, § 1, 6-19-00; Ord. No. 36-06, § 1, 8-10-06; Ord. No. 09-11, § 1, 4-6-09, eff. 12-31-09)

1:639. - Severability.C



City of Ann Arbor Affordable Housing Fund Summary
September 8, 2022

Recently paid out:	<ul style="list-style-type: none">• Support for renovation of 108/110 Glendale (Avalon) - \$57,000 (fully drawn)
Existing Encumbrances	<ul style="list-style-type: none">• Sidewalk repair fund: \$6,762
	<ul style="list-style-type: none">• Avalon Housing - Glendale, Allen, Broadway (City Council R-15-124, 4/20/15). Funded amount:<ul style="list-style-type: none">○ for Glendale \$50,000.00 - \$35,229 balance for Glendale○ for Broadway \$46,697 - \$0 balance for Broadway.
Current balance:	As of September 8, 2022: \$87,262
Upcoming actions:	<ul style="list-style-type: none">• OCED interested in notifying folks that applications would be accepted to Affordable housing fund for the available funds, with review of applications beginning in October 2022.

AFFORDABLE HOUSING FUND/AFFORDABLE HOUSING MILLAGE DISCUSSION

HOUSING AND HUMAN SERVICES ADVISORY BOARD

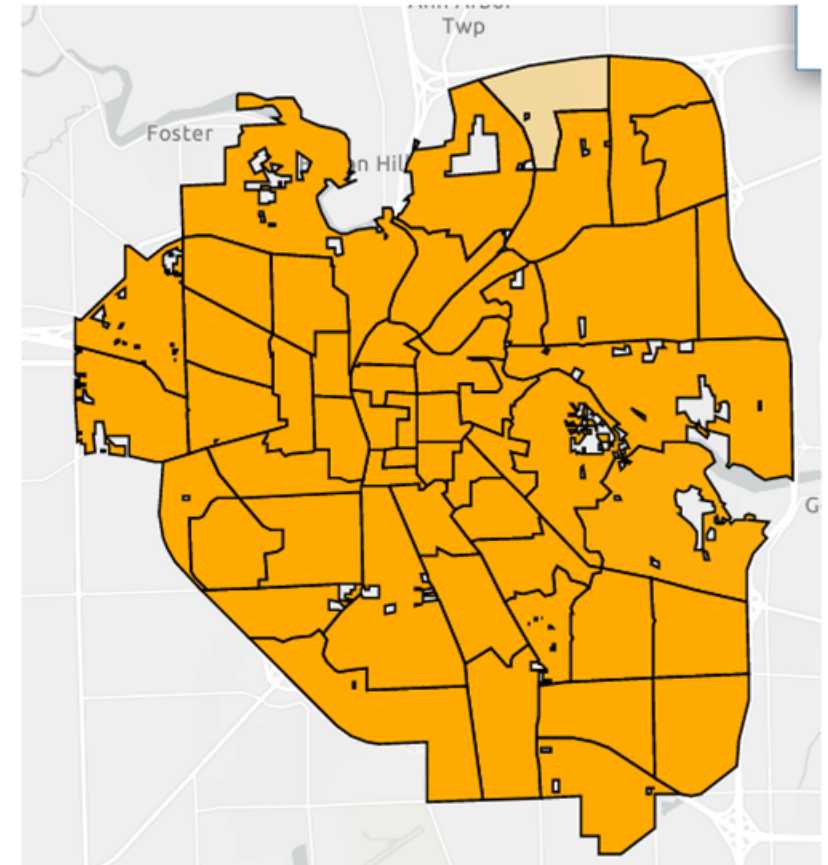
THURS., SEPT. 8, 2022

TOPICS

- Review of Affordable Housing Millage Guidance
- Review of existing Affordable Housing Fund Policy
- Potential overlap and distinctions between the fund
- Overlap in policy goals
- Next steps

November 3, 2020 Proposal C Millage Results

- Thank you “Partners for Affordable Housing”
- 73% approval
 - Every precinct voted in favor
 - 51% - 88% of voters



BALLOT LANGUAGE

Shall the Charter be amended to authorize a new tax up to 1.000 mills for construction, maintenance, and acquisition of new affordable housing units for low-income individuals and families making less than 60% Ann Arbor Area Median Income, and for providing social services for the residents of such housing for 2021 through 2041, which will raise in the first year of levy the estimated revenue of \$6,550,505.

