



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

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Legislative File No: 2008-0294 V2

TO: Mayor and City Council Members

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

DATE: June 12, 2008

SUBJECT: Request for an Industrial Facilities Exemption Certificate by Rayconnect, Inc. for Real and Personal Property

REQUEST:

Rayconnect, Inc. is requesting that City Council approve an Industrial Facilities Exemption Certificate (IFT) for real and personal property, to be located at 2559 Devondale Street, further identified as Parcel Number 15-29-452-028, and on vacant land further identified as 15-29-452-027 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.

Rayconnect, Inc. is a wholly owned subsidiary of A. Raymond, also located in Rochester Hills. A. Raymond has been located in the city since 1987 when it acquired 50% interest in Molmec, which was located at 3091 Research Dr. in Rochester Hills. A. Raymond later spun-off its quick-connect business and formed Rayconnect in 2005. Rayconnect is located at a leased facility at 3011 Research Dr.

Rayconnect's plastic fluid-routing products serve the automotive and other industries. The market for its products was developed in 2001, when it generated sales for A. Raymond of \$500,000. It has grown to sales of \$20-million in 2007.

City, state and Oakland County officials have been working with Rayconnect on its proposed project since early 2006. The company evaluated a dozen sites in North and South Carolina, as well as three sites in Rochester Hills and one in the city of Troy. Eventually, Rayconnect narrowed its search to Rochester Hills and sites in Gaston, North Carolina, and Laurens, Spartanburg and Anderson counties in South Carolina. Rayconnect's cost model showed a significant gap of \$6-million in lower costs to complete the project in the Carolinas. The costs evaluated were extensive, including taxes, wages, worker compensation rates, utilities, land and materials, construction and state, county and local incentives.

The project includes the construction of a 64,800-square-foot building with an investment of \$9,183,600 to serve as the company's headquarters, product development, manufacturing and warehousing operation. In addition, it will be investing \$5,351,000 in furniture and fixtures, and new equipment within two years of project completion. Additional investment in personal property also has been anticipated beyond 2010. Further, the company is anticipating a future expansion of the building up to a total footprint of 120,000 square feet. The project will result in the retention of 60 Rayconnect employees and 88 A. Raymond employees that would have relocated to South or North Carolina. The company also will create 37 new jobs within two years of project completion.

Rayconnect 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 June 17, 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 a 12-year abatement of real and eligible personal property.

In summary, the analysis indicates that the investment will generate \$1,658,872 in new real property taxes and \$260,595 in new personal property taxes for all taxing authorities combined **without the abatement** over 12 years. The City portion of new taxes combined is \$475,046. 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 \$861,960 in combined new real and personal property taxes for all jurisdictions, excluding the SET. The City portion of new taxes would be \$237,523 over the eight-year period.

It's important to point out, however, that the project is located in the LDFA District. Consequently, all City taxes, excluding the debt mills, are transferred to the LDFA to fund its projects. Additionally, the tax levies of Oakland County and Oakland Community College also are captured and transferred to the LDFA. Further, this project also will retain current personal property taxes generated by existing equipment at Rayconnect that would be lost if the company relocated.

The "Captured Taxes Analysis" indicates the impact to the LDFA of the combination of new taxes and retained taxes. It indicates that the LDFA will see a tax benefit of \$711,803 over the 12-year abatement period. This Analysis also indicates that the City's debt mills will generate \$14,204 in combined new taxes. The Analysis also evaluates the impact to the SmartZone capture, which includes 50% of the taxes levied by the State Education Tax, Avondale School District's Operating mills, as well as those of the Intermediate School District. The SmartZone will receive up to \$261,467 from new and personal property taxes, which will be available to fund OU INCubator or other projects in the SmartZone Development and Financing Plan. However, a portion of the SmartZone capture may not occur due to the exemption of personal property taxes for school levies under the new Michigan Business Tax. SmartZones may be reimbursed by the Department of Treasury for lost personal property taxes under a recently passed law; but it is uncertain at this time whether the Rochester Hills SmartZone will qualify. Notwithstanding this issue, the combined impact to the LDFA and SmartZone, as well as the General Fund of the City for new real and personal property taxes, as well as retained personal property taxes, as a result of the project is estimated to be more than \$987,000 over the 12-year abatement 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, Rayconnect'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 37 new jobs to the City within two years.
3. **To assist in the rehabilitation of older facilities and/or expansions of existing industrial or high technology facilities** – This project will result in the construction of a 64,800-square-foot building and investment in new personal property, together totaling \$14.5-million, and will be located in the LDFA District.

Rayconnect'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 – Rayconnect also is considering sites in North and South Carolina, 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 – Rayconnect has the potential to nearly double the size of the proposed building and plans additional personal property investment over the next ten years
8. There is no current pending litigation against the City by the applicant or its agent

In summation, Rayconnect is poised to grow its presence in the United States and Michigan. It has demonstrated a growing market for its products, resulting in a need for a larger facility. Its proposed investment of \$14.5-million in real and personal property is clearly an important and strategic purchase, which retains valuable jobs and creates new employment in Rochester Hills.

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

RECOMMENDATION:

Approve the tax abatement request of Rayconnect for a period of 12 years after completion of the building's construction.

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 retains and creates new employment and increases the tax base of the community
 3. It provides a required local match for a state MEGA Grant
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RESOLUTION

NEXT AGENDA ITEM

RETURN TO AGENDA

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