



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

**1000 Rochester Hills Dr.  
Rochester Hills, MI 48309  
248.656.4630  
[www.rochesterhills.org](http://www.rochesterhills.org)**

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**Legislative File No:** 2006-0596

**TO:** Mayor and City Council Members

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

**DATE:** August 25, 2006

**SUBJECT:** Request for an Industrial Facilities Exemption Certificate by Energy Conversion Devices for Real and Personal Property

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**REQUEST:**

Energy Conversion Devices, Inc. is requesting that City Council approve an Industrial Facilities Exemption Certificate (IFT) for real and personal property at 2923 Technology Dr. for a period of 10 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. In June of 2006, City Council approved an IFT for Bernal, Inc. for personal property only. This IFT currently is under review by the State Tax Commission, the final authority on all IFT requests.

Energy Conversion Devices (ECD) occupies three buildings in Rochester Hills and has invested millions of dollars in real and personal property improvements in these facilities. City Council granted tax abatement on one of the buildings in 2000, which expires at the end of this year. On February 15, 2006, City Council granted a tax exemption to ECD under PA 549 of 2002 for an investment of \$1,436,154 in alternative energy personal property. This program promotes companies like ECD who are developing alternative energy technology and heavily investing in research.

Last year, a division of ECD, United Solar, announced that it was building a new facility in Auburn Hills to construct solar panels. In 2006, ECD announced that it was going to build an even larger facility in Greenville, Michigan, to construct additional solar panels. Recently, ECD determined that it would need a manufacturing facility for its Machine Division to assemble the machines that are used to build the solar panels.

After conducting a search in Rochester Hills, it identified a 50,000-square-foot warehouse facility on Technology Dr. that has been vacant for more than three years. The building is constructed as a warehouse and does not have any separation walls or office currently. ECD proposes to lease the facility for a term of five years with an option to renew for an additional five years; however, the lease is contingent upon receiving tax abatement within 90 days. The facility will be used as an assembly plant to produce vacuum deposition chambers and other components. Infrastructure requirements are as follows:

1. Add 5 ton and 10 ton crane and footings
2. Construct a clean room
3. Construct a machine shop which will contain a saw, mill, lathe, sand blaster and welder
4. Cleaning equipment will be added, including a small ultrasonic cleaner
5. Upgrade the HVAC
6. Construct separation walls between the office area and shop floor
7. Add computers and other IT infrastructure

The planned investment is \$1,000,000 immediately and totaling \$2.43-million within two years. The project also will result in the retention of 40 jobs from its Rochester Hill's facilities and creation of 28 additional jobs within two years of completion. Average salaries per worker are anticipated to be about \$20/hour.

City staff completed a financial analysis to determine the impact of the abatement. The current tax abatement policy indicates that ECD is eligible for abatement up to 12 years based on new and retained jobs and new investment; ECD, however, is only requesting eight (8) years. The analysis is attached for your review. In summary, it indicates that the investment will generate \$280,650 in new taxes for all taxing authorities combined **without the abatement** over 10 years. The City portion of new taxes is \$60,477. 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 \$140,328 in new taxes for all jurisdictions, excluding the SET. The City portion of new taxes would be \$30,239. This represents \$4,995 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, the project likely will be relocated to another community.

When looking at all facilities and property of ECD and its subsidiary, Ovonic Battery Co., it generated \$245,838 in annual *real property* taxes for all jurisdictions combined in 2005. This included City revenue of \$46,726. In terms of *personal property*, it paid \$160,476 in taxes to all jurisdictions. The City portion of personal property taxes was \$45,224. This brings the total of all taxes currently paid by ECD, Inc. in 2005 to \$406,314, of which \$91,950 is the City's portion. ECD's current tax obligations are not expected to change, regardless of whether the abatement is approved.

The Tax Abatement Review Committee has reviewed the application and found it to be compliant with the City Council's Tax Abatement Policy. The abatement, if granted, does not impact the current tax liability of the property owner. In other words, the current value of the property will continue to be taxed fully. 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.

Specifically, ECD'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 72 jobs and increases employment by 55 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 another facility outside of Rochester Hills, 72 jobs will be transferred. This will have a negative impact on the local economy, potentially resulting in the loss of additional 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 will put a vacant property into productive use. The building has been vacant for three years. Further, the project will result in office space being constructed within the existing shell of the building, providing for greater tax revenues.

ECD'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 – the investment will likely occur in another community if the abatement is not approved.
6. The applicant is an equal opportunity employer
7. The prospects for long-term growth are present – this strengthens the City's commitment to ECD and expands the company's presence, investment and jobs in Rochester Hills
8. There is no current pending litigation against the City by the applicant or its agent

In summation, ECD's proposed investment of up to \$2.43-million in new real and personal property clearly is an important and strategic investment that will support the company's growing photovoltaic solar panel operation, thus strengthening the company's competitive position. The project also retains and create jobs; and, the investment will probably not occur but for the abatement.

Representatives of ECD 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 September 29, 2006.

### **RECOMMENDATION:**

Approve the request by Energy Conversion Devices, Inc. for an Industrial Facilities Exemption Certificate for real and personal property for a period of ten 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 ECD in Rochester Hills
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 September 6, 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

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**RESOLUTION**

**NEXT AGENDA ITEM**

**RETURN TO AGENDA**

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<b>APPROVALS:</b>	<b>SIGNATURE</b>	<b>DATE</b>
<b>Department Review</b>		
<b>Department Director</b>		
<b>Mayor</b>		
<b>City Council Liaison</b>		