



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

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Legislative File No: 2006-0716 V3

TO: Mayor and City Council Members

FROM: Ed Anzek, Director, Planning and Development Department, Ext. 2572

DATE: December 3, 2007

SUBJECT: Avon Gear Co. Request to Relocate Equipment Subject to Industrial Facilities Exemption Certificate #2006-567.

REQUEST:

To exercise Section 9 of the Development Agreement dated October 23, 2006 between the City of Rochester Hills and Avon Gear Co. requiring that all abated taxes be repaid plus interest for the 2007 tax year.

BACKGROUND:

In 2006, Avon Gear Co. worked with the City of Rochester Hills to locate land or an existing facility for the expansion of its operation. At the time, Avon Gear was located at 2770 Research Dr., a 60,000-square-foot building that it owned, and at a 28,000-square-foot building that it leased at 2700 Bond St. Avon Gear's continued growth required a building of at least 110,000 square feet to accommodate new equipment that it planned to purchase for its manufacturing operation.

Four options were considered:

1. Expansion of its current facility onto adjacent land owned by another company
2. Construction of a new 120,000-square-foot facility
3. Relocation of the entire operation to a 120,000-square-foot facility that it would lease or purchase
4. Lease or purchase a second building of approximately 60,000 square feet

In the later stages of its site search, Avon Gear Co. decided to apply for tax abatement for a \$7-million investment in new equipment. About \$1.5-million of the investment was expected to occur in 2007 and the balance in 2008 after the site and/or facility became available.

During the company's presentation to City Council on October 18, 2006, it was stated that the company hoped to remain in Rochester Hills, but that it was considering facilities outside of the City as well. City Council agreed to grant the abatement over an eight-year period knowing that there was a chance the company would be relocating.

Avon Gear Co. then continued with its site search. It hired a consultant to help it evaluate space needs and continued to work with the City's Manager of Economic Development. Unfortunately, at the conclusion of its site search, it made the decision to lease a facility in Shelby Township large enough to accommodate its entire operation.

The decision was based on the following factors:

1. Avon Gear was unable to secure the land next to its existing building for an expansion – the owner of the property was unwilling to sell the land
2. Construction of a new facility was too costly
3. The parent company, Okubo Gear, ultimately decided that it did not want Avon Gear's operation split between multiple buildings
4. At the time, a 120,000-square-foot facility was not available for lease or purchase in Rochester Hills other than one building on Adams Road, which is a distribution facility and not suitable for a manufacturing operation
5. The company was able to lease a building in Shelby Township of approximately the right size and received a very favorable package of incentives from the owner.

In addition, Shelby Township approved a transfer of the IFT (tax abatement). A transfer of an existing IFT, as permitted by P.A. 198 of 1976, as amended, does not require the approval of the originating community.

Avon Gear Co. and the City of Rochester Hills signed a Development Agreement shortly after the abatement was approved in 2006. Section 9 of the Agreement deals with the issue of relocation of the company and prescribes a penalty under conditions. The entire section reads:

The applicant, Avon Gear Company, agrees to remain in the City of Rochester Hills for the period of the Industrial Facilities Exemption Certificate to retain the benefits of the abated taxes, unless permission is granted by the City Council. Failure to obtain permission prior to the end of the term of the Industrial Facilities Exemption Certificate shall result in the right of the City to recapture from applicant all taxes abated plus interest at the rate of 8% per year compounded annually. The taxes and interest shall be a lien placed upon the tax rolls of the City and/or County and collected in the same manner as set forth in Paragraph 3.

The issue before City Council is whether to grant permission for Avon Gear Co. to leave Rochester Hills and/or require that it repay the abated taxes. The total of abated taxes in 2007 (all jurisdictions) for Avon Gear Co. is \$15,098. The City portion of that total is \$3,263. The total includes the Winter 2007 tax bill, which has not been paid by Avon Gear Co. as of this time, but which it is responsible to pay.

While the City Council's Tax Abatement Policy has been effective in supporting companies that need to reinvest in order to remain competitive, it's also important that the benefactors abide by their commitments. Avon Gear made a business decision to relocate outside of Rochester Hills. City Administration does not wish to penalize the company for making this decision, but must preserve the integrity of the program so that it can continue to support other Rochester Hills companies.

RECOMMENDATION:

Exercise Section 9 of the Development Agreement and require that Avon Gear Co. repay the abated taxes totaling \$15,098.07 plus an additional \$1,207.84 in interest for the 2007 tax year. If the tax is not repaid, the interest will compound annually and a lien will be placed upon the tax rolls of the City and/or County and which lien shall be treated in the same manner as delinquent taxes.

Two Resolutions have been provided for consideration. One Resolution requires the repayment of the abated taxes. The second Resolution would waive this requirement and grants Avon Gear Co. the ability to relocate the equipment subject to the IFT out of the City without penalty.

RESOLUTION

NEXT AGENDA ITEM

RETURN TO AGENDA

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

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