



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

**1000 Rochester Hills Dr.  
Rochester Hills, MI 48309  
248.656.4630  
[www.rochesterhills.org](http://www.rochesterhills.org)**

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**Legislative File No: 2010-0401 V4**

**TO:** Mayor and City Council Members

**FROM:** Ed Anzek, Planning & Development Director, ext. 2577

**DATE:** October 28, 2010

**SUBJECT:** Economic Development Corporation Project Plan for Vehma International of America, Inc.

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**REQUEST:**

To approve the Rochester Hills Economic Development Corporation's Project Plan for Vehma International of America, Inc.

**BACKGROUND:**

Vehma International of America, Inc. ("Vehma") is proposing to lease a facility to be constructed and owned by the Rochester Hills Economic Development Corp. (the "EDC"). The facility is proposed to be constructed on 15.64 acres of city-owned property on Hamlin Road, just east of Crooks Road. The proposed facility will consist of 160,000 to 180,000 square feet, including approximately 87,000 square feet of office space. Vehma, a subsidiary of Cosma International, a division of Magna International, will occupy the facility. It will serve as Vehma's headquarters and will additionally be used for research & development and production. Vehma proposes to consolidate five operations in the Troy area into the facility, including the transfer of 285 existing workers. In addition, Vehma proposes to create 50 new jobs over the next five years.

In its Project Plan, the EDC is proposing to issue tax exempt Recovery Zone Facility Bonds to fund the development and construction of the building; however, Vehma is proposing to separately purchase and install its own furniture and equipment. The bonds will be underwritten by Fifth Third Bank over a 15 year term; however, a final term sheet has not been completed yet, so the interest rate is undetermined. Vehma has agreed to lease the facility for 15 years with two five-year extensions. The lease payments will be equal to principal and interest on the bonds, and a small annual administrative fee. Additionally, Cosma International has agreed to provide a written guarantee of the lease; and it is anticipated that it will provide a letter of credit as a requirement of the bank.

It's important to point out that bonds issued by the EDC do not expose the City to risk. The City is not responsible for repayment of these bonds, even if the lease is voided in a bankruptcy proceeding. Further, the City's credit rating is not impacted in any way by the issuance of EDC bonds. All of the risk for this project is born by Vehma/Cosma and the investors that purchase the bonds. The facility and the land, however, will be subordinated to the bonds by the bank.

Since the EDC will own the building, it also must own the land. Consequently, the City is proposing to deed the entire 15.64 acres to the EDC. In exchange, the EDC and City will enter into a land contract whereby the EDC will agree to pay \$4 million for the land, plus 3% annual compounded interest

calculated from the date of conveyance. Because IRS rules prohibit the EDC from profiting from tax exempt bonds that it issues, payments will not begin until the 16<sup>th</sup> year. At that point, however, the EDC will own the building outright and will no longer be restricted by IRS rules. "Profit" includes anything above the Principal and Interest of the bond debt.

As previously stated, both the bond payments and the initial lease term expire at the end of the 15<sup>th</sup> year. At that point, the EDC has multiple options:

1. It can sell the building and repay the city for the land plus interest.
2. It can renew the lease with Vehma at a negotiated market-based rental rate.
3. If Vehma chooses to leave the facility, it can lease the building to another company.

All revenue generated above the land contract payments to the City are collected by the EDC and can be used to further the Board and City's economic development mission. These monies or some portion can also be presented to the City for the City's use as needed. Further, a typical industrial building has a 30-35 year life span, so it is anticipated that this facility will continue to be marketable beyond Vehma's initial lease term.

Vehma is seeking state incentives for this project, specifically MEGA tax credits. The MEGA Board is expected to approve the incentives at its meeting on November 16, 2010. As Council is aware, MEGA projects require a local match and typically that match is tax abatement of new real and/or personal property. Based on City Council's Tax Abatement Policy, this project would normally be eligible for a full abatement of 12 years on real property and eight years for personal property. Administration, however, plans to recommend to Council that it consider an eight year abatement of real property and five year abatement of personal property. The company has agreed to these terms. The abatement application will go before City Council in early 2011.

The Economic Development staff has conducted several analyses to determine future taxes that will be generated from the Vehma project, factoring in abatement over the terms stated above. Because the project is occurring in the LDFA District and is in the capture area, it will collect a significant portion of taxes derived from this project. Specifically, the LDFA will collect taxes from the following jurisdictions:

#### LDFA Plan

1. City – all taxes including debt mills
2. Oakland County – all taxes including Zoo millage, but excluding Intermediate School District
3. Oakland Community College – all taxes

#### SmartZone Plan

1. Rochester Community Schools – 50% of tax collected
2. Intermediate School District – 50% of tax collected
3. State Education Tax – 50% of tax collected

The portion of taxes collected from the school district, ISD and SET are all reimbursed to these jurisdictions from the State Education Fund so that they are made whole. Further, the taxes collected to fund the SmartZone Plan presently are distributed to Oakland University to fund OU INCubator's bricks and mortar and personnel.

The LDFA is expected to benefit significantly from this project due to the fact that it can collect the majority of the taxes generated. The LDFA Plan will use these and other funds to provide improvements to public infrastructure that serves technology and manufacturing companies located in the District or assists the City's economic development effort.

Based on the analyses, the LDFA will generate an estimated \$1.9-million and the SmartZone \$1.7-million in revenue during the first 15 years of the project.

**RECOMMENDATION:**

Approve the Economic Development Corporation's Project Plan for Vehma International of America, Inc.

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**RESOLUTION**

**NEXT AGENDA ITEM**

**RETURN TO AGENDA**

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<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>		