CHARTER LANGUAGE

- SECTION 8.25. In addition to any other amount which the City is authorized to raise by general tax upon real and personal property by this Charter or any other provision of law, the City shall, in 2021 through 2041, annually levy a tax of up to one mill on all taxable real and personal property situated within the City for the purpose of building, maintaining, and acquiring new affordable housing units which are permanently affordable to low-income households making no income up to 60% of area median income and providing social services, not to exceed 20% of the millage revenues over the entire term of the millage, for the residents of such housing. No money collected pursuant to this millage shall be spent on building, maintaining, or acquiring new units located in the floodplain or floodway.

Guidelines Adopted by City Council

July 27, 2020

Socio-Economic Diversity

All Neighborhoods
100% Affordable
Mixed-Income
Group Homes
Apartment Complexes

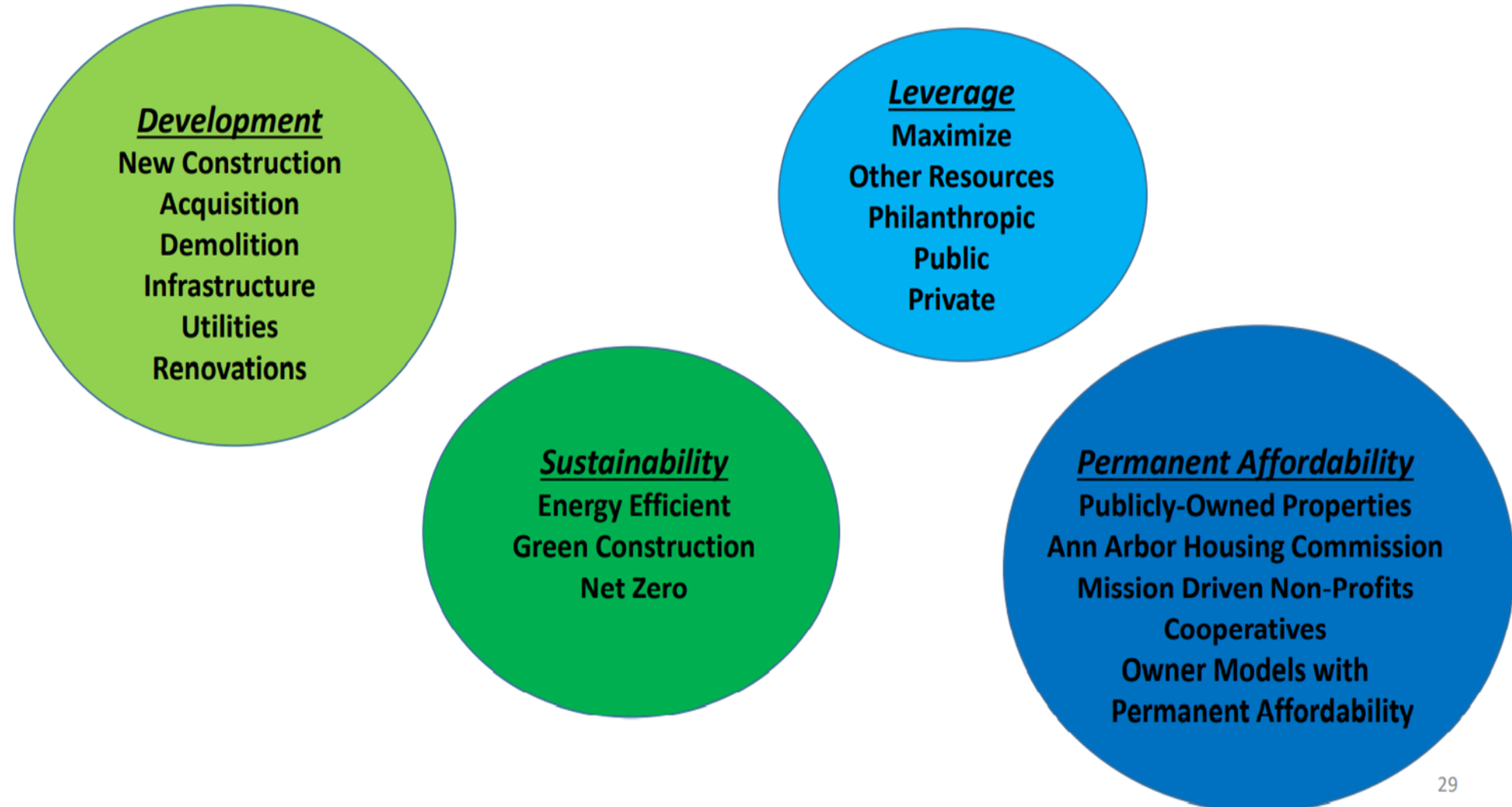
Inclusive & Equitable

Special Needs
Seniors
Persons with a Disability
Youth Aging out of Foster Care
Homeless

Resident Services

Mental Health
Physical Health
Financial Services
Job Skills & Employment
Daily Living Skills
Crisis Management
Conflict Resolution
Youth Programming

Guidelines Adopted by City Council



Affordable Housing Millage Strategy

- Develop budget that includes AAHC projects in pipeline, including city-owned properties
- Build in flexibility for properties unexpectedly on the market
- Develop application process with HHSAB for non-AAHC projects
 - Based on City Council adopted millage guidelines
 - Ensure investment in feasible projects with qualified developers
- Capital Funds/Resident Services Funds
 - Capital funds drawn down first and one time
 - Services funds drawn down second and will require annual budget approval
 - Need to track ongoing annual service requests tied to capital projects

ANN ARBOR AFFORDABLE HOUSING FUND

PREFACE

