



**City of Rochester Hills
AGENDA SUMMARY
NON-FINANCIAL ITEMS**

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Legislative File No: 2006-0367 V2

TO: Mayor and City Council Members

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

DATE: June 7, 2006

SUBJECT: Request for an Industrial Facilities Exemption Certificate by Bernal Inc. for personal property only

REQUEST:

Bernal, Inc. is requesting that City Council approve an Industrial Facilities Exemption Certificate (IFT) for personal property only, at 2960 Technology Dr. for a period of 12 years.

BACKGROUND:

City Council amended its Tax Abatement Policy (the "Policy") in 2005 in order to consider new investment, building expansion or construction, and reinvestment of companies in Rochester Hills or those considering relocating to the community. This decision was made, in part, in acknowledgement of the effects of globalization and increased competition both locally and abroad. It allows City Council to judiciously use tax abatements to support and strengthen companies that are located or locating in the community, and to increase their competitiveness in the marketplace. City Council's Policy states that tax abatements are an important retention and attraction tool.

Presently, there are two active IFT's in Rochester Hills. Energy Conversion Devices has one of them, and its IFT is scheduled to expire at the end of this year. The second was approved last year for BMD Group/E-Motive for a period of six years; however, the company has not completed its project yet and its IFT is only covering the shell and core of its building.

Bernal, Inc., has applied for an IFT under terms of the City Council's Policy. It is proposing to acquire \$3.15-million in new equipment in 2006 and early 2007, and up to an additional \$1.6-million within two years, for a total investment of \$4.75-million. In addition, this investment will result in the retention of eight jobs and creation of five additional positions within two years of project completion. In its application, it is requesting an abatement of this personal property over a 12-year period.

The company seeks to acquire this property as a means to upgrade its technology and capabilities in light of increased competition. One of its competitors, Madern, recently constructed a new manufacturing facility with state-of-the-art technology, in North Carolina. Madern represents a threat to Bernal's customer base.

Bernal is a manufacturer of rotary dies and product and packaging automation systems for the package printing and consumer products industries. Bernal's products are used to cut and form paperboard and related materials. It employs 67 people in Rochester Hills, where it has been located since 1993. Bernal is a division of Cerutti, located in Casale Monferrato, Italy. The North American headquarters of Cerutti

is located in Milwaukee, Wisconsin, which also is being considered for the above-referenced investment. Bernal staff has indicated that 50% of the investment will occur in Rochester Hills, regardless of whether the tax abatement is approved. The remaining 50%, however, could be made in Cerutti's Milwaukee facility, which would result in the transfer of eight employees. Further, Bernal believes that the Milwaukee and Rochester Hills facilities may be consolidated in the next few years. If so, the owner of the company will look favorably on Rochester Hills for its support of Bernal. The Bernal facility has additional land for a building expansion to accommodate the possible consolidation. Additional information on Bernal and the equipment it proposes to acquire is available in its tax abatement application.

Bernal has been investing in new equipment in recent years. Since 2002, it has acquired about \$2-million in equipment and has never sought tax abatement or any other incentive from the City or State. This information also is detailed in the application.

City staff completed a financial analysis to determine the impact of the abatement. The current tax abatement policy limits personal property abatements to eight years; and the analysis assumes an eight-year abatement. It is attached for your review. In summary, it indicates that the investment will generate \$494,390 in new taxes for all taxing authorities combined **without the abatement** over eight years. The City portion of new taxes is \$105,165. If approved by City Council, an IFT reduces the tax levy for all taxing jurisdictions, except for the State Education Tax (SET), by 50%. The applicant can request that the SET be abated, but it requires the approval of the Michigan Economic Development Corp. Therefore, the IFT, if approved, will generate \$256,805 in new taxes for all jurisdictions, excluding the SET. The City portion of new taxes would be \$55,338. This represents \$10,218 in new taxes to Rochester Hills in the first year and declining every year after as the property depreciates in value. If the abatement is not approved, some or all of these new taxes will not be realized.

