



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

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Legislative File No: 2008-0223 V3

TO: Mayor and City Council Members

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

DATE: May 12, 2008

SUBJECT: Request for an Industrial Facilities Exemption Certificate by Raval USA for Personal Property

REQUEST:

Raval USA is requesting that City Council approve an Industrial Facilities Exemption Certificate (IFT) for personal property only, to be located at 1939 Northfield Dr. for a period of twelve (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.

Raval USA has applied for an IFT under terms of the City Council's Policy. It is proposing to acquire the building from Diversified B & D, LLC and \$5,756,881 in new personal property. A list of the equipment proposed for purchase is included in the application. The company also proposes to create 26 jobs within two years; however, it has indicated that it expects to hire up to 65 total employees over the next five years. In its application, it is requesting an abatement of personal property only over a 12-year period.

The company also has indicated that it would like to install a fuel lab at the end of 2008. The costs to construct the lab have not been included in the application and would not be subject to the contemplated abatement.

Raval USA is a design, development and manufacturing company headquartered in Israel, with facilities in Luxemburg and China. Currently, it has a small sales office in Southfield, which will be closed when the new facility is opened. Raval USA's primary products are vapor valves that are used on various vehicle fuel tanks to control the fill quality and venting of the fuel tank to the charcoal canister.

Raval USA applied for a MEGA (Michigan Economic Growth Authority) Grant, which is Michigan's primary incentive for projects that are considering locations in other states. A MEGA Grant, by state law, requires a local match from the community where the facility is contemplated. The local match is usually in the form of tax abatement or infrastructure improvements that support the proposed site in a direct and

beneficial manner. The MEGA Board approved the grant application at its May 20, 2008 meeting; however, its action is contingent upon approval of the tax abatement application.

City staff completed a tax abatement analysis to determine the impact of the abatement. Based on the information presented and using the Tax Exemption Chart (Exhibit C), the applicant is eligible for an eight-year abatement on eligible personal property. Although Raval USA is requesting 12 years, City Council's Tax Abatement Policy caps personal property abatements at eight (8) years. Council may, of course, choose a longer or shorter period.

In summary, the analysis indicates that the investment will generate \$369,725 in new taxes for all taxing authorities combined **without the abatement** over eight (8) years. The City portion of new taxes is \$133,408. If approved by City Council, an IFT reduces the tax levy for all taxing jurisdictions, except for the State Education Tax (SET) and personal property subject to the 18-Mill School Operating Levy, by **50%**. Therefore, the IFT, **if approved**, will generate \$184,862 in new taxes for all jurisdictions, excluding the SET. The City portion of new taxes would be \$66,704 over the eight-year period.

The City's Tax Abatement Review Committee evaluated the application and has concluded that it is consistent with the goals and objectives in the Policy and generally meets the criteria established by City Council.

Specifically, Raval USA'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.
2. **To create and retain employment from existing eligible facilities that might, otherwise, leave the City** – The project will bring 26 new jobs to the City within two years and up to 65 jobs over five years. These positions will include engineers, managers, sales and technical tradesman.
3. **To assist in the rehabilitation of older facilities and/or expansions of existing industrial or high technology facilities** – This project will bring \$5.7-million in laboratory and testing equipment, as well as machinery into the City and LDFA District.

Raval USA'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 – Raval USA also is considering a leased facility in Auburn Hills, and the abatement will serve as the City's local match for a MEGA Grant
6. The applicant is an equal opportunity employer
7. The prospects for long-term growth are present – Raval USA has indicated the expectation of job growth over a five-year period and has indicated the need to construct a fuel lab at the end of 2008
8. There is no current pending litigation against the City by the applicant or its agent

In summation, Raval USA is poised to grow its presence in the United States and Michigan. Its has captured 50% of the vapor valve market in Europe and its proposed Rochester Hills facility is located in the heart of the US-based automotive industry, providing it with the ability to compete for future business. Its proposed investment of \$5,756,881 in personal property is clearly an important and strategic purchase, which creates new employment in Rochester Hills.

Representatives of Raval USA will make a presentation regarding its request prior to the Public Hearing.

RECOMMENDATION:

Approve the tax abatement request of Raval USA for a period not to exceed eight (8) years subject to the following condition:

1. The completion of the building acquisition by October 31, 2008; or a lease of said building for not less than eight (8) years.

This recommendation is based on the following reasons:

1. It increases the economic vitality of industrial and high technology districts within the City of Rochester Hills
2. It creates new employment and increases the tax base of the community
3. It provides a required local match for a state MEGA Grant

RESOLUTION

NEXT AGENDA ITEM

RETURN TO AGENDA

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