The Ann Arbor Affordable Housing Fund was first proposed in the City of Ann Arbor Housing Policy adopted by City Council in July, 1989. The Affordable Housing Fund guidelines were developed by the Community Development Department and approved by the Housing Policy Board in February, 1991 and by the Ann Arbor City Council in April, 1991. Since its inception, the Housing and Human Services Advisory Board (HHSAB) has recommended and City Council has approved a range of housing projects with the vast majority targeted for residents with the lowest incomes. There have been very few projects approved which are targeted toward residents whose incomes fall within the range of 50% to 80% of median income because of the intent of the HHSAB to serve those with the greatest needs.

AFFORDABLE HOUSING FUND POLICY

The Ann Arbor Affordable Housing Fund is established for the promotion, retention and creation of long term affordable housing for households with incomes less than 60% of the City's median income. Further, the Fund is established to improve housing conditions for City of Ann Arbor residents, with priority given to those whose income is at or below 30% of the median household income.

It is the goal of the City to provide a full range of housing opportunities to all its citizens. It is the intent of the City to administer this fund in a flexible manner in order to best meet the housing needs of the City.

NOTES

In line with Affordable Housing Millage policy

- 60% AMI
- Long-term affordability goal

Note – millage does not have a priority for households at income at or below 30% of AMI, but this is generally the range for supportive services which are part of the millage goals.

DISTRIBUTION AND USES OF THE FUND

Funds in the Affordable Housing Fund are used to meet the housing needs of individuals and families with incomes less than 60% of the City's median income.

Projects to be funded may include pre-development feasibility analysis, rental assistance, technical assistance to nonprofit housing providers, administration of affordable housing programs, new construction, rehabilitation, conversion of housing for use by lower income residents, or acquisition of land or property for use as low income housing.

It is the City's intent that the terms of its loans and grants be established so that the deepest City subsidies go to housing targeted to the lowest income households.

All distributions of principal, interest and other assets of the Affordable Housing Fund are made in furtherance of the purposes set out above, including disbursements from interest earnings necessary to support the Affordable Housing Fund's operations.

