



CITY COUNCIL AGENDA ITEM

Date: May 10, 2012

To: Mayor and City Council

From: John Szerlag, City Manager
Mark F. Miller, Director of Economic and Community Development
Glenn Lapin, Economic Development Specialist

Subject: Tax Abatement Policy

Per the request of Councilman Dave Henderson, information regarding tax abatement policies is being provided to City Council. Attached is a copy of the City of Troy P.A. 198 Industrial Facilities Tax Exemption (Tax Abatement) Guidelines for reference.

The State of Michigan's Public Act 198 of 1974, the Industrial Facilities Tax Exemption Act, is one of the oldest and most widely used tax incentive programs in Michigan. Prompted by declining investment in industrial facilities through the 1960's, P.A. 198 was passed in an effort to help retain the State's manufacturing jobs and encourage new investment. P.A. 198 is the only locally approved Troy tax abatement program currently in place.

In addition to Public Act 198, the State of Michigan also permits localities to offer the New Personal Property Exemption, PA 328 of 1998, (MCL 211.9 f) as amended. This program, not currently offered in Troy, affords a 100% property tax exemption for specific businesses located within eligible distressed communities. This exemption is for all new personal property placed in a district that has been established by the local unit of government. The local unit of government determines the number of years granted and may grant any number of years for the exemption.

Tax abatements have generated significant debate in recent years. In a perfect world, there would be no need for tax abatement programs. Ideally, the cost of doing business would be the same across state lines, county lines and municipal jurisdictions. However, the cost of doing business varies greatly by location. If a company is seeking to invest millions of dollars in a new or renovated facility, they will seek out a location that minimizes their overall costs. Tax abatements are designed to address some of those potential cost disadvantages. Without tax abatements, companies that need to justify a business case for their locational decisions will be more inclined to look elsewhere.

The State of Michigan has enacted new policies, effective January 1, 2012, that address the overall business tax structure in Michigan. The Michigan Business Tax (MBT) has been eliminated and replaced with a simpler, more competitive corporate income tax – 6% on federal taxable income for C Corporations. In addition, the state legislature is currently considering eliminating personal property taxes. This change, depending on the final bill that gets approved, would directly impact the use of both PA 198 and PA 328.



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In Troy, PA 198 has been an effective tool in circumstances when it might mean the difference between placing an abandoned structure or site back on the tax rolls (at a reduced rate) versus keeping the site vacant and non-tax producing.

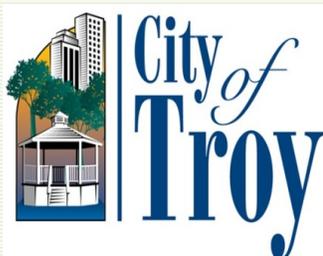
Here in Troy our most recent success has been the retention of Meritor, where Troy was selected over the State of Ohio. And, providing abatement was one of the reasons the company stayed in Troy.

In summary, tax incentives/abatements have been used extensively throughout Michigan and the U.S. to help level the playing field for business site decisions. Many companies use consultants to facilitate the tax abatement request. The P.A. 198 Industrial Facilities Tax Exemption is currently offered in Troy. Each request for abatement through P.A. 198 comes before City Council for approval or denial.

*City of Troy
Tax Abatement
Statement of
Purpose*

WHEREAS, The City of Troy has the economic objective of:

- increasing employment opportunities,
- diversifying and stabilizing the tax base of the community,
- reducing economic obsolescence,
- providing homogenous industrial areas,
- encouraging expansion,
- providing for improved public facilities,
- encouraging attractive, viable building sites and
- enhancing our economic development tools to attract and retain businesses



CITY OF TROY P.A. 198 INDUSTRIAL FACILITIES TAX EXEMPTION (TAX ABATEMENT) GUIDELINES

A company that is in the planning phase of a major business attraction or expansion project that will include a capital investment in real and/or personal property may be eligible for a P.A. 198 Industrial Facilities Tax Exemption (tax abatement). Established by the State of Michigan, P.A. 198 tax exemptions allow companies to receive approximately a 50% reduction in their anticipated new real or personal property tax liability. Troy City Council has adopted the following criteria to establish eligible applications for consideration of a real and/or personal property tax abatement.

