

May 26, 2006

TO: John M. Lamerato, Acting City Manager

FROM: Doug Smith, Real Estate and Development Director 

SUBJECT: AGENDA ITEM – Amending the Personal Property Tax Abatement for Manufacturing and Headquarter Companies

The recent Oakland County Economic Outlook lunch held last week at the Troy Marriott provided a rather dismal picture of the Michigan and even Oakland County economies for the next two to three year period. The slide presentation that was provided at the conference can be accessed through www.oakgov.com/peds/info_pub/economic_outlook_forecast.html.

Troy is not immune from these major economic trends and issues. As Troy competes on a daily basis to fill vacant space, particularly in the Maple Road and Stephenson corridors, every visit results in identification of a very competitive situation with other locations in other communities and other states. The Stephenson corridor, in particular, has a vacancy rate of 26%, compared with the overall industrial vacancy rate of 12.87%.

After a thorough review of the economic development tools that are available in Troy, and active discussions with the Michigan Economic Development Corporation about eligible MEGA companies, management would like to recommend a change to the current personal property tax abatement in Troy (PA 198 of 1974, City Council policy resolution attached).

Currently, the Industrial Facilities Tax (IFT) abatement requires the company to have three times as much personal property as real property; it does not include furniture and fixtures. We are currently limited to M-1 zoning areas, whereas the State law, and other communities, allow the abatement to any division of a company primarily engaged in the manufacturing process, regardless of zoning. Also, one-half of the equipment must qualify for the shortest depreciation possible. This is unlike most other communities' application of this tool, where the restrictions are very limited in scope.

State law is limited in that it only provides an abatement of the personal property that is new to the State of Michigan. Therefore, it prohibits moving equipment from one place in the community to another or even from one community to another. This assures that the policy does not encourage communities to raid available companies from each other.

Tax abatements are a principally accepted local match to qualify a company for MEGA incentives from the State. Staff is currently dealing with five potential MEGA qualified companies who would fill over a half a million square feet of industrial property. They would be eligible to receive MEGAs through the local contribution of utilizing the tax abatement tool. Without a local match, we are not assured of any of the companies locating here. Any of them individually, and certainly collectively, would make a significant difference in the vacancy rate in Troy today.

Additionally, this tool is effective for both attracting and retaining companies. It does not impact the real property taxes paid by these companies to Troy. Troy would receive 50% of the new personal property taxes as opposed to no personal property tax, should space remain vacant, as a company does not come into Troy, or expand into larger facilities.

As for the three-to-one personal to real property ratio, it effectively limited the policy in the past, but has now become extremely onerous by eliminating most parties because of increased real property values in today's market. It is far more typical to find a company with twice as much real property as personal property than it is to find a company that has three times as much personal property as real property.

In terms of fabrication and design equipment, manufacturing has moved so much to simulation, CAD/CAM and robotics that it seems inappropriate to continue a prohibition on the use of widely utilized equipment that is eligible for this abatement in most communities.

Finally, it is simply recognizing that all equipment, furniture, and fixtures are permitted in most other communities. This creates an incentive that recognizes there still remains some revenue source for the community, but provides an environment that expresses the community interest in having the major investment in its boundaries, rather than elsewhere.

The abatement is allowed by State law for up to 12 years, with the local unit setting the limit up to that point. Management would encourage consideration of the length of the abatement on a case-by-case basis, and not make any general policy regarding the length of the abatement. There may be some cases where six years is certainly effective and justifiable. There may be other cases where the importance of the overall investment and the nature of the company's ability to relocate may require 12 years to be effective.

Management certainly recognizes that there may be existing companies who feel that this is an unfair advantage to companies expanding or coming into the area. However, most companies understand how competitive the manufacturing situation has become, and as long as this tool is available to them for expansion, the existing companies generally support the abatement.

Management feels this an effective tool that can make a difference, particularly in the next two to three years when the competition will be most fierce, as the auto industry and the supplier base continues to go through upheaval and restructuring and job losses continue to skyrocket.

Therefore, management recommends that the following resolutions be adopted to replace Resolution #79-128 and Resolution #83-555 as amended. Effectively, this eliminates the three-to-one ratio personal to real property ratio, and permits computerized equipment and furniture and fixtures, which had been prohibited as eligible property for abatement. The original policies (IFT) were directed at specific situations such as John R Gardens for development of open spaces and are not designed for today's challenging environment. This also cleans up redundant language and criteria that is already provided for in state law, basically making Troy policy conform to state law.

Management recommends City Council adoption of this amendment.

Resolution #79-128

Industrial Facilities Tax Abatements (I.F.T.)