NOTES

In line with Affordable housing Millage policy

- Would we want to limit pre-development funds to non-profit housing developers?
- While having a loan may be a good option for the Affordable housing Fund – should millage dollars be used as a loan or strictly grants? Are there restrictions [Jennifer – is that specified?]

ELIGIBILITY REQUIREMENTS FOR PROJECTS UNDER \$25,000

Project applications are available from the Washtenaw County Office of Community & Economic Development (OCED) and may be submitted at any time during the program year. OCED will review and approve these proposals as an administrative function and will follow the City's procurement guidelines.

NOTES

Continue this for Affordable Housing Fund only

Consider online form for rolling requests, subject to available funds

City Council is considering a change to purchasing policy that would allow for expenditure up to \$75,000 with three quotes. If the limit is increased from \$25,000 to \$75,000, we may want to increase the amount in the policy.

{Jennifer – what am I missing here?}

ELIGIBILITY REQUIREMENTS FOR PROJECTS OVER \$25,000

OCED will make an application available to any entity interested in financial support from the Ann Arbor Affordable Housing Fund. OCED may periodically issue a Request for Proposals for Ann Arbor Affordable Housing funds and other housing funds as they become available. Applications should normally follow that process, although emergent need applications may be considered at any time during the year. OCED and the Housing and Human Services Advisory Board (HHSAB) will review all applications, regardless of how they are submitted. A recommendation will be made to the Mayor and City Council, which will make the final decision to approve the proposal.

NOTES

Might provide clarification that Millage funds will require an RFP

Maintain HHSAB review and recommendation to City Council

ELIGIBILITY REQUIREMENTS FOR PROJECTS OVER \$25,000

Disbursements may be made to non-profit corporations, municipal corporations, for-profit corporations, partnerships, limited equity cooperatives, or to individuals.

All projects must be decent, safe and sanitary and meet the Housing Quality Standards as established by the Department of Housing and Urban Development, and the local Code. The City has a priority on using Affordable Housing Fund dollars on projects within the City limits, but will allow for Fund dollars to be used outside the City limits.

NOTES

Would we consider a preference for non-profit developers and/or mission-aligned organizations?

Millage funds are restricted to City of Ann Arbor use {Jennifer – can you confirm?}

ELIGIBILITY REQUIREMENTS FOR PROJECTS OVER \$25,000

Financial assistance shall not be awarded by the Affordable Housing Fund to any corporation, partnership or individual in default according to Section 14.3(e) of the City Charter at the time of final consideration in payment of property taxes, or whose subject property has violations of the City Housing or Building codes or is in violation of the zoning ordinance relating to the subject project. Consideration shall be given to projects which propose correction of the above-mentioned violations. Priority is to be given to projects which address the following:

- ☐ the perpetual affordability of units;
- ☐ projects which serve predominantly individuals and families with incomes less than 30% of the City's median income.

NOTES

For millage funds are there other priorities?
-projects that serve predominantly individuals and families with incomes less than 30% of the AMI, who also provide support services?

TERMS AND CONDITIONS

Affordable Housing Funds can be awarded in any form determined advisable by the HHSAB, subject to applicable state and federal laws and regulations, including but not limited to: low interest loans with terms determined by the "gap financing" needed to make the project feasible; a deferred loan which requires repayment under conditions defined for the project; or other types of financial assistance determined to be appropriate and necessary for the project. In general, the City has flexibility in how to award funds, either as a grant or as a loan.

When funds from the Affordable Housing Fund are awarded for acquisition, construction, or rehabilitation, the owner must sign an enforceable affordability agreement relating to the long term affordability of the unit, for a period of at least twenty years. Annual reporting is also required.

Repayments to the City are deposited into the Affordable Housing Fund and reused for other eligible Affordable Housing Fund projects.

NOTES

Considering adding a section related to HHSAB review that would allow for underwriting assessment by third party to determine such things as need for gap financing, and other financial feasibility questions

Separate housing policy lists 99 years – so may update this policy to reflect 99 year timing.

