



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

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**Legislative File No: 2008-0499**

**TO:** Mayor and City Council Members

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

**DATE:** October 20, 2008

**SUBJECT:** Request for Tax Exemption Under Public Act 376 of 1996, Tool & Die Recovery Zone, by Urgent Plastic Services

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**REQUEST:**

Urgent Plastic Services is requesting an authorizing letter of support from the City of Rochester Hills consenting to the establishment of a Recovery Zone, under Public Act 376 of 1996, Section 125.2688d, the Renaissance Zone Act, for its parcel at 2777 Product Dr.

**BACKGROUND:**

Urgent Plastic Services (UPS) has been operating at 2777 Product Dr. since 1995 and in Rochester Hills for a total of 15 years. UPS is one of three family-owned businesses located in Rochester Hills in the TAN Industrial Park. The others are 3 Dimensional Services and Quasar Industries. UPS serves a variety of industries, but 50 percent of its business is in automotive. It employs 66 people in its facility, and the average wages are \$25-\$27 for its skilled workers and \$25-\$17 for non-skilled. It filed a formal request for a resolution of support from the Rochester Hills City Council on September 4<sup>th</sup> 2008. UPS is requesting that City Council consent to the establishment of a Recovery Zone for its parcel of property at 2777 Product Dr. for a period of ten (10) years. All real and personal property taxes in a Recovery Zone are foregone by taxing jurisdictions with the exception of debt and library mills, and the local municipality makes the determination on behalf of all others.

The legislature drafted an amendment to Public Act 376 of 1996, which was passed in 2004 and further amended in 2005, creating Tool and Die Renaissance Recovery Zones (“recovery zone”). The program seeks to provide incentives to support up to 25 collaborative organizations consisting of tool and die companies, trade associations and service providers. The principal purpose of the program is to support and strengthen tool and die companies located in the State of Michigan against global competition. Unlike traditional economic development programs, a recovery zone is not a defined area. The Michigan Economic Development Corporation (MEDC) approves recovery zones after one or more tool and die companies form a collaborative organization, sign a qualifying collaborative agreement and submit a detailed application. An important condition in the application process is that companies receive an authorizing resolution of support from their local municipality consenting to the establishment of a Recovery Zone. In the resolution, the municipality agrees to forego existing and future tax obligations, both real and personal, from one to 15 years, subject to the approval of the consortium by the MEDC. There is no formal application process, and public hearings are not required. Companies make their request for a resolution of support in writing.

The MEDC established 23 Tool & Die Recovery Zones from 2004 through 2007. The MEDC may establish one additional recovery zone in 2008. To qualify, companies must not have more than 75 employees and fall under one of four codes under the North American industrial classification system. Further, a recovery zone shall have duration of renaissance zone status for a period not to exceed 15 years. Companies may also join existing consortiums, but there is a cap of 20 members per consortium.

There are many benefits for a company that is part of a recovery zone. A collaborative provides significant benefits to its members, allowing companies to work together to attract business and fulfill contracts. Companies receive a tax credit against the Michigan Business Tax for business activity attributable to the recovery zone. Companies that have received resolutions from their local municipality do not pay real or personal property taxes for a period of 1-15 years. Taxes for debt obligations, however, cannot be exempted. In addition, local schools, intermediate school districts, community colleges and public library exempted taxes are reimbursed by the State Department of Treasury. Only County and municipal taxes are not reimbursed. Further, the company is not required to create jobs or invest new dollars in equipment or facilities. The tax exemption phases out over the final three years in 25% increments.

The goal of the program is to strengthen participating companies so that when they emerge, they are better able to compete globally. The Rochester Hills City Council has approved to exemptions under this program, one for Maple Mold Technologies (2007) and Avon Broach (2006). Both of these companies have reported significant improvement in their businesses as a result of the tax exemption and association with a collaborative.

UPS is requesting a ten-year tax exemption from the City of Rochester Hills. It is joining the United Tooling Collaborative, which was previously approved by the Michigan Economic Development Corp.

Representatives from UPS wish to make a presentation at the Council's Regular Meeting of October 27, 2008.

UPS has provided a summary of its tax obligation to show how the exemption would apply to all taxing jurisdictions.

**RECOMMENDATION:**

None.

**Arguments for:**

1. The maximum number of zones allowed by law could be established by the end of this year, eliminating the possibility that another Rochester Hills tool and die company could apply for a new zone; however, there is still a possibility that a company could request to join an existing collaborative that has not achieved its maximum membership
2. UPS has not received a tax abatement or any other form of local municipal support in its history
3. The State Senate and House of Representatives established this program as a means to support the efforts of tool and die companies to compete in an increasingly competitive environment
4. The program provides tax credits and tax exemptions as a means to reduce costs, providing companies with more working capital and improving their competitive position
5. At the end of the exemption period, the company should be stronger and more able to compete
6. UPS has been located in Rochester Hills for 15 years, owns its building, and has gainfully employed as many as 66 workers who contribute to the local economy
7. All jurisdictions except the City and Oakland County are reimbursed by the State Department of Treasury for exempted taxes; the public library mills also are reimbursed

8. The State is exempting the company's full tax liability resulting in an incentive package that includes State, County and local support
9. The MEDC has established an annual renewal mechanism that insures that the company is meeting its obligations – if it is not, it loses the zone designation and the exemption
10. There is growing evidence that companies that participate in the program are becoming more competitive

**Arguments Against:**

1. Based on the company's tax analysis, the exemption will reduce tax collections of city mills by an estimated \$49,435 and county mills by an estimated \$23,664 over the ten-year period.
2. There is a possibility that the Legislature could amend the law in the future to add additional Recovery Zones, although it does not appear likely that they would do so
3. Unlike some incentive programs, the Tool & Die Recovery Zone does not require the company to create or retain jobs
4. Public Act 376 of 1996 prohibits communities from establishing PILOT or payment-in-lieu-of-taxes agreements with companies seeking the exemption
5. The exemption does not guarantee that UPS will become a stronger company, nor does its participation in the collaborative
6. There is an assumed negative impact to tool and die companies that are not participants in a Recovery Zone and collaborative, i.e. non-participants do not receive tax exemptions

**RESOLUTION**

**NEXT AGENDA ITEM**

**RETURN TO AGENDA**

<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>		