



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

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Legislative File No: 2006-0857 V2

TO: Mayor and City Council Members

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

DATE: December 18, 2006

SUBJECT: Request for an Industrial Facilities Exemption Certificate by American Axle and Manufacturing, Inc. for Personal Property Only

REQUEST:

American Axle and Manufacturing, Inc. is requesting that City Council approve an Industrial Facilities Exemption Certificate (IFT) for personal property only, at 2965 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. The first was approved last year for BMD Group/E-Motive for a period of six years. Bernal, Inc. received an eight-year tax abatement on personal property only in 2006. Two additional abatements have been approved and are under review by the State Tax Commission. Avon Gear Co. was approved for personal property only and Energy Conversion Devices for real and personal property, both in 2006.

American Axle and Manufacturing, Inc., has applied for an IFT under terms of the City Council's Policy. It is proposing to acquire \$12,952,500 in new equipment from December of 2006 through December 31 of 2008. In addition, this investment will result in the retention of 28 jobs. 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 product testing capacity. It is seeking to establish a second noise, vibration and hardness laboratory, with transfer case test equipment, software, and calibration and measurement test equipment. One key piece of equipment slated for acquisition is a new dynamometer, which operates at higher speeds, and will be used on European-based vehicles that run at higher speeds than American-based product.

American Axle and Manufacturing, Inc. is a manufacturer of axles, gears, transfer cases and associated electronics. Its research and development primarily occurs in Rochester Hills at its 116,000-square-foot Technical Center, where it has invested \$60-million since 1995. Today, it employs 150 people in

Rochester Hills. American Axle and Manufacturing, Inc. has not received local incentives for its previous investments in the community.

American Axle and Manufacturing, Inc. is a global company, with nine engineering locations outside the United States. It was formed in 1994 and today employs 11,000 people globally. Its corporate headquarters is in the City of Detroit, where it also has a manufacturing plant and engineering center.

Approximately thirteen months ago, American Axle and Manufacturing, Inc. approached the City's Manager of Economic Development and indicated its intention to seek tax abatement on a large investment in personal property. It took an entire year to finalize the scope of the investment.

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 \$1,183,965 in new taxes for all taxing authorities combined **without the abatement** over eight years. The City portion of new taxes is \$255,128. 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 \$591,983 in new taxes for all jurisdictions, excluding the SET. The City portion of new taxes would be \$127,564. This represents \$26,200 in new taxes to Rochester Hills in the first year and declining every year after as the property depreciates in value.

American Axle and Manufacturing, Inc. generated \$167,200 in annual *real property* taxes for all jurisdictions combined in 2006. This included City revenue of \$31,883. In terms of *personal property*, it paid \$391,110 in taxes to all jurisdictions. The City portion of personal property taxes was \$74,581. This brings the total of all taxes currently paid by American Axle and Manufacturing, Inc., Inc. in 2006 to \$558,310, of which \$106,464 is the City's portion. American Axle and Manufacturing, Inc.'s current tax obligations are not expected to change, regardless of whether the abatement is approved.

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. 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 American Axle and Manufacturing, Inc. would be eligible for an eight-year abatement.

Specifically, American Axle and Manufacturing, Inc.'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 the company's research and development capability, thus strengthening its ability to satisfy customer demand.
2. **To create and retain employment from existing eligible facilities that might, otherwise, leave the City** –The abatement will show the community's support of American Axle and Manufacturing, Inc., which has invested \$60-million in its Rochester Hills facility since 1995 without any local incentives; and will assist it in retaining 24 employees who will be working with the new equipment.
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 American Axle and Manufacturing, Inc. and an upgrade over its current equipment, resulting in a more competitive company.

American Axle and Manufacturing, Inc.'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 would not occur but for the abatement and it strengthens American Axle and Manufacturing, Inc.'s ability to win additional contracts, thus resulting in a more competitive company
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 – even after this investment, the company will still have room at its Technical Center for more employees and equipment
9. There is no current pending litigation against the City by the applicant or its agent

In summation, American Axle and Manufacturing, Inc.'s proposed investment of \$12,952,500 in new personal property clearly is an important and strategic purchase aimed to strengthen the company's competitive position, which also retains jobs.

Representatives of American Axle and Manufacturing, Inc. 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, or by January 29, 2007.

RECOMMENDATION:

Approve the request by American Axle and Manufacturing, 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 employment by American Axle and Manufacturing, Inc. 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 January 10, 2007
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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