ANN ARBOR AFFORDABLE HOUSING FUND

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STATEMENT OF PURPOSE

The Ann Arbor Affordable Housing Fund is established for the promotion, retention and creation of long term affordable housing for households with incomes less than 60% of the City's median income. Further, the Fund is established to improve housing conditions for City of Ann Arbor residents, with priority given to those whose income is at or below 30% of the median household income.

It is the goal of the City to provide a full range of housing opportunities to all its citizens. It is the intent of the City to administer this fund in a flexible manner in order to best meet the housing needs of the City.

The Ann Arbor Affordable Housing Fund is established to provide and distribute financial support in the form of loans, grants or other forms of financial assistance to individuals, organizations or projects that create, retain, rehabilitate or preserve long term affordable housing.

ESTABLISHMENT OF FUND

The Mayor and City Council established by resolution a special revenue account under the name "Ann Arbor Affordable Housing Fund" with revenues specifically dedicated to the Affordable Housing Fund by City Council, any donations from public and private sources, and any federal, state or other funds so designated. It is the intention of the City Council that the Affordable Housing Fund be a dedicated fund in perpetuity for the purposes set out above. Principal and interest from loan repayments, proceeds from grant repayments, forfeitures, reimbursements, and all other income from Fund activities are deposited in the fund. Funds repaid to the City from any of the above sources shall be administered subject to applicable federal, state and city requirements. All funds in the account earn interest at least at the same rate as the City's pooled investments managed by the City Treasurer. All interest earnings from the account are reinvested and dedicated to the account. All appropriated funds in the Affordable Housing Fund are available for

eligible program expenditures.

DISTRIBUTION AND USES OF FUNDS

Funds in the Affordable Housing Fund are used to meet the housing needs of individuals and families with incomes less than 60% of the City's median income. Projects to be funded may include pre-development feasibility analysis, rental assistance, technical assistance to nonprofit housing providers, administration of affordable housing programs, new construction, rehabilitation, conversion of housing for use by lower income residents, or acquisition of land or property for use as low income housing.

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ELIGIBILITY REQUIREMENTS FOR PROJECTS UNDER \$25,000

Project applications are available from the Washtenaw County Office of Community & Economic Development (OCED) and may be submitted at any time during the program year. OCED will review and approve these proposals as an administrative function and will follow the City's procurement guidelines.

ELIGIBILITY REQUIREMENTS FOR PROJECTS \$25,000 OR GREATER

OCED will make an application available to any entity interested in financial support from the Ann Arbor Affordable Housing Fund. OCED may periodically issue a Request for Proposals for Ann Arbor Affordable Housing funds and other housing funds as they become available. Applications should

normally follow that process, although emergent need applications may be considered at any time during the year. OCED and the Housing and Human Services Advisory Board (HHSAB) will review all applications, regardless of how they are submitted. A recommendation will be made to the Mayor and City Council, which will make the final decision to approve the proposal.

Disbursements may be made to non-profit corporations, municipal corporations, for-profit corporations, partnerships, limited equity cooperatives, or to individuals. All projects must be decent, safe and sanitary and meet the Housing Quality Standards as established by the Department of Housing and Urban Development, and the local Code. The City has a priority on using Affordable Housing Fund dollars on projects within the City limits, but will allow for Fund dollars to be used outside the City limits.

Financial assistance shall not be awarded by the Affordable Housing Fund to any corporation, partnership or individual in default according to Section 14.3(e) of the City Charter at the time of final consideration in payment of property taxes, or whose subject property has violations of the City Housing or Building codes or is in violation of the zoning ordinance relating to the subject project. Consideration shall be given to projects which propose correction of the above-mentioned violations. Priority is to be given to projects which address the following:

- X the perpetual affordability of units;
- X projects which serve predominantly individuals and families with incomes less than 30% of the City's median income.

