

DATE: June 17, 2004

TO: Financial Services Committee

FROM: Dan Casey, Manager of
Economic Development

RE: Tax Abatement Policy Guidelines

On March 11, 2004, I presented to the Committee a draft of a proposed new tax abatement policy. This evening I would like to continue discussion regarding the use of tax abatement as an important economic development tool and elicit comments and questions from the Committee regarding the proposed new policy.

Following is a summary of the proposal, highlighting distinctions from the old policy as well as important concepts for consideration. It's important to point out that the proposed new policy does not amend the existing policy, but rather replaces it.

Also, this evening, I would like to update you on the status of existing Industrial Development Districts that exist within the community and HB 5415, a bill that has been introduced to the State Legislature that I have been generating support for from among various groups in Michigan, including the Oakland County Economic Development Group, Community and Economic Development Advisory Council, Michigan Municipal League and Michigan Economic Development Association.

Tax Abatement Guidelines for Consideration:

1. Application/filing fee: The current fee is \$500 for either the establishment of a district or application for an Industrial Facilities Exemption. This fee is consistent with what other communities charge, and is used to cover administrative, Public Hearing and Notice costs.
2. Competitive National Economic Tool: the policy will provide a tool that is preferred by the Michigan Economic Growth Authority (MEGA). MEGA is the State of Michigan's primary incentive program to attract new projects to the State or retain companies considering new expansion projects that are competitive with other States. It requires a local contribution in the form of infrastructure improvements and/or tax abatements; in some cases, other forms of contribution also are acceptable. In recent years, the MEGA Board has stressed that tax abatements are a preferred method of providing local support and often require that a local community, in order to be considered for a project, provide one. In developing an incentive package, the MEGA Board typically identifies the level of match required by a local community, based on the company's proposed investment, projected new employment, and in consideration of another state's offer.

3. **Competitive SmartZone Tool:** The Automation Alley SmartZone, among its partners, includes the City's of Rochester Hills, Southfield and Troy. The SmartZone Coordinating Council also is expected to grant the City of Auburn Hills status at some future date. These three competitive local communities all have current tax abatement policies that are aggressive. In 2002, Troy established its High-Tech Tax Abatement program as a means to support its technology companies and attract new companies to the community. The City of Southfield has approved five tax abatements for technology companies since the establishment of the SmartZone program in 2002. Finally, Auburn Hills' use of tax abatement as an incentive to promote development and expansion is widely known.
4. **Retention, Expansion & Attraction:** The policy places a preference on retention and expansion projects. It does not exclude attraction projects, but requires that the State of Michigan or Oakland County participate by providing a comparable incentive.
5. **Consistent Evaluation Process:** The policy includes an important new tool, a matrix used to establish qualifying parameters as well as a guideline for determining the number of years that a project might qualify for. Two matrix' have been created, one for real property applications and another for personal property applications. Each matrix utilizes two key criteria: investment and job creation. The matrix approach provides the City with a means of amending its policy from time to time as the economy improves or worsens, or as sentiment on Council shifts. It also provides for a consistent method of evaluating applications.
6. **Smart Investment Tax Abatement:** The policy provides the City with a tool comparable to Troy's High-Tech Tax Abatement to support reinvestment and new investment of Rochester Hills companies and attraction of target industry companies to the community.
7. **Owner-occupied vs. Leased:** The policy provides for the purchase or lease of facilities or equipment as permitted under PA 198. The City's previous policy did not grant abatements for companies leasing facilities or equipment.
8. **Policy vs. Ordinance:** The policy is not law and serves as a guideline to Council, which may choose to implement the policy or apply it to applications on a case-by-case basis.
9. **Sample Resolutions:** The policy also includes sample resolutions and development agreements, providing for consistencies in the review and approval process. The development agreement also provides the Council with a means of imposing penalties on companies who receive abatements but do not live up to their obligations in regards to investment or job creation.
10. **Transfer of Employment:** The existing Policy disqualifies applications for projects that result in the transfer of employment from one Michigan community to Rochester Hills. In 2000, P.A. 198 was amended, eliminating its transfer of employment provisions, which essentially required that a company acquire a resolution from a council or commission that allowed the transfer of employees from that City to another in Michigan. Consequently, communities have been more aggressive in offering incentives to companies considering relocation. Rochester Hills has lost many companies to Auburn Hills in recent years because that community was supportive of using tools and incentives

to promote the relocation. The elimination of this provision in the proposed policy will level the playing field.