WHEREAS, the City of Troy has the economic objective of (a) increasing employment opportunities, (b) diversifying and stabilizing the industrial base of the community, (c) reducing economic obsolescence of the industrial base, (d) providing homogenous industrial areas, (e) encouraging industrial expansion, (f) providing for improved public facilities in industrial areas, and (g) encouraging attractive, viable industrial sites, and

WHEREAS, the Industrial Facilities Tax Act (P.A. 1974 No. 198), as amended, empowers cities to establish Industrial Development Districts (IDD) and to grant tax exemptions for certain industrial properties which meet certain criteria established by the Act, and

~~WHEREAS, the City Council of the City of Troy has determined that additional criteria should be established for the creation of such districts and exemptions,~~

NOW, THEREFORE BE IT RESOLVED, by the City Council of the City of Troy, that the following criteria are to be met, applied or measured by the City Manager or his designees in the review of areas and locations to be considered for designation as Industrial Development Districts (IDD) by the City Council:

- ~~1) They must be included in the light industrial (M-1) zoning district classification.~~
- ~~2) They must be within an area comprised of small parcels with ownership patterns requiring assembly in order to create sites which are of sizes practical for industrial uses.~~
- ~~3) They must have non-conforming land uses on scattered sites with interposing vacant lands.~~
- ~~4) They must have a rate of change in State Equalized Valuation over the past five years which is less than the average growth in Troy industrial land values for the same period.~~
- ~~5) Parcels that do not meet the above requirements may be eligible for the establishment of districts if :
 - ~~a) The proposed project has qualified for grants through the Michigan Economic Growth Authority (MEGA).~~
 - ~~b) The project will generate a minimum of \$40 million in capital improvements.~~
 - ~~c) The project will generate a minimum of 500 new jobs in the City of Troy.~~~~

RESOLUTION #83-555

~~WHEREAS, The growth and development of enterprises pioneering in high technology research and proto-type development and production is economic development and expansion which is assigned a high priority by the City Council of the City of Troy; and~~

~~WHEREAS, Equipment and instrumentation required to conduct basic high technology and research and proto-type development and production has an accelerated rate of depreciation due to technological obsolescence in an ever-changing scientific environment; and~~

~~WHEREAS, It has become common practice for other states and other communities to offer incentives for high technology research and development enterprises to establish facilities within their Jurisdictions by economic inducements, including tax reductions and/or tax abatement, which inducements are providing a competitive advantage to enterprises which are lured to those communities because of reduced overhead and a pricing advantage which increases their success in the market place.~~

~~NOW, THEREFORE, BE IT RESOLVED, By the City Council of the City of Troy, that upon compliance with the following standards and criteria, the City Council will accept for review and possible approval, applications for tax abatement on personal property as provided by Act 198 of the Public Acts of 1974, as amended:~~

- ~~(1) That the applicant will engage in the research, proto-type development and production of high technology systems and products, the origin of which can be traced to the research and development efforts of enterprises situated within the City of Troy; and~~
- ~~(2) That the applicant will engage in research and development activities which include the conjunctive use of some or all of the following: computers, semi-conductors, bio-genetics, super conductivity, thin film devices, advanced adoptive robotics, biomedical instrumentation and pharmaceuticals; and~~
- ~~(3) That the estimated personal property value of all Troy-based equipment, machinery and instrumentation is of such capital intensity so as to exceed the value of real estate by a ratio of 3 to 1 at the time of application for said abatement; and~~
- ~~(4) That more than one-half (1/2) of the personal property (by value) contained in the application shall be qualified for the shortest term of depreciation possible under Michigan tax laws and regulations; and~~

~~(5) — That the product(s) of the applicant must be on the forefront of new scientific discovery. That is, the result of scientific discovery, through utilization of personal property which is addressed in the application, shall be embodied in the product or service produced.~~

~~BE IT FURTHER RESOLVED, That the following limits, conditions and stipulations are to apply to applications which are submitted to the City Council:~~

- ~~(1) That the tax exemption shall not apply to real property except those building improvements which are uniquely required to support research and development activities the personal property to be abated; and~~
- ~~(2) That the tax exemption shall not apply to leasehold improvements or building improvements except those uniquely required to support research and development activities the personal property to be abated; and~~
- ~~(3) — That the tax exemption shall not apply to furniture and equipment commonly found in offices or businesses. Applications which include such furniture and equipment will be rejected.~~
- ~~(3) That said abatement of taxes shall cease at such time as applicant fails to prove by factual evidence that such personal property is being used in compliance with the basic guidelines established above; and~~

~~BE IT FURTHER RESOLVED, That applications that do not meet the previously listed criteria may be considered for tax abatements providing the following limits, conditions, and stipulations are met:~~

- ~~(1) — The project is eligible for Michigan Economic Growth Authority (MEGA) incentives.~~
- ~~(2) — The project will generate capital expenditures for both Real and Personal Property of at least \$40 million.~~
- ~~(3) — The project will generate at least 500 new jobs in the City of Troy.~~

~~BE IT FINALLY RESOLVED, That the term of abatement for any and all Real and Personal Property shall not exceed 12 years, it being the intent of the City Council to approve various lengths of abatements to the extent provided by laws of the State of Michigan.~~