

**Rochester Hills**

**City Council**

# **Tax Abatement Policy**

October 6, 2008

**GENERAL CONSIDERATIONS OF P.A. 198, OF 1976, AS AMENDED**

The City policy on the use of tax abatement has been to selectively use this incentive as a retention tool for existing Rochester Hills businesses that need to expand, or for the renovation and/or rehabilitation of dilapidated or deteriorating facilities.

The maximum permissible length of tax abatement is two years during construction and 12 years after project completion. The Rochester Hills policy is based on a matrix, "Exhibit C and D", which equates the length of abatement with (a) the new investment and (b) the number of new employees added and/or retained, to consider each application consistently.

As a result of Proposal A in 1994, the millage rates the City may consider under Act 198 excludes the State Education Tax. It also is important to remember that tax abatement does not relieve the property of all taxes. On plants being replaced or restored, the assessed value of the plant is "frozen" at the level of the obsolete facility prior to improvement, and the company continues to pay taxes at that rate; but the value of the improvement receives a 100% exemption from the property tax. For a new facility, the tax is treated similarly to the property tax, but only half the millage rate is applied, which results in a 50% reduction in property taxes on the new construction and/or equipment. In each instance, the land is not included in the abatement and, therefore, is taxed at 100%.

**POLICY CONSIDERATIONS  
CITY OF ROCHESTER HILLS, MICHIGAN**

While a need exists to improve industrial properties in the City of Rochester Hills, a need also exists to maintain an adequate tax base and to minimize, or prevent, the shifting of the "tax burden" from industrial/high-tech properties to the City's residential properties.

As a means of accomplishing both the improvement of industrial/high-tech property and the maintenance of an adequate tax base, an application for an Industrial Exemption Certificate (the "Certificate") will be reviewed on its merits with respect to the degree to which it will assist in achieving the defined goals of the City of Rochester Hills; that is, to both serve the residents of the City and act as an inducement for these goals. Only in those cases where substantial benefit occurs to the City will a Certificate be considered. All procedures, rights and obligations concerning such exemptions are subject to the Plant Rehabilitation and Industrial Development Districts Act, P.A. 198 of 1974, as amended.

1. GOALS

Plant Rehabilitation and Industrial Development Districts may be established for the following reasons:

- A. To reduce property taxes as an obstacle to development of problem parcels of industrial real estate;
- B. To reduce property taxes as an inducement for the conversion of warehousing or distribution space to high-technology or office space;
- C. To encourage development that will increase the economic vitality of the industrial and high-technology districts;
- D. To create and retain employment from existing eligible facilities that might, otherwise, leave the City;
- E. To assist in the rehabilitation of older facilities and/or expansions of existing industrial or high-technology facilities;
- F. To enhance the general attractiveness of the community;
- G. To attract companies and facilities engaged in advanced manufacturing; advanced computing or other computer-related industries; life sciences or biotechnology; nanotechnology; alternative energy; or any high-technology activity that qualifies under Public Act 144, of 2000.

2. ELIGIBLE FACILITIES

Industrial plants eligible for tax benefits under Act 198 are those that primarily manufacture, or process, goods or materials by physical change. Related facilities of Michigan manufacturers such as, offices; engineering; research and development; warehousing; or parts distribution also are eligible for exemption.

Additionally, facilities associated with high-technology activity are eligible. High-technology activity is defined in Public Act 144, as approved by the Legislature for the State of Michigan in year 2000, and includes advanced computing, advanced materials, biotechnology, electronic device technology, engineering or laboratory testing, medical device technology, product research and development, advanced vehicle technology or technology that assists in the assessment and prevention of threats or damage to human health or the environment, such as environmental cleanup technology, pollution prevention technology or development of alternative energy sources.

The abatement applies to buildings; building improvements; machinery; equipment; furniture; and fixtures. Real property and personal property are eligible, whether owned or leased (provided the lessee is liable for payment of taxes on the property).

The abatement covers only the specific project, which is the subject of the application for a Certificate. Existing buildings or equipment existing prior to construction of a "new facility," are not exempt. If the property is for "rehabilitation," the value of any pre-existing, obsolete property is exempt from ad valorem taxes, but will be used as the base for the Industrial Facility Tax. Similarly, any structures or equipment added subsequent to the completion of the project, are fully taxable.

Land is specifically excluded from the benefits of the Act and is fully taxable.

### 3. INDUSTRIAL FACILITY TAX

#### Rehabilitation Facility

For an obsolete plant that is being replaced or restored, the Industrial Facilities Tax is determined similar to an ad valorem property tax, except the assessed value of the plant is "frozen" at the level of the obsolete facility prior to the improvement. This results in a 100% exemption from the property tax on the value of the improvement, as per PA 198, Section 14 (1).

