

City Council Agenda Summary Sheet (Non Purchases)

Agenda No: #2004-0887, Tax Abatement Policy Discussion
Date: October 11, 2004
Prepared By: Dan Casey, Manager of Economic Development, 841-2577
City File No: N/A

Meeting Date: October 27, 2004

PURPOSE:

To review and discuss a new tax abatement policy. Further, to review HB 5415, an amendment to PA 198, a bill that recently passed the House and has been forwarded to the Senate, which grants municipalities the authority to dissolve existing industrial development districts.

DISCUSSION:

On June 17, 2004, the Financial Services Committee reviewed a draft of a proposed new tax abatement policy. The Committee has forwarded the policy to City Council.

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.

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 expenses.
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 Cities of Rochester Hills, Southfield and Troy. The cities of Southfield and Troy have current tax abatement policies that are progressive. 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.

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.

Also, this evening, Council will receive an update on Industrial Development Districts (IDDs) that exist within the community and HB 5415, a bill recently approved by the House and sent to the Senate that amends PA 198. HB 5415 grants municipalities the authority to dissolve

districts. Previously, municipalities commonly thought that they retained the authority to dissolve districts, however, the State Tax Commission, based on an opinion from the Attorney General, has disagreed and ignored such requests. In 1988, the Rochester Hills City Council approved a resolution that abolished the majority of the IDD's in the city. The legality of this action remains in question.

FISCAL INFORMATION:

None

RECOMMENDATION:

None

ATTACHMENTS:

Department Authorization: Ed Anzek, Director of Planning and Development

Reviewed by:

Fiscal: *Jean Farris*

Clerks: *Susan Koliba-Galeczka*

Approved by: *Pat Somerville*

RESOLUTION

NEXT AGENDA ITEM

RETURN TO AGENDA