POLICY ELIGIBILITY CRITERIA:

1. An Industrial Facilities Exemption Certificate (IFEC) tax abatement shall not be granted until there is compliance with MCL 207.559; and
2. Any real and/or personal property tax abatement at a minimum must be revenue neutral to the City of Troy.
3. Leasehold property shall not qualify for an IFEC tax abatement unless applicant is responsible for payment of the property taxes, and can demonstrate timely payment of property taxes upon the City's request; and
4. An IFEC tax abatement shall not be issued for a period or term exceeding 12 years; and
5. An IFEC tax abatement shall not be issued unless an Applicant meets two of the three criteria listed below:
 - will create more than 10 jobs
 - has a real and/or personal property investment of at least \$750,000.00
 - owns the underlying real property or has a lease for the underlying property for a minimum term of 5 years

APPLICATION PROCESS:

Once a company has determined that it meets the minimum criteria for consideration of a tax abatement, then a company may begin the process of formally applying for the IFEC. The process is as follows:

1. Letter of Intent submitted on Applicant's letterhead to the City Assessor (purchases made after the Letter of Intent is submitted may then be eligible for Tax Abatement. No purchases made before the submittal are eligible).
2. Complete Michigan Department of Treasury Form 1012 (Rev 4-06)
 - Include with the form:
 - a. Detailed list of personal property to be purchased including anticipated dates of purchase and cost
 - b. Cost Sheet for anticipated improvements in real property
 - c. Lease Agreement showing building terms and applicants' tax liability (if applicable)
3. Submit application and attachments to City Assessor
4. City Council Public Hearings are scheduled
5. City Council establishment of the District and approval of the IFEC
6. Resolution submitted to State Tax Commission for final approval and issuance of certificates
7. December 31st of the year the certificate is awarded – the projected investment must be complete within two years.

LENGTH OF THE TAX ABATEMENT:

Troy City Council has approved the use of the following matrix to calculate the length of an IFEC tax abatement, where the increase in the number of jobs created will increase the term of the IFEC abatement, and similarly the increase in the personal property investment and the ownership/lease conditions on the real property will increase the term of the IFEC abatement:

Tax Abatement Matrix for Real and Personal Property					
Categories					
Job Creation		Building Terms		RP and/or PP Investment	
10 - 24	1 year	Own	4 years	\$ 750,000	1 year
25 - 49	2 years	Lease		\$ 2,000,000	2 years
50 - 99	3 years	5 year	1 Year	\$ 5,000,000	3 years
100 - 149	4 years	6 - 9 year	2 years	\$ 10,000,000	4 years
150 - 199	5 years	10 + year	4 years	\$ 20,000,000	5 years
200 +	6 years				

Must meet two of the three criteria

Example:

Company A is planning to lease R&D space for their new high tech facility. The company will sign a 5 year lease and will purchase \$4 million in new equipment and computers. The company will create 100 jobs with this investment.

Therefore, the company would be eligible to receive:

4 years – (jobs created) **PLUS**

1 year – (building terms) **PLUS**

2 years – (personal property investment)

7 years total for personal property tax abatement

TAX ABATEMENT APPLICATION FEE:

The Troy City Council has authorized the implementation of an application fee equal to 2% of the estimated personal property taxes abated under the terms of the IFEC tax abatement, or the actual costs of processing the application, whichever is less. The City of Troy will not charge or collect any other fees for the application, in keeping with MCL 207.555 (3).

REQUIREMENTS AFTER TAX ABATEMENT IS APPROVED:

By the December 31 date that is 2 years after the December 31 of the year that the abatement is approved, the applicant will supply the City Assessor with a Letter confirming that the purchases, employment numbers, and/or renovations are complete. If these figures have not been reached, a letter of explanation must be submitted to the City Assessor, for review by City Council, which may then cancel the abatement, or offer a new abatement with reduced values and years.

For assistance with your business attraction and retention needs, please contact the City Manager's Office at 248.524.3330. For assistance with the IFEC process and application, please contact the City Assessor's Office at 248.524.3311.