



City of Rochester Hills
AGENDA SUMMARY
NON-FINANCIAL ITEMS

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Legislative File No: 2010-0250

TO: Mayor and City Council Members

FROM: Ed Anzek, Planning & Development Department, ext. 2572

DATE: May 25, 2010

SUBJECT: Request for Tax Exemption under Public Act 376 of 1996, Tool & Die Recovery Zone, by Hommel-Etamic America Corp.

REQUEST:

Hommel-Etamic America Corp. is requesting an authorizing letter of support from the Rochester Hills City Council consenting to the establishment of a Recovery Zone, under Public Act 376 of 1996, Section 125.2688d, the Renaissance Zone Act, for its parcel at 1505 Hamlin Rd.

COMPANY BACKGROUND:

Hommel-Etamic and its predecessor, Detroit Precision Tool Co., have been operating at 1505 Hamlin Rd. since the mid 1980's. Following a joint venture with Hommelwerke in 2002, the company was purchased in its entirety by Jenoptik AG in 2007 and simultaneously merged with Etamic-Movomatic, also acquired by Jenoptik. The Etamic side of the business, along with over forty (40) employees, was relocated from Plymouth, Michigan and consolidated in the Rochester Hills facility. Today, Hommel-Etamic has 70 employees at the Rochester Hills facility and 10 more offsite. Although Jenoptik is a publicly traded company, Hommel-Etamic America is a Michigan corporation and is classified as a small business by the U.S. Small Business Administration.

Hommel-Etamic filed a formal request for a resolution of support from the Rochester Hills City Council on May 14, 2010 and is requesting that Council establish a Recovery Zone under Public Act 376 of 1996 for its parcel of property at 1505 Hamlin Rd. for a period of ten (10) years. All real and personal property taxes in a Recovery Zone are foregone by taxing jurisdictions with the exception of debt mills, and the local municipality makes the determination on behalf of all others. The exempted taxes of the local library, Oakland Community College, Intermediate School District and Rochester Community Schools are annually reimbursed by the State of Michigan. Only the City, County and Zoo taxes, excluding debt mills, are not reimbursed.

HISTORY OF THE PROGRAM:

The legislature drafted an amendment to Public Act 376 of 1996, which was passed in 2004 and further amended in 2005 and 2009, creating Tool and Die Renaissance Recovery Zones ("recovery zone"). The program seeks to provide incentives to support up to 35 collaborative organizations consisting of tool and die companies, trade associations and service providers. The principal purpose of the program is to support and strengthen tool and die companies located in the State of Michigan against global competition. Unlike traditional economic development programs, a recovery zone is not a defined area. The Michigan Economic Growth Authority (MEGA) approves recovery zones after one or more tool and

die companies form a collaborative organization, sign a qualifying collaborative agreement and submit a detailed application. An important condition in the application process is that companies receive an authorizing resolution of support from their local municipality consenting to the establishment of a Recovery Zone. In the resolution, the municipality agrees to forego existing and future tax obligations, both real and personal, from five to 15 years, subject to the approval of the consortium by the MEGA Board. There is no formal application process, and public hearings are not required. Companies make their request for a resolution of support in writing.

The MEGA Board established 29 Tool & Die Recovery Zones from 2004 through 2009 and may establish up to *six additional zones* under the current law. To qualify, companies must not have more than 75 employees and fall under one of six codes under the North American industrial classification system. Further, a recovery zone shall have duration of Renaissance Zone status for a period not to exceed 15 years. Companies may also join existing consortiums, but there is a cap of 20 members per consortium.

The goal of the program is to strengthen participating companies so that when they emerge, they are better able to compete globally. The Rochester Hills City Council has approved three exemptions under this program, one for Urgent Plastics, Maple Mold Technologies, and Avon Broach. There is anecdotal evidence that all three companies have benefited under the program. Maple Mold Tech., since its approval in 2007, has added 28 jobs, refinanced the mortgage on its building and acquired a Makino CNC Machining Center which has allowed it to compete and win new contracts.

Existing Tool & Die Zones in Rochester Hills

Company:	# of Years	Expiration Date
Avon Broach:	5	December 31, 2011
Maple Mold Technologies	8	December 31, 2015
Urgent Plastic Services	5	December 31, 2013

PROGRAM BENEFITS:

There are many benefits for a company that is part of a recovery zone. A collaborative provides significant benefits to its members, allowing companies to work together to attract business and fulfill contracts. Companies receive a tax credit against the Michigan Business Tax for business activity attributable to the recovery zone and the exemption of property taxes as indicated above. Further, the company is not required to create jobs or invest new dollars in equipment or facilities. The tax exemption phases out over the final three years in 25% increments.

TAX ANALYSIS:

A Tax Exemption Analysis was completed to determine the impact of the exempted taxes on revenues for all jurisdictions. As previously stated, the SET, Intermediate School District, Rochester Community Schools (operating only), Oakland Community College and Library are annually reimbursed for lost revenues. The debt mills for the city and school district are still taxable under the program. Only the non-debt mills of the city and Oakland County are exempted and not reimbursed. The exemption begins to phase out over the final three years in 25% increments.

Based on the Analysis, the company would pay \$200,500 in taxes, while \$595,000 would be exempted over a 10-year period. The impact to Rochester Hills over the same period includes continued tax collections of \$32,000 and an exemption of \$122,700. In addition, the Library would receive a reimbursement of \$10,800.

If City Council approves the request, it will not go into effect unless the MEGA Board establishes the collaborative, which won't be determined until late 2010.

RECOMMENDATION:

None

Arguments for:

- The State Senate and House of Representatives established this program as a means to support the efforts of tool and die companies to compete in an increasingly competitive environment
- The program provides tax credits and tax exemptions as a means to reduce costs, providing companies with more working capital and improving their competitive position
- At the end of the exemption period, the company should be stronger and more able to compete
- Hommel-Etamic and its predecessors have been located in Rochester Hills for 25 years and have employed as many as 80 people during that time, including 70 in 2010
- All jurisdictions except the City and Oakland County are reimbursed by the State Department of Treasury for exempted taxes; the public library mills also are reimbursed
- The MEDC has established an annual renewal mechanism that insures that the company is meeting its obligations – if it is not, it loses the zone designation and the exemption
- In its letter requesting the exemption, the company claims that it will reinvest the tax savings into the business

Arguments Against:

- Based on the company’s tax analysis, the exemption will reduce tax collections of city mills by an estimated \$122,700 and county mills by an estimated \$64,500 over the ten-year period.
- Unlike some incentive programs, the Tool & Die Recovery Zone does not require the company to create or retain jobs
- Public Act 376 of 1996 prohibits communities from establishing PILOT or payment-in-lieu-of-taxes agreements with companies seeking the exemption
- The exemption does not guarantee that Hommel-Etamic will become a stronger company, nor does its participation in the collaborative
- There is an assumed negative impact to tool and die companies that are not participants in a Recovery Zone and collaborative, i.e. non-participants do not receive tax exemptions

RESOLUTION

NEXT AGENDA ITEM

RETURN TO AGENDA

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