



**City of Rochester Hills
AGENDA SUMMARY
NON-FINANCIAL ITEMS**

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Legislative File No: 2009-0092 V2

TO: Mayor and City Council Members

FROM: Ed Anzek, Planning & Development Director, ext. 2572

DATE: March 5, 2009

SUBJECT: Request for an Industrial Facilities Exemption Certificate by Magna Electronics for Real and Personal Property

REQUEST:

Magna Electronics is requesting that City Council approve an Industrial Facilities Exemption Certificate (IFT) for real and personal property, to be located at 1935-1955 Enterprise Dr. for a period of eight (8) years.

BACKGROUND:

The City received a request to establish an IDD on February 19, 2009 from First Industrial Realty Trust for a building it owns located at 1935-1955 Enterprise Dr. The City also received an application for an industrial facilities exemption certificate from Magna Electronics/BluWav Systems for the same property.

Magna International purchased independently owned BluWav Systems approximately four months ago. It has integrated BluWav Systems into its Magna Electronics division. The project represents the retention of the former BluWav Systems' operation located in Rochester Hills, the relocation of Magna Electronics from various locations in metro Detroit, and the expansion of the Division over a projected five-year period, beginning in 2009.

In its application, Magna Electronics is seeking an eight-year abatement. It proposes to invest \$285,000 in real property improvements and \$4,442,014 in personal property improvements. The company is pledging to create 73 new jobs and retain 75 positions in Michigan. The retained jobs include 20 positions currently located in Rochester Hills. So the total number of jobs to be created or transferred to Rochester Hills is 128.

Magna Electronics is a subsidiary of Magna International. Magna International is the most diversified automotive supplier in the world. Magna International designs, develops and manufactures automotive systems, assemblies, modules and components, and engineers and assembles complete vehicles, primarily for sale to original equipment manufacturers of cars and light trucks in North America, Europe, Asia, South America and Africa. Its capabilities include the design, engineering, testing and manufacture of automotive interior systems; seating systems; closure systems; metal body and structural systems; vision systems; electronic systems; exterior systems; powertrain systems; roof systems; as well as complete vehicle engineering and assembly.

Magna Electronics manufactures a wide range of electronics products, including Driver Assistance products such as reverse assist cameras, ultrasonic park assist systems, lane departure warning systems,

and automatic nightbeam control, in addition to engine electronics, brushless motors and power controllers.

BluWav Systems LLC is a developer and supplier of electric propulsion and energy management systems for Hybrid Electric Vehicles (HEV), Plug-in Hybrid Electric Vehicles (PHEV), and Battery Electric Vehicles (BEV). BluWav focuses on incorporating advanced technology into its products in each segment and creating an optimal combination of products to form complete propulsion systems. BluWav's mission is to produce societal benefits through electrification and hybridization of propulsion systems thereby reducing dependence on oil and reducing airborne pollution. BluWav's vision is to become a respected developer and supplier of hybrid electric propulsion systems worldwide.

Magna Electronics also has applied for a MEGA Tax Credit for this project. The MEGA Board is expected to render its decision regarding the application at its meeting on March 17. As Council is aware, a MEGA project requires a local match. The tax abatement is the proposed match for this project.

The 1935-1955 Enterprise Dr. facility until recently was the location for Dayco's Product Engineering Division of Mark IV Automotive. About one year ago, a portion of the business was spun-off and sold. The new company, Fluid Routing Solutions, remained in one wing of the building. Just recently, Fluid Routing Solutions declared bankruptcy and has vacated the building. In January of 2009, Dayco announced that it would not be renewing the lease on the building, which is scheduled to expire in June of 2009. Dayco plans to consolidate its operations in another facility in Troy. So the entire building is immediately available.

The City's Planning and Development Department had been working with BluWav Systems and Magna Electronics on an interim plan that would have resulted in a much smaller project in Rochester Hills through the end of 2009. When the 1935-1955 Enterprise Dr. building became available, the City arranged for a tour with the real estate agent representing First Industrial and Magna Electronics. It quickly became obvious that the facility is an excellent fit for Magna Electronics' long-range plans. A sub-lease of approximately one-third of the space has been arranged between Dayco and Magna Electronics. Later this year, when the sub-lease expires, Magna Electronics proposes to sign a lease with First Industrial and occupy the entire building.