#### New Facility

For a new plant, the Industrial Facilities Exemption Tax also is determined similar to the property tax, but only one-half the millage rate (with the exception of the State Education Tax) is applied. This amounts to a 50% reduction in property taxes on new construction, facility renovations or expansions that do not qualify as "Obsolete Facility" improvements and/or new machinery and equipment.

Within 60 days of the City granting a Certificate, the State Treasurer may exclude one-half, or all, of the number of mills levied under the State Education Tax Act, from the specific tax calculation on the facility, if it is determined that reducing

the number of mills used to calculate the specific tax is necessary to reduce unemployment, promote economic growth and increase capital investment in the state.

Speculative Facility

A speculative facility is treated in the same manner as a new facility for purposes of determining the Industrial Facilities Exemption Tax. A speculative facility must be established as such by resolution of the City Council. Additionally, the facility must have been constructed before the establishment of an identified user; it must not have been occupied prior to Council’s resolution; and it must have been constructed less than nine (9) years before the filing of the exemption certificate. If all conditions are met, the facility and improvements can be abated.

Tax Rates

The tax rates for various jurisdictions vary from year-to-year, but for illustrative purposes, tax rates for 2015 are identified below:

<u>Rochester Community School District</u>	<u>Millage Rate</u>
City of Rochester Hills	10.4605
Rochester Community Schools	24.2000
Combined Oakland County	8.2083
Oakland Community College	1.5819
State Education Tax	<u>6.0000</u>
	50.4507 Total Mills

<u>Avondale School District</u>	<u>Millage Rate</u>
City of Rochester Hills	10.4605
Avondale School District	25.9000
Combined Oakland County	8.2083
Oakland Community College	1.5819
State Education Tax	<u>6.0000</u>
	52.1507 Total Mills

Effective Date

A Certificate shall become effective on December 31 following the issuance of the Certificate. The maximum period that a Certificate may be in effect is 12 years after the completion of the facility. Additionally, PA 198 allows up to two years of abatement during the construction process. The date of issuance of a certificate of occupancy shall be the date of completion of the facility. The future replacement of new equipment, fixtures, furnishings or additional leasehold improvements after the completion of the initial facility cannot be abated.

In the case of companies leasing facilities and not responsible for property taxes, exemptions only of personal property can be approved, but the length of the abatement shall not exceed the length of the lease term or eight (8) years, whichever is less.

City Council may revoke the Certificate if it is determined that completion of the facility has not occurred within two years after the effective date of the Certificate; or a greater time as authorized by the City Council for good cause; or if the holder of the Certificate has not proceeded in good faith in a manner consistent with the purposes of the Plant Rehabilitation and Industrial Development Districts Act in the absence of circumstances beyond the control of the holder.

4. AGREEMENT

An Industrial Facilities Exemption Certificate shall not be approved and issued unless a written agreement is entered into between the City of Rochester Hills and the owner of the industrial facility and filed with the Michigan State Department of Treasury. A sample copy of an agreement is attached to this policy statement.

5. APPLICATION PROCESS

Granting Industrial Facilities Exemption Certificates involves the City of Rochester Hills and the State of Michigan. The City prefers receiving requests for the establishment of a district simultaneously and in conjunction with an application for a Certificate, and reserves the right to approve both requests simultaneously or individually.

A. Establish Industrial Development District or Plant Rehabilitation District

Either the City Council or owners of 75% of the taxable value of the industrial property located within the proposed district may initiate action to establish an Industrial Development District or a Plant Rehabilitation District. A request for establishment of such a District must be filed with the City Clerk prior to commencement of the construction, alteration, or installation of equipment.

Written notice, by certified mail, of the proposed District must be provided to the owner of all real property within the proposed District prior to a public hearing.

B. Request for Industrial Facilities Exemption Certificate

Upon receipt of an application for a Certificate made to the City Clerk on forms provided by the State Tax Commission, notices will be given to

each taxing jurisdiction that levies ad valorem property taxes and shall afford the various taxing units an opportunity for a hearing.

Applications for exemption of real or personal property in an existing Industrial Development District are ineligible if the improvements occurred and/or property was installed or otherwise fully operational within the facility more than six months prior to the City's receipt of application.

C. Submittal to State

If the application for a Certificate is approved, the City Clerk shall forward the application to the State Tax Commission and the Michigan Economic Development Corporation for review and approval. The State Tax Commission grants the final approval and issues the exemption certificate.

D. Application Fee

A non-refundable fee of \$500 must accompany the request to create a Plant Rehabilitation District or an Industrial Development District.

A non-refundable filing fee of \$500 must accompany the application for an Exemption Certificate.

