



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

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Legislative File No: 2006-0960 V2

TO: Mayor and City Council Members

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

DATE: January 8, 2007

SUBJECT: Request for an Industrial Facilities Exemption Certificate by Tesla Motors for Personal Property Only

REQUEST:

Tesla Motors Inc. is requesting that City Council approve an Industrial Facilities Exemption Certificate (IFT) for personal property only, at 1840 Enterprise Dr. for a period of 3 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, BMD Group for real property only (four years remain) and Bernal, Inc. for personal property only (eight years remain). Two additional abatements have been approved and are under review by the State Tax Commission. Avon Gear Co. was approved for personal property (eight years) and Energy Conversion Devices for real and personal property (eight years), both in 2006. At this time, American Axle is still in the approval process for a requested eight-year abatement of personal property.

Tesla Motors Co. has applied for an IFT under terms of the City Council's Policy, for personal property only. It is proposing to lease a building for a term of three years and invest \$214,835 in new equipment, furniture and fixtures. In addition, it will be creating 50 new high-paying jobs, primarily engineering positions, over the first two years of the project. Its lease of 1840 Enterprise Dr. is contingent upon receiving a State of Michigan MEGA Tax Credit and the tax abatement from Rochester Hills, as well as other local incentives. It also is considering locating its facility in other states, including Arizona, California, where Tesla Motors is headquartered, North Carolina and South Carolina.

Tesla Motors is the developer of an all-electric automobile that runs on lithium-ion batteries. Its first prototype is a roadster that was developed in England in conjunction with Lotus. Tesla is opening its new facility to develop a sedan version of this vehicle. The facility will serve as a technical center where the primary activity will be engineering. The State of Michigan is very interested in promoting Tesla and its product and also is seeking to lure a Tesla manufacturing plant to the state.

The MEGA Tax Credit legislation, PA 24 of 1995, as amended, requires a local match in the community in which the project is targeted. Communities typically provide tax abatements and/or public infrastructure improvements as a local match. The Michigan Economic Development Corp., which processes MEGA applications, strongly prefers tax abatements. In this project, no local infrastructure improvement could be identified. The City's match consists of the tax abatement, waived abatement application fee, Automation Alley membership for two years, holding a job fair, and free night stays at Cider Mill Village on a short-term reservation basis. The Automation Alley membership is a donation, as is the free night stays at Cider Mill Village. The job fair is estimated to cost \$2,500, but much of the expense is in-kind contribution of staff time from the Michigan Career Center in Troy, as well as City staff. Communities often provide creative packages such as this one when the tax abatement or local infrastructure requirement is not sufficient in value.

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 a three-year abatement. It is attached for your review. In summary, it indicates that the investment will generate \$6,786 in new taxes for all taxing authorities combined **without the abatement** over three years. The City portion of new taxes is \$1,462. 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 \$3,393 in new taxes for all jurisdictions, excluding the SET. The City portion of new taxes would be \$731.

The building is not eligible for abatement for this project and is currently generating property taxes.

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 minimum investment required under the Policy is \$500,000. Therefore, Tesla does not meet one of the conditions for abatement. The Committee, however, believes that the abatement should be considered because it would serve as a local match for the State's MEGA and because the wages of the 50 positions that are being created by Tesla will average over \$80,000 per year. The spin-off of additional jobs in the region and spending by these employees in the local economy will far exceed the value of the abated taxes.

In addition, Tesla Motors Co.'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 and creates 50 high-paying jobs, 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** –The abatement will show the community's support of Tesla Motors as it contemplates its future expansion and the development or lease of a manufacturing facility.

Tesla Motors Co.'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 would not occur but for the abatement

6. The applicant is an equal opportunity employer
7. The new investment promotes community health and safety by virtue of the development of an environmentally friendly automobile
8. The prospects for long-term growth are present – the company is considering locating a manufacturing plant in the United States, and possibly Michigan
9. There is no current pending litigation against the City by the applicant or its agent

In summation, Tesla Motors Co.'s proposed investment of nearly \$215,000 in a new technical center is an important and strategic project that will bring 50 new jobs to the community along with a lot of positive publicity.

Representatives of Tesla Motors Co. will make a presentation regarding its request at Council's Workshop meeting of January 17, 2007. Public Act 198, of 1974, as amended, requires that a decision be rendered within 60 days of receipt of the application. Typically, the MEGA Board requires that the abatement be approved prior to its action on a MEGA application. Due to specifics of the MEGA package, it becomes necessary for the MEGA Board to vote prior to City Council's action. The MEGA Board is expected to approve the MEGA on Thursday, January 18. However, it has requested that City Council conclude its deliberations and vote on the Tesla abatement by the end of January of 2007.

RECOMMENDATION:

Approve the request by Tesla Motors Co., for an Industrial Facilities Exemption Certificate for **personal property only** for a period of three years based on the following reasons:

1. The IFT will generate new taxes to the taxing authorities, including Rochester Hills
2. The IFT will create new employment by Tesla Motors Co. in its Rochester Hills technical center
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 24, 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
7. The project serves as a required match under PA 24 of 1995, as amended, otherwise known as the MEGA Act.

RESOLUTION

NEXT AGENDA ITEM

RETURN TO AGENDA

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

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