



Rochester Hills Master Report

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File Number: 2004-0283

File Number: 2004-0283	File Type: Policy	Status: To Council Work Session
Version: 2	Reference: N/A	Controlling Body: City Council
Requester: Planning/Development	Cost:	Introduced: 03/11/2004
File Name: Tax Abatement Policy	Final Action:	

Title: Discussion - Tax Abatement Policy for the City of Rochester Hills

Notes: Tax Abatement Policy in conjunction with MDEC grants

Dan Casey, Economic Development Manager in Planning and Development

Code Sections:

Indexes: Grant, Policy, Taxes

Sponsors:

Attachments: Tax Abatement Agenda Summary.pdf, Tax Abatement Policy.pdf, Exhibit C - RH TAX EXEMPTION CHART.pdf, Exhibit D SMART INVESTMENT CHART.pdf, Memo Casey 20040617.pdf, District 02 - Rehab.pdf, District 03 - Rehab.pdf, District 19.pdf, District 22.pdf, Districts 1-3-6-7-10-15-17-20.pdf, Districts 4-5-11-12-13-14-23.pdf, IDD Districts 8-16-18-21.pdf, Policy Comparison.pdf

Agenda Date:

Agenda Number:

Enactment Date:

Enactment Number:

History of Legislative File

Ver- sion:	Acting Body:	Date:	Action:	Sent To:	Due Date:	Return Date:	Result:
1	Financial Services Committee	03/18/2004	Discussed				
	<p>Notes: Dan Casey, Economic Development Manager, reviewed the draft Tax Abatement Policy noting the following:</p> <ul style="list-style-type: none"> * Tax Abatement Program is regulated by Public Act 198 as amended in 2000 * Amendment now includes high technology and life science companies and removed the approval of the local community to approve a company's transfer to another community * Tax abatements are a tool that provide fifty-percent (50%) tax break on real and personal property for new investment in the community * Two factors are evaluated when looking at tax abatements: new investment and new jobs that result from the project * The globalization of the economy has resulted in competition of all levels of business as well as in government and Rochester Hills is competition with other cities, regions, states and countries for 						

projects

- * The number of approval years legally allowed is different for real property and personal property
- * A substantial investment or a significant amount of new jobs in the community is required in order to qualify for the maximum of twelve (12) years.
- * Tax abatement programs assist in providing stability to a local economy for eligible companies who have applied and have been granted abatements by:
 - * Supporting retailers
 - * Providing additional workers
 - * Retaining workers in a community
 - * Increasing jobs within a community
 - * Increasing the tax base within a community
 - * Strengthening the company
- * Prior to the policy change on abatements, Rochester Hills approved forty-three (43) abatements from 1996-1997
- * Since policy change, Rochester Hills has approved two (2) abatements
- * Currently the policy is that Rochester Hills does not give abatements
- * In attempt to further diversity the State's economy and to continue to convert it to a technology base or technology led economy to help soften the blow when automotive industries are struggling, the Governor established the tri-corridor initiative which includes such things as the development of the Smart Zone Program, the Life Sciences Corridor, and energy initiatives
- * The State has provided some form of incentive to promote initiatives; however unlike other communities who established incentives using PA198, when Rochester Hills established its Smart Zone, it did not provide an incentive program to support it
- * Draft policy changes include:
 - * Attract companies and facilities engaging in advance manufacturing and computing
 - * Reduce property taxes as an obstacle for development of problem parcels
 - * Place greater emphasis on retention and expansion of existing companies
 - * Use it as a door to attract new companies
- * Problem with current policy is that while it does promote the use of this tool for companies who are transferring into Rochester Hills, it does not provide an incentive program to support it.
- * Several companies have chosen to locate in communities other than Rochester Hills because of tax abatements.
- * Changes to policy will allow Rochester Hills to compete on a level playing field with other Michigan communities.

Chairperson Hill suggested that CDV and Financial Services continue to review this matter at future meetings prior to presenting it to City Council.

1 Financial Services 06/24/2004 Approved and City Council Pass
Committee Referred

Notes: Discussion regarding the need to create a Tax Abatement Policy for the City of Rochester Hills.

- * Dan Casey reviewed his handout regarding policy comparison, old vs. new.

Policy Comparison
Old vs. New

A. Tax Abatement Consideration

1. *Old Policy - City does not support the use of tax abatement. In later discussions, Council agreed to leave the door open for consideration, which resulted in Texaco Ovonic's recently approved application.*
2. *New Policy - Council's tax abatement policy clearly defines the parameters in which an application will be considered, and uses a matrix for both real and personal property as a method to consistently evaluate applications.*

B. Transfer of Employment

1. *Old Policy - Abatements would not be granted for projects that resulted in transfer of employment from another Michigan community.*
2. *New Policy - Transfer of employment is not a disqualifying factor. This provision is based on two factors:*
 - a. *Legislative change to PA 198 in 2000 eliminating transfer of employment provisions*
 - b. *Other Michigan cities that compete with Rochester Hills do not prohibit the transfer of employment*

C. Eligible vs. Ineligible Facilities

1. *Old Policy - Eligible facilities must be owner occupied.*
 - a. *Multi-tenant facilities, non-owner occupied, tenant occupied build to suit, or speculative facilities will not be considered*
2. *New Policy - Eligible facilities can be owner occupied, multi-tenant, leased or speculative*
 - a. *PA 198 allows companies in leased facilities, multi-tenant and speculative buildings to apply for tax abatement if the facility is in an Industrial Development District. In Troy and Southfield, for example, districts often are created for specific suites in multi-tenant buildings as opposed to the entire building*
 - b. *Leased equipment also is eligible for abatement as long as the company leasing the equipment is responsible for the taxes.*
 - c. *The length of abatement for either real and/or personal property is limited to the length of the lease.*

D. Limitations on Length of Abatement

1. *Old Policy - The maximum term for which the Rochester Hills City Council will grant abatement is six (6) years for real property and three (3) years for personal property*
2. *New Policy - The maximum term for real property is identified in the Tax Exemption Chart (Exhibit C) based upon job creation and investment. The law permits a maximum of 12 years after completion of the project and up to two (2) years during construction for a maximum of 14 years. Personal property abatements also consider job creation and investment numbers as identified in Exhibit C, Smart Investment Chart. Because of the impact of depreciation on the value of equipment, the Chart limits the length of abatement to eight (8) years; however, by law, Council may grant up to 12 years at its discretion.*
 - d. *Smart Investment Abatements are intended in part to support the reinvestment and diversification of lines of business for Rochester Hills companies, acting as a method of local support to strengthen their ability to compete*
 - e. *Some communities limit the length of abatements for real and/or personal property to less than the law allows. In some cases, their decisions are based on policies; but often it is based on what is politically expedient.*

Discussion regarding existing Industrial Development Districts included the following:

** Prior rescinded districts are technically still viable based on a recent STC ruling.*

** HB5415 - seeks to give units the power to rescind districts.*

Aye: Hill, Barnett, Dalton, Atkinson and Zendel

Text of Legislative File 2004-0283

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Discussion - Tax Abatement Policy for the City of Rochester Hills

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