6. ANNUAL ASSESSMENT PROCESS

All recipients of a Certificate must abide by the following requirements:

- A. The taxpayer must file a timely annual Personal Property Statement on a form approved by the Michigan State Tax Commission;
- B. Assessment based upon the recognized professional/scientific methodology for the appraisal of real and personal property for tax purposes, and is recommended and supported by the State Tax Commission manual

7. GENERAL GUIDELINES FOR TAX ABATEMENT

The City Council reserves the right to exercise its discretion in review of the tax abatement guidelines in any individual case. The City Council reserves the right to modify the tax abatement guidelines to reflect changing objectives, priorities or conditions.

Criteria used in reviewing applications include, but are not limited to:

- A. Compliance with the Rochester Hills Zoning Ordinance and Master Plan
- B. There must be no outstanding taxes owed by the applicant or on the project
- C. Submission of site plans and elevations for the project, if applicable
- D. The project is a redevelopment, rehabilitation project or a new development vital to the future of the City
- E. Permanent jobs will be created and/or retained as a result of the project
- F. The project was not started before application for abatement was received by the City of Rochester Hills unless it is located in a qualifying Industrial Development District, in which case the project must not have started more than six months prior to date of application
- G. There is a demonstrated need for tax abatement assistance
- H. The prospects for long-term growth are present
- I. There is no pending or current litigation against the City by the applicant or its agent
- J. The abatement provides a required local match for a state or county incentive program
- K. The new investment will promote community health, safety and welfare

For applications for real and personal property abatements, the investment amount shall be considered separately. The Tax Exemption Chart (Exhibit C) will be used for real property investments to determine the number of years that the project is eligible for. The Smart Investment Chart (Exhibit D) will be used for personal property investments to determine the number of years that the project is eligible for.

For projects that City Council deems provide high economic value to the community, the cap on personal property abatements at eight years may be waived. In this case, Council *may* also choose to combine all investment into a total and use the Tax Exemption Chart to determine the number of years of eligibility for a project.

8. TAX EXEMPTION CHART

The City utilizes a Tax Exemption Chart – (Exhibit C) to evaluate eligibility of applications for real property investment. The Chart evaluates real property investment with jobs created and/or retained to determine the number of years that a company is eligible for. In situations where jobs are being retained and new jobs created, the total of both is used for employment.

9. SMART INVESTMENT CHART

The City utilizes a Smart Investment Chart – (Exhibit D) to evaluate the eligibility of applications for personal property investment. The Chart evaluates the personal property investment with jobs created and/or retained to determine the



number of years that a company is eligible for. In situations where jobs are being retained and new jobs created, the total of both is used for employment.

### **POLICY STATEMENT**

*The Rochester Hills City Council has determined that tax abatement under PA 198, of 1974, as amended, is an important tool that attracts new tax base to the community, retains and creates valuable employment opportunities for residents, supports the local economy and creates sustainable development. City Council believes that:*

- A. Retention of companies and their employees is important; that a retained job should be valued as much as a new job.
- B. Reinvestment in new equipment and technology can strengthen the ability of a company to compete in a global marketplace and is worthy of its support.
- C. Sustainable development creates a balanced and marketable portfolio of properties and, therefore, rehabilitation of older facilities should be encouraged.
- D. A strong local economy provides stability, enhances property values and provides employment opportunities for residents.

### **RESTRICTIONS**

The City Council places no restrictions on the length of real property abatements, but restricts personal property abatements to no more than eight (8) years. Applications are reviewed and evaluated based on eligibility under PA 198, of 1974, as amended, and the goals and objectives of its Tax Abatement Policy. A Tax Exemption Chart (Exhibit C) is used to determine the number of years for which a company may be eligible for real property abatements and Smart Investment Chart (Exhibit D) for personal property abatements. Factors that are considered include the total of real or personal property investment and total number of jobs retained and/or created.

## **PROCESS**

An Industrial Development District (IDD) must exist before an application requesting an Industrial Facilities Exemption Certificate can be processed. The City Council will consider the establishment of an IDD and application jointly. The process includes two public meetings of City Council.

## **FEEES**

The City charges a \$500 fee to process a request for an IDD and a \$500 fee to process an application for an Industrial Facilities Exemption Certificate. The fees are non-refundable.

## **DEVELOPMENT AGREEMENT**

An agreement between the petitioner and City is mandatory and a requirement of PA 198, of 1974, as amended. The Agreement provides for terms under which the abatement is granted and penalties for companies that do not abide by its terms, or leave the community prior to the completion of the abatement period.

## **ANNUAL REPORT**

Companies that receive abatements must file an annual report with the City Council as a method of monitoring performance under the terms of the Development Agreement.