Bernal generated \$64,348 in annual *real property* taxes for all jurisdictions combined in 2005. This included City revenue of \$12,230. In terms of *personal property*, it paid \$63,801 in taxes to all jurisdictions. The City portion of personal property taxes was \$12,126. This brings the total of all taxes currently paid by Bernal, Inc. in 2005 to \$128,149, of which \$24,356 is the City's portion. Bernal's current tax obligations are not expected to change, regardless of whether the abatement is approved.

The Mayor's office directed staff to establish an ad-hoc Tax Abatement Review Committee to evaluate the application based on the goals and objectives and criteria established in City Council's Tax Abatement Policy. The staff included the City's Treasurer, Finance Director, Planning & Development Director and Manager of Economic Development. The Finance Director, however, was unable to attend the meeting. The Committee concluded that the application is consistent with the goals and objectives in the Policy and generally meets the criteria established by City Council. However, the Policy caps abatements of personal property at eight years. Further, the Policy's Smart Investment Chart, which is used to determine the number of years a company is eligible for abatement based on investment and job retention/creation, indicates that Bernal would be eligible for an eight-year abatement.

Specifically, Bernal's project meets the following Policy goals:

1. **It encourages development that will increase the economic vitality of the industrial and high technology districts** – The project generates new revenue for the LDFA, retains current employment and increases employment by five positions, which will have a net positive impact on local retailers and potentially attract new residents to the community.
2. **To create and retain employment from existing eligible facilities that might, otherwise, leave the City** – If the investment is shifted to Milwaukee, then eight positions will be relocated, having a negative impact on the local economy and potentially resulting in the loss of one or more jobs in the retail sector.

3. **To assist in the rehabilitation of older facilities and/or expansions of existing industrial or high technology facilities** – This project represents an expansion of existing equipment and capabilities of Bernal and an upgrade over its current equipment, resulting in a more competitive company.

Bernal's project also meets the following Policy guidelines:

1. The project is in compliance with the Rochester Hills Zoning Ordinance and Master Plan
2. No outstanding taxes are owed by the applicant
3. Permanent jobs will be created or retained as a result of the project
4. The project has not started prior to the City's receipt of the application and it is located in a qualifying Industrial Development District – this assumes that Council agrees to create the District
5. There is a demonstrated need for financial assistance – some of the investment could occur in Milwaukee rather than Rochester Hills and perhaps not at all but for the abatement; and the company seeks to increase its capabilities and competitiveness with the new equipment
6. The applicant is an equal opportunity employer
7. The new investment promotes community health and safety by virtue of safer more efficient equipment
8. The prospects for long-term growth are present – the company is considering a future expansion of its building
9. There is no current pending litigation against the City by the applicant or its agent

In summation, Bernal's proposed investment of up to \$4.75-million in new personal property clearly is an important and strategic purchase aimed to strengthen the company's competitive position, retain and create jobs; and, as much as 50% of the investment will not occur but for the abatement.

Representatives of Bernal will make a presentation regarding its request prior to the Public Hearing. Public Act 198, of 1974, as amended, requires that a decision be rendered within 60 days of receipt of the application. Consequently, a decision by Council must be made no later than June 20, 2006. Unless a special meeting is scheduled for the week of June 12, Council will have to render its decision at its June 7th Regular Meeting.

RECOMMENDATION:

Approve the request By Bernal, Inc. for an Industrial Facilities Exemption Certificate for **personal property only** for a period of eight years based on the following reasons:

1. The IFT will generate new taxes to the taxing authorities, including Rochester Hills
2. The IFT will retain and create new employment by Bernal in its Rochester Hills facility
3. The IFT, considered together with the aggregate amount of industrial facilities exemption certificates previously granted and currently in force, does not have the effect of substantially impeding the operation of the City of Rochester Hills or impairing the financial soundness of a taxing unit that levies an ad valorem property tax in the City
4. The facility is located in an Industrial Development District, which was established on June 7, 2006
5. The commencement of the project has not occurred prior to the approval of the IFT by the City Council of Rochester Hills
6. The project is consistent with the goals and objectives of the City Council's Tax Abatement Policy and generally meets the criteria in the Policy

RESOLUTION

NEXT AGENDA ITEM

RETURN TO AGENDA

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

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