APPLICATION REQUIREMENTS

Applications must be submitted for each project and include the following:

1. Amount of the request; type of assistance requested (i.e. grant, loan)
2. Project narrative that includes:
 - a. the project location
 - b. whether the project is a new or existing structure
 - c. the number of units (both new and replacement)
 - d. percentage of extremely low or very low income benefit (defined as number of households making less than 30% (extremely low) and 50% (very low) and 60% of the current Ann Arbor median income as established by HUD)
 - e. period of time which lower income benefit is guaranteed
 - f. provisions to insure that units will

be occupied by low income individuals initially and throughout the project life

- g. willingness to accept persons holding Section 8 certificates/vouchers
 - h. the project schedule or timeline (which shows the length of time required to complete the project)
 - i. the project's current permitting status
 - j. a description of any supportive services provided by the project
 - k. how the project is consistent with the most recent housing needs assessment goals;
3. Description of organization that includes:
 - a. organization history
 - b. other projects completed
 - c. history in managing other rental property including conditions of buildings
 - d. applicant's performance on other similar projects, or unique or special organizational characteristics which would indicate the capacity to carry out housing activities;
 4. Description of population to be served;
 5. Financial documentation that describes the fiscal health of the organization;
 6. Project pro forma and budget that includes:
 - a. complete financial package
 - b. amount and type of project funding that is committed and secured
 - c. cost effectiveness of project in terms of meeting need (both total cost per unit and total Trust funds per unit)
 - d. utilization of Affordable Housing Funds to leverage other funding sources whenever possible, particularly other subsidized or below market sources;
 7. And/or other information as requested by the HHSAB through application forms as updated from time to time by the Board.

This information shall be reviewed by OCED staff and presented to the HHSAB for consideration. The HHSAB will forward projects to City Council for which it recommends final consideration. The HHSAB may waive provisions of the criteria in order to recommend a project if it is deemed to serve an overriding public purpose.

Reconsideration of a project will be allowed if a new application is submitted with substantially different information from the previous application.

TERMS AND CONDITIONS

Affordable Housing Funds can be awarded in any form determined advisable by the HHSAB, subject to applicable state and federal laws and regulations, including but not limited to: low interest loans with terms determined by the "gap financing" needed to make the project feasible; a deferred loan which requires repayment under conditions defined for the project; or other types of financial assistance determined to be appropriate and necessary for the project. In general, the City has flexibility in how to award funds, either as a grant or as a loan.

When funds from the Affordable Housing Fund are awarded for acquisition, construction, or rehabilitation, the owner must sign an enforceable affordability agreement relating to the long term affordability of the unit, for a period of at least twenty years. Annual reporting is also required.

Repayments to the City are deposited into the Affordable Housing Fund and reused for other eligible Affordable Housing Fund projects.

ADMINISTRATION OF THE FUND

The HHSAB, as appointed by the Mayor and City Council, administers the Affordable Housing Fund

as specified herein. The HHSAB review applications and make recommendations to City Council on the allocation of the Affordable Housing Fund for requests of \$25,000 or greater. The number of members, tenure of office, duties, manner of calling meetings and other tasks of the HHSAB are stated in the Bylaws approved by the HHSAB.

The City Council makes final decisions on the allocation of Affordable Housing Funds of \$25,000 or greater. City Council shall take action on recommendations of the HHSAB. A typical review of an application will take no more than thirty (30) days as long as all of the required information is included in the application. City Council will, in most cases, take action on recommendations of the HHSAB at their next scheduled meeting. The Office of Community & Economic Development provides staff assistance to the HHSAB. This includes: maintaining the financial and other records of the Fund; assisting prospective applicants for Affordable Housing Fund support in the preparation of their applications; monitoring the use of the monies distributed to applicants to assure ongoing compliance with the purpose of the Fund and the conditions under which the monies were granted or loaned; reporting periodically, but not less than every twelve (12) months to the City Council regarding the operation and activity of the Fund.

For a copy of the application form, contact:
The Office of Community & Economic Development
P.O. Box 8645
Ann Arbor, Michigan 48107
Applications are also available through the OCED website at www.ewashtenaw.org or call (734) 544-6748.

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Last revised: November 9, 2006
Last revised: October 20, 2014