



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

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Legislative File No: 2007-0255

TO: Mayor and City Council Members
FROM: Ed Anzek, Planning & Development Director, ext. 2572
DATE: April 10, 2007
SUBJECT: Urban Land Assembly Loan

REQUEST:

Utilization of the Urban Land Assembly Loan Program through the Michigan Economic Development Corporation.

BACKGROUND:

The City's Manager of Economic Development has been working to retain a local company that has received offers to relocate to North Carolina or South Carolina, as well as the State of Michigan. The company shall remain anonymous in this discussion out of respect for its employees.

"Company A" is seeking to construct an approximate 60,000-square-foot headquarters and manufacturing facility. It proposes a \$6-million investment in real property and \$4.5-million investment in personal property within two years of construction. Additionally, it would invest another \$1.5-million in personal property in the 3rd – 5th years. Company A is a spin-off of another Rochester Hills company, "Company B." The world headquarters of both companies is located in Europe. Today, both companies reside in buildings next to each other in one of our technology parks. Company B owns a 60,000-square-foot facility and Company A leases its building, and its lease expires in the fall of 2008.

The parent company has decided that, should it choose to relocate Company A to South or North Carolina, Company B also will move. This puts in jeopardy a combined 200 jobs and the loss of more than \$8.6-million in existing personal property. Today, 10 employees also are Rochester Hills' residents.

The State of Michigan provided an incentive package in 2006 to retain the company. The package proposes a local tax abatement of 12 years, which Administration is supportive of. The State has agreed to waive the State Education Tax for the 12 years and has provided job-training credits. Oakland County also has offered embedded workforce training dollars. Despite these incentives, the gap in packages between Michigan and both Carolina states is about \$6-million.

One area in which there is a gap is land cost. The land is being provided to both companies "free" in the Carolinas, whereas in Michigan, the site that Company A has selected would cost about \$900,000 to purchase. The site is located on Devondale, just west of where Austin Ave. stubs. The site is zoned light industrial and contains about 2.5 acres of regulated wetlands.

The City has an approved CIP project and the LDFA also has an approved project in its Development and Financing Plan to extend Austin Ave. westward to Devondale. This is essential to provide industrial

access to this site. It also would provide access to an additional 18 acres of underdeveloped or vacant land, of which approximately 9 acres is presently on the market. The LDFA's Plan and the CIP call for the construction of Austin Ave. in 2008. The estimate to construct the full project is \$1.4-million and includes the acquisition of right-of-way from three parcels, including a portion of the property that Company A is considering.

In consideration of the cost gap between the states, the MEDC, Oakland County and City have been seeking a way to improve its incentive package. Recently, the MEDC offered to provide a loan to the City/LDFA through its Urban Land Assembly Program. It will make available up to \$1-million to purchase the target 10-acre parcel. An application is required and payback must occur within 10 years. Interest on the loan is normally required, although the MEDC would charge only a nominal negotiated fee.

Utilizing the Urban Land Assembly Program, the City/LDFA would have the resources needed to acquire the land. After an appraisal, the LDFA would repay to the MEDC a portion of the land cost to cover the right-of-way needed for the Austin Ave. extension. The CIP currently estimates that total right-of-way costs for the extension of Austin Ave. and paving of Devondale northward to its termination are about \$266,000; however, the right-of-way from the property in question only constitutes a minimum of \$105,000 of the total (again dependent upon the appraised value).

It's important to point out that about 2.5 acres of the property is in a regulated wetland. As a result, the 10-acre site is for sale well below the market value of industrial property, at \$2.04 per acre. In addition, there is an estimated 1-acre of residual property that would not be needed for Company A's project and could be sold in the future. The estimated value of the 1-acre is \$131,000. Therefore, the combined value of the City's needed right-of-way and the residual property is \$236,000. This results in a remaining estimated land cost of \$665,000.

