



# Rochester Hills Master Report

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**File Number: 2004-0283**

<b>File Number:</b> 2004-0283	<b>File Type:</b> Policy	<b>Status:</b> Held in Council
<b>Version:</b> 3	<b>Reference:</b> N/A	<b>Controlling Body:</b> City Council
<b>Requester:</b> Planning/Development	<b>Cost:</b>	<b>Introduced:</b> 03/11/2004
<b>File Name:</b> Tax Abatement Policy		<b>Final Action:</b>

**Title:** Adoption of Tax Abatement Policy dated June 15, 2005

**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:** Agenda Summary pdf, RH 04 Abatement Policy Draft.pdf, 101104 Agenda Summary.pdf, Memo Casey 20040617.pdf, Policy Comparison.pdf, 0283 Master Report.pdf, Tax Exempt Chart 041505.pdf, Smart Invest Tax Chart 041505.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				
	<b>Notes:</b>	<p><i>Dan Casey, Economic Development Manager, reviewed the draft Tax Abatement Policy noting the following:</i></p> <ul style="list-style-type: none"> <li>* Tax Abatement Program is regulated by Public Act 198 as amended in 2000</li> <li>* 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</li> <li>* Tax abatements are a tool that provide fifty-percent (50%) tax break on real and personal property for new investment in the community</li> <li>* Two factors are evaluated when looking at tax abatements: new investment and new jobs that result from the project</li> <li>* 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</li> <li>* The number of approval years legally allowed is different for real property and personal property</li> <li>* A substantial investment or a significant amount of new jobs in the community is required in order to</li> </ul>					

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 diversify 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 Committee	06/24/2004	Approved and Referred	City Council	Pass
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**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
  - 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.
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

2 City Council Work Session 10/27/2004 Discussed

**Notes:** **Mr. Dan Casey**, Manager of Economic Development, noted that, in a global economy, it is difficult for him to retain and attract businesses to Rochester Hills without incentives. He discussed suggestions for a new Tax Abatement Policy for the City. He specifically noted the following aspects of the proposed new policy:

\* Is neither a law nor an ordinance and, thus, provides a guideline to be exercised at the City Council's discretion.

\* Would provide a framework for evaluating applications on a case-by-case basis.

\* Through the use of a matrix tool, would provide "for a consistent method of evaluating applications."

*\* Provides a means of imposing penalties on companies that do not meet their obligations regarding investment and job creation.*

*\* Disqualifies applications for projects that result in the transfer of employment from one Michigan community to Rochester Hills.*

*Mr. Casey asked that Council take his suggestions "under advisement and evaluate the policy." He noted that he would return to Council after the first of the year to gather feedback.*

*Council members expressed their support for a policy that allows review on a case-by-case basis and Ms. Hill noted that Mr. Casey had "laid out some good criteria to start with."*

*Mr. Casey notified the Council of a bill pending in the State Legislature that, if passed, would grant Council the authority to dissolve existing Industrial Development Districts. He noted that he would return before Council following Senate approval of the bill to discuss any legal ramifications.*

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### **Text of Legislative File 2004-0283**

..Title

Adoption of Tax Abatement Policy dated June 15, 2005

..Body

**Whereas**, the City Council desires to increase the tax base of the community and encourage employment opportunities and reduce conditions of underemployment, and

**Whereas**, PA 198 of 1974, as amended, provides for the abatement of 50% of the increased taxable value that results from a rehabilitation or new development for both real and personal property for a period not to exceed 12 years within established Industrial Development Districts, and

**Whereas**, the Council of Rochester Hills has developed and maintained a tax abatement policy from 1987 to present, and has modified it over time as economic conditions in the City have changed.

**Resolved** to adopt the tax abatement policy dated June 15, 2005.