



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

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Legislative File No: 2010-0495 V2

TO: Mayor and City Council Members
FROM: Ed Anzek, Planning & Economic Development Department, ext. 2572
DATE: December 2, 2010
SUBJECT: Request for Industrial Facilities Exemption Certificate by Otto Bock

REQUEST:

To Approve the request for an Industrial Facilities Exemption Certificate by Otto Bock for a period of five (5) years.

BACKGROUND:

The City received an application for Industrial Facilities Exemption Certificate from Otto Bock Polyurethane Technologies Inc. (Otto Bock) on November 4, 2010 for a facility it intends to lease located at 2923 Technology Dr. This request is in conjunction with an application for MEGA tax credits that the MEGA Board will be acting upon on December 14, 2010. The abatement, if approved, would serve as the required local match for the MEGA.

In its application, Otto Bock is seeking 5-year abatement for a \$732,000 investment in building improvements and \$3,129,000 investment in manufacturing equipment, for a total investment of \$3,861,000. In addition, it will be creating 39 new jobs in the first two years of the project and up to 100 over the five-year lease term.

Otto Bock has supplied polyurethane chemical blends to the North American Automotive Industry for more than 20 years, and intends to use its own chemical knowledge to produce molded Polyurethane parts for underhood NVH (Noise Vibration & Harness) applications in the automotive industry in the NAFTA region. Such parts are based on a new and unique chemistry and can reduce the noise in the engine compartment. This chemistry and the parts are required because the automotive industry is introducing new engine technologies in order to reduce the fuel consumption of the cars and trucks. The first part production is scheduled to start as early as the 2nd quarter of 2011.

Current plans are to conduct a thorough update of the office area, including constructing individual office spaces, build a new laboratory in the shop space, update the heating and ventilation and install numerous machines to mold polyurethane NVH parts.

There is an existing Industrial Facilities Exemption Certificate (IFT) for real property on the building, transferred to Thyssen Krupp in 2008 from the original applicant, Energy Conversion Devices. The certificate covers only the office portion of the building, which is about 10% of the total space. When Thyssen Krupp decided to consolidate some of its metro Detroit operations earlier this year, it sought to find a company to sublease its space at 2923 Technology Dr. and transfer the existing IFT. It remained in the building until just recently when it became aware that Otto Bock was applying for a MEGA and planned to lease the building long-term rather than sublease. The building owner has agreed to tear up

the Thyssen Krupp lease and sign a long-term lease agreement with Otto Bock. Further, Otto Bock's building improvements include an extensive reconstruction of the office area for which the existing IFT currently covers. Given this fact, it appears that the City should request that the State Tax Commission terminate the existing IFT in lieu of a new IFT. Transferring the existing IFT, however, is still an option.

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 (see City Council Tax Abatement Policy), the applicant is eligible for *7-year abatement of real and personal property*; however, it is only requesting five years.

In summary, the analysis indicates that the investment will generate \$212,012 in new real and personal property taxes for all taxing authorities combined **without the abatement** over five years. The City portion of new taxes is \$70,346. 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, including the Intermediate School District, by **50%**. Therefore, the IFT, **if approved**, will generate \$106,006 in new real and personal property taxes for all jurisdictions. The City portion of new taxes would be \$35,173 over the 5-year period.

Otto Bock's application is consistent with the goals and objectives in the City Council's *Tax Abatement Policy* and generally meets established criteria.

Otto Bock'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 City.
2. **To create and retain employment from existing eligible facilities that might otherwise leave the City** – The project creates at least 39 new jobs within the first two years of the project and up to 100 jobs over the five year lease term.

Otto Bock's project also meets the following Policy guidelines:

1. The project is in compliance with the Rochester Hills Zoning Ordinance and Master Plan.
2. The applicant owes no outstanding taxes.
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 – Without the incentive, Otto Bock could locate in Minnesota or in another facility in Auburn Hills
6. The prospects for long-term growth are present – Otto Bock has received new contracts with major OEMs and its product provides a needed solution in the automotive industry

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

RECOMMENDATION:

Approve the tax abatement request of Otto Bock for real and personal property for a period of five (5) years.

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. The abatement is consistent with the goals and guidelines of the City Council's Tax Abatement Policy