



CITY COUNCIL REPORT

July 16, 2014

TO: Brian Kischnick, City Manager

FROM: Mark F. Miller, Director of Economic and Community Development
Glenn Lapin, Economic Development Specialist

SUBJECT: Joint Local Development Finance Authority (LDFA) Proposed Extension

Background

In 2003, the cities of Southfield and Troy entered into an agreement to form a Joint Local Development Finance Authority. The major goal of the Troy LDFA was to attract and provide financial support to Automation Alley as a part of the Smart Zone and Certified Technology Park (CTP) located near Big Beaver Road and Bellingham Street. Automation Alley is Michigan's largest technology business association with 1,000 public and private sector members from eight counties. Automation Alley connects government, business and education to drive economic growth in Southeast Michigan. Other major employers in the Smart Zone/CTP include Altair, Inergy Automotive Systems, INA USA Corp, Schaeffler Group USA, Seco Tools and NBS Commercial Interiors. The current LDFA expires December 31, 2017.

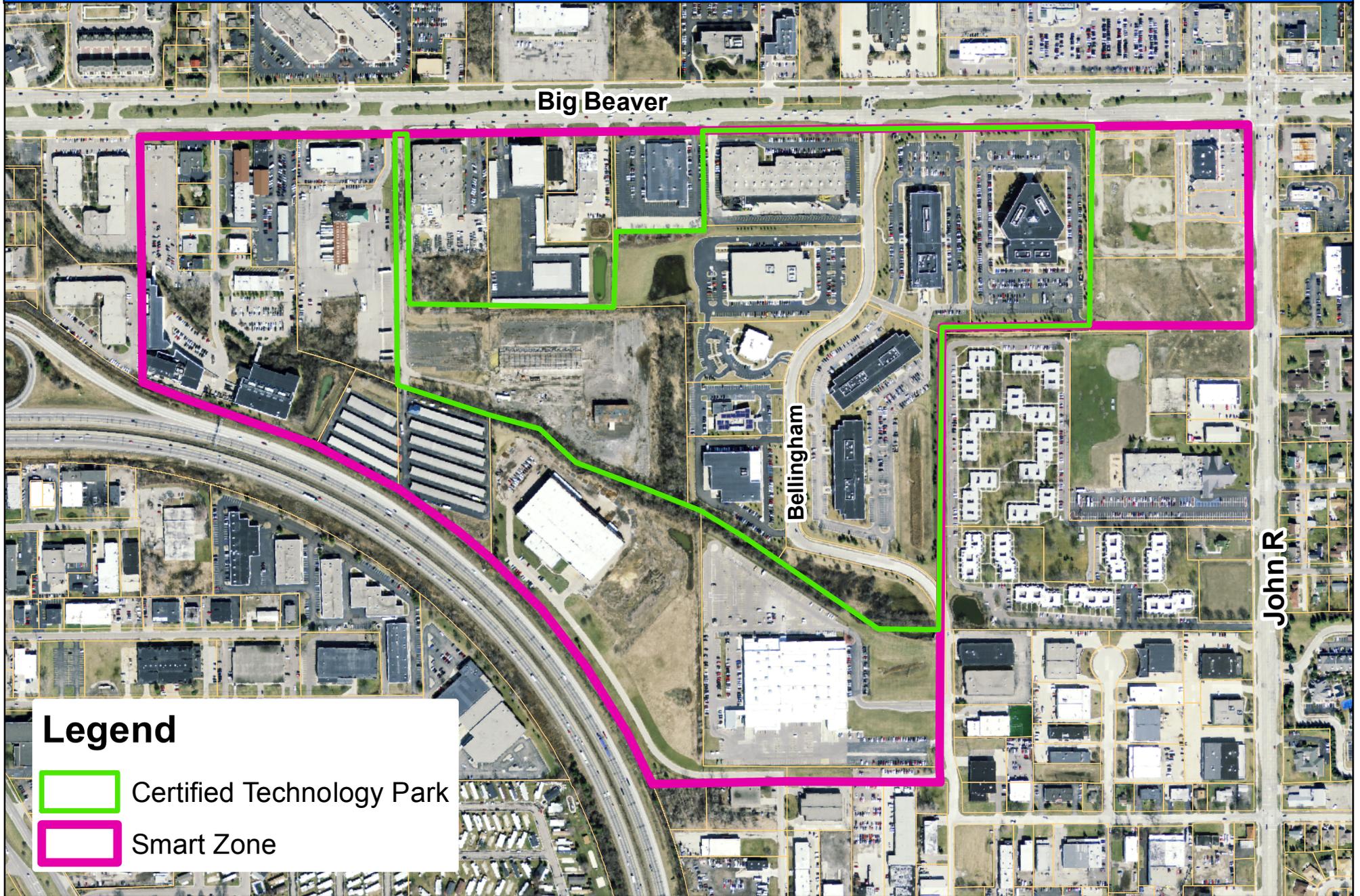
Proposed Extension

At the April 28, 2014 LDFA meeting, the LDFA recommended to city management that a 5-year extension of the joint LDFA be pursued to provide continuing assistance to Automation Alley. In addition, the LDFA encouraged city management to explore a 15-year extension of the LDFA if an appropriate satellite could be identified. The attached request for a 5-year extension was submitted to the Michigan Economic Development Corporation on June 27, 2014. City management worked closely with Automation Alley, joint LDFA partner City of Southfield and Troy's planning consultant Carlisle Wortman Associates on this extension request. The MEDC accepted the request and instructed the City and LDFA to move forward on drafting the 5-year extension of the development and TIF plan. City management will continue to work with our partners on drafting a plan.

City management continues to explore the feasibility of a 15-year extension. As required by the MEDC, a 15-year extension must be done in partnership with a satellite local unit of government located outside of Oakland County. Discussions with potential satellite partners have begun to see if the partners can benefit from a joint application for a 15-year extension. The MEDC has set a September 30, 2014 deadline for submitting a summary request for a 15-year extension. A more in depth plan would be required if the summary request is accepted by the MEDC. Both the 5-year and 15-year extension requests may be pursued concurrently.



Smart Zone / LDFA District



Legend

-  