



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

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Legislative File No: 2010-0367 V2

TO: Mayor and City Council Members

FROM: Ed Anzek, Planning and Economic Development Director, ext. 2572

DATE: September 13, 2010

SUBJECT: KOSTAL Kontakt Syteme, Inc. Request for an Industrial Facilities Exemption Certificate

REQUEST:

To consider a request for an industrial facilities exemption certificate by KOSTAL Kontakt Systeme, Inc. for personal property to be acquired and located at 1350 W. Hamlin.

BACKGROUND:

City Administration is requesting that City Council establish a Rehabilitation District to encompass the property and building located at 1350 W. Hamlin Road. The City also received an application for an industrial facilities exemption certificate from KOSTAL Kontakt Systeme, Inc. ("KOSTAL") for the same property.

KOSTAL is proposing to move its production of connectors, junction boxes and other equipment to support its solar business, as well as the expanding hybrid and electric vehicle market, to a building on Hamlin Road. The building was formerly occupied by Tower Automotive and has been vacant for seven years. Kostal will be relocating production from Mexico and Germany to the Hamlin Road facility. It also has a facility in Troy, Michigan that will remain.

KOSTAL, in its application, is proposing to invest \$1,295,000 to improve the building and bring it up to a current standard, and an additional \$21,035,600 in new personal property and special tooling for a total investment of \$22,330,600. The company plans to create 198 jobs within two years of project completion and up to 247 jobs over a five-year period. KOSTAL is requesting 12-year abatement in support of the investment.

If the request is approved, the Rehabilitation District will result in the assessment of the real property being frozen at a taxable value of \$1,500,000 for the length of the abatement. In addition, the new personal property will be eligible for a 50% reduction in taxes during the abatement period.

City staff completed a Tax Abatement Analysis to determine the impact of the abatement. Based on the information presented and using the Smart Investment Chart (see City Council Tax Abatement Policy), the applicant is eligible for an *8-year abatement of personal property*; however, the Policy provides for abatements up to 12 years for personal property for projects that have significant economic impact. Given the number of new jobs that will be brought to the community, the amount of investment and the fact that this is an approved MEGA project, it would appear that this condition has been met. Therefore, the analysis considers a term of 12 years.

In summary, the analysis indicates that the investment will generate \$1,438,725 in new personal property taxes for all taxing authorities combined **without the abatement** over 12 years. The City portion of new taxes combined is \$590,792. 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 \$719,362 in new personal property taxes for all jurisdictions. The City portion of new taxes would be \$295,396 over the 12-year period.

If the abatement is approved over eight years, the IFT will generate \$559,920 in new personal property taxes for all jurisdictions, including \$229,924 for the City portion.

The building will continue to generate real property taxes at a frozen level for the length of the abatement, totaling \$764,162 for all jurisdictions, including \$164,259 for the City, during the length of the abatement.

KOSTAL's approval from the MEGA Board for tax credits and other incentives in support of this project is subject to approval of a Rehabilitation Industrial Facilities Exemption Certificate by City Council.

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

KOSTAL's project meets the following Policy goals:

- 1. To reduce property taxes as an obstacle to development of problem parcels of industrial real estate** – The City Assessor has stated that the building is more than 50% functionally deficient and it will be expensive to bring it up to current code and make it marketable
- 2. To assist in the rehabilitation of older facilities and/or expansions**
- 3. It encourages development that will increase the economic vitality of the industrial and high technology districts** – The project generates new revenue for the City.
- 4. 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** – the project will result in the creation of 50 new jobs in the first two years of the project and up to 274 new jobs by the end of the fifth year.

KOSTAL'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 – The incentive serves as the community's match for a state of Michigan MEGA tax credit.
6. The prospects for long-term growth are present – the company is locating in Michigan and Rochester Hills to complete contracts with its primary customer.

The company will be making a brief presentation prior to the public hearing.

RECOMMENDATION:

Approve the request for an industrial facilities exemption for a period of 12 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
4. It will result in the rehabilitation of a building that has been vacant for seven years

RESOLUTION

NEXT AGENDA ITEM

RETURN TO AGENDA

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