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FROM: David Whitaker, Director 
Legislative Policy Division Staff

DATE: June 3, 2021

RE: Analysis of the 17 Proposed Amendments to the Community Benefits Ordinance
(Supplemental Report)

The Legislative Policy Division (LPD) feels it is imperative to provide a supplemental report to our initial report entitled “Analysis of the 17 Proposed Amendments to the Community Benefits Ordinance” dated May 28, 2021.

If the proposed amendment No. 1, the lowering of the Tier 1 development project threshold from \$75 million to \$50 million is implemented, thereby triggering the Community Benefits Ordinance (CBO) process at the lower threshold, LPD feels the net impact may not be very onerous to the City of Detroit if the new income tax and property tax revenue generated from developers who chose to develop in the City under the lower threshold is netted against the additional cost incurred by the City under the lower threshold.

It is important to reiterate a statement made by the Office of the Chief Financial Officer (OCFO) in its fiscal impact report on the proposed 17 CBO amendments in section 5.5 entitled Unqualified Considerations: “With available data, only two fiscal impacts of developers’ decision making with the Tier 1 threshold changes were possible. **If implemented, the observed effect would be some combination of the impacts shown in Table 1 and Table 2**” (emphasis added).

Table 1 is again shown on page 2 of this report. This table reflects if a developer chooses not to develop in the City to avoid the CBO process:

Table 1
Lost potential revenue of \$50M - \$75M projects relocate to avoid CBO process³

Impact of Amendment 1 (in dollars)

	FY22	FY23	FY24	FY25
Forgone Income Tax ¹	\$ 465,080	\$ 887,581	\$ 1,370,655	\$ 1,884,871
Forgone Property Tax ²	7,526	16,024	24,709	33,585
Total Revenue Impact	\$ 472,605	\$ 903,605	\$ 1,395,364	\$ 1,918,456

Notes

¹ Potential income tax includes estimated construction worker income taxes, income taxes from direct and indirect workers, and income taxes from net new residents per DEGC analysis.

² Potential property taxes are net of property tax abatements.

³ Assumes an additional 2 projects per year will qualify for Tier 1 status by lowering investment threshold from \$75M to \$50 based on average frequency since CBO inception.

*Data used is the average revenue impact from 2018 and 2019 projects between \$50M and \$75M. as previously estimated by DEGC

Table 2 is again shown below. This table reflects the additional cost incurred by the developer and the City if the developer chooses to develop in the City with the lower threshold:

Table 2
Additional costs if \$50M - \$75M projects move forward with CBO process¹

Impact of Amendments 1, 5, and 16 (in dollars)

	FY22	FY23	FY24	FY25
Developer Costs/Minimum Additional Tax Abatement	\$ 210,500	\$ 214,710	\$ 219,004	\$ 223,384
Costs with Potential CBO Home Repair Program Benefit ²	135,259	137,964	140,724	143,538
Active CBO Staffing Costs ³	22,893	23,350	23,817	24,294
Ongoing CBO Compliance Staffing Costs ³	473,722	966,393	1,478,581	2,010,870
Mailing Notice Costs ⁴	5,474	5,474	5,474	5,474
Total Tier 1 CBO costs	\$ 847,847	\$ 1,347,891	\$ 1,867,600	\$ 2,407,560

Notes

¹ Assumes an additional 2 projects per year will qualify for Tier 1 status by lowering investment threshold from \$75M to \$50 based on average frequency since CBO inception.

² Assumes of the 2 projects per year requiring a \$50M to \$75M investment, one will have a CBO home repair program.

³ Staffing costs were estimated by using time commitments from past CBOs as provided by DEGC, HRD, JET, PPD, CRIO, DON, and Detroit at Work.

⁴ Mailing costs are estimated with average mailing cost per household, occupied household density, average census tract size.

As LPD indicated in our initial report, we feel it is more likely the case, where developers will continue to develop in the City of Detroit, based on the number of economic development projects coming before Council even during the COVID-19 pandemic. The number of projects

could escalate as the local economy improves as the coronavirus comes under more control based on a greater number of people in the City and in metro-Detroit become vaccinated.

If developers continue to develop in Detroit even with the lower threshold, then the argument can be made that the data in Table 1 and Table 2 should be combined to show a net impact to the City of Detroit, that is the new tax revenue that would be generated by the two developers per year versus the additional CBO costs incurred by the City, if the the lower threshold to \$50 million is implemented, as depicted in Table 3 below:

	FY22	FY23	FY24	FY25
Total Revenue Impact-<i>new City revenue</i> (from Table 1)	\$472,605	\$ 903,605	\$ 1,395,364	\$ 1,918,456
Total Tier 1 CBO Costs-<i>just City portion</i> (from Table 2)	\$ (632,127)	\$ (1,127,857)	\$ (1,643,165)	\$ (2,178,636)
Net Impact to the City	(\$159,522)	(\$224,252)	(\$247,801)	(\$260,180)

As can be seen in Table 3, the net impact to the City is under \$300,000, which is not significantly onerous to the City of Detroit if the lower threshold to \$50 million is implemented, based on two new developments occurring each year.

If you have any additional questions, please feel free to contact us directly.

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