Magna International's stock is traded on the New York Stock Exchange under MGA. Like all automotive OEMs and suppliers, its stock price has been driven significantly lower due to the economy. However, it is deemed to be in a comparatively strong position due to its nearly \$2-billion in cash reserves. In addition, the BluWav propulsion system is consistent with the interests of the Federal Government to develop automotive solutions that reduce carbon emissions. The company recently signed a contract to install its technology on a platform of a major OEM; and additional platforms are being considered.

City staff completed a Tax Abatement Analysis to determine the impact of the abatement. Based on the information presented and using the Tax Exemption Chart (Exhibit C) and Smart Investment Chart (Exhibit D), the applicant is eligible for an *8-year abatement of personal property*. *It is not eligible for real property abatement due to its building investments totaling less than the minimum \$500,000 required by City Council's Tax Abatement Policy.*

Due to the fact that it is requesting both a real and personal property abatement, the Tax Abatement Analysis considers the impact of both.

In summary, the analysis indicates that the investment will generate \$62,113 in new real property taxes and \$223,768 in new personal property taxes for all taxing authorities combined **without the abatement** over eight years. The City portion of new taxes combined is \$104,033. If approved by City Council, an

IFT reduces the tax levy for all taxing jurisdictions, except for the State Education Tax (SET) and personal property subject to the 18-Mill School Operating Levy, including the Intermediate School District, by **50%**. Therefore, the IFT, **if approved**, will generate *\$146,610* in combined new real and personal property taxes for all jurisdictions. The City portion of new taxes would be *\$52,017* over the eight-year period.

It's also important to point out that in Magna Electronics' filing with the MEGA Board, it has indicated that 200 total jobs are associated with this project over a five-year period and more than \$18-million in total investment. Public Act 198, of 1974, however, only allows the community to consider the investment over a two-year period.

Magna Electronics' application is consistent with the goals and objectives in the City Council's *Tax Abatement Policy* and generally meets established criteria.

Specifically, Magna Electronics' project meets the following Policy goals:

1. **It encourages development that will increase the economic vitality of the industrial and high technology districts** – The project generates new revenue for the City.
2. **To create and retain employment from existing eligible facilities that might, otherwise, leave the City** – The project retains 20 existing employees, transfers 55 existing jobs into the City and creates 73 new jobs within two years of completion of the facility.
3. **To assist in the rehabilitation of older facilities and/or expansions of existing industrial or high technology facilities** – This project will result in the occupation of a vacant building and investment in new real and personal property, together totaling \$4,727,014, and will be located in the LDFA District and Rochester Hills SmartZone.

Magna Electronics' project also meets the following Policy guidelines:

1. The project is in compliance with the Rochester Hills Zoning Ordinance and Master Plan.
2. No outstanding taxes are owed by the applicant.
3. Permanent jobs will be created or retained as a result of the project.
4. The project has not started prior to the City's receipt of the application, and it is located in a qualifying Industrial Development District – this assumes that Council agrees to create the District.
5. There is a demonstrated need for financial assistance – Without the incentive, a significant number of jobs would not be transferred into Rochester Hills and, in fact, there is a likelihood that the entire project would locate elsewhere at the end of 2009.
6. The prospects for long-term growth are present – the newly leased facility allows Magna Electronics to further design, develop and implement its electric propulsion and energy management systems.
7. There is no current pending litigation against the City by the applicant or its agent.

Representatives of Magna Electronics will make a presentation regarding its request prior to the Public Hearing.

RECOMMENDATION:

Approve the tax abatement request of Magna Electronics for *personal property only* for a period of eight (8) years.

This recommendation is based on the following reasons:

1. It increases the economic vitality of industrial and high technology districts within the City of Rochester Hills
2. It retains and creates new employment and increases the tax base of the community

3. Magna Electronics' proposed real property investment does not meet the minimum requirement of \$500,000 to qualify for a real property abatement under City Council's Tax Abatement Policy

RESOLUTION

NEXT AGENDA ITEM

RETURN TO AGENDA

APPROVALS:	SIGNATURE	DATE
Department Review		
Department Director		
Mayor		
City Council Liaison		

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