I am proposing that City Council consider deeding the remaining approximate 6 acres of the property to Company A for \$1 subject to conditions. I have completed a financial analysis of the taxes that will be generated from the development that also considers the value of the retained personal property that otherwise would be lost if Company A and B relocate. In the analysis, the tax that would be collected by the LDFA in the first few years of the project averages about \$100,000/year (factoring in an abatement). In other words, *the taxes generated by the project would repay the loan within seven years.*

A secondary benefit of this project is the potential for the City to apply for an MDOT, Transportation Economic Development Fund, Category A Grant. Currently, the construction of the entire Austin/Devondale road project is proposed for construction in 2008, subject to budget approval. The LDFA would fund the project. The Category A Grant is an MDOT fund that supports the growth of tax base in Michigan by providing needed road infrastructure that results in the creation and/or retention of jobs. The road infrastructure must meet certain conditions, including providing access to a site. Secondly, the company proposing to locate on the site must participate in the application process and commit to creating or retaining the jobs. There is a required minimum 20% local match. A higher match makes an application more competitive.

It is not expected that MDOT would agree to commit its TEDF funds to construct the entire road project as proposed. It would, however, consider an application for funds to cover the portion of the project that provides access to the site and, perhaps, a portion of the paving of Devondale. The Austin Ave. extension, exclusive of the rest of the road project, is estimated to cost about \$580,000. In addition, the Engineering Department would like to extend the existing water main on Austin Ave. along the extension of the road, which would cost an estimated \$58,500. The water main extension would not be eligible for the TEDF grant or the City's local match and would be funded separately.

Assuming a local match of 30%, *at a minimum* the TEDF Grant could pay for \$406,000 to extend Austin Ave. to Devondale. The City portion is estimated below:

City Portion:

\$174,000 – City Match
\$58,500 – Water main extension
\$105,000 – Estimated right-of-way costs

TOTAL: \$337,500

If MDOT agrees to pay for a portion of the paving of Devondale, the savings will increase.

In discussions with MDOT, it has verbally pre-qualified the project as eligible, subject to availability of funds.

The conditions under which City Council could agree to deed the land to Company A are:

1. Company A agrees to remain in Rochester Hills
2. Company A agrees to sign a Development Agreement whereby it commits to remain in the City for the entirety of the tax abatement period, 12 years; and, should it relocate outside of the City, all taxes abated must be paid back and the land apportioned for its project paid for at fair market value
3. The City applies for and receives an Urban Land Assembly Loan from the MEDC, which will be used to purchase the land
4. An MDOT TEDF Grant is received to help offset the costs to construct some or most of the projected road project.

The net result of these commitments will be the elimination of \$1-million from the cost gap that exists between the incentive package offered by Michigan and those from North Carolina and South Carolina.

City Council will be asked to make this commitment by Resolution based on the conditions outlined above, at its Regular Meeting of April 25. The State, County and City have been given to the end of April to finalize its incentive package. The Parent Company is expected to render its decision on a location in June.

RECOMMENDATION:

Authorize the Mayor of Rochester Hills to apply for an Urban Land Assembly Loan through the Michigan Economic Development Corp. subject to the following conditions:

1. An eligible use, “the Company”, commits to develop land in the City of Rochester Hills
2. The Company agrees to sign a Development Agreement whereby it commits to remain in the City for a period of 12 years; and, should it relocate outside of the City, any abated taxes must be paid back and the land apportioned for its project paid for at fair market value
3. The Company shall pay a nominal fee for the land and the fee shall be determined by the Mayor of Rochester Hills
4. The Company must invest a minimum of \$8-million in real and personal property improvements within the first two years of ownership from the date of the Development Agreement
5. In addition, the Company must invest at least \$2-million in improvements within the first six years of ownership from the date of the Development Agreement

6. Neither the City nor any agency it has incorporated shall retain interest in any real or personal property to be located on land acquired by the Loan other than public facilities, as defined by Public Act 281 of 1986, as amended

RESOLUTION

NEXT AGENDA ITEM

RETURN TO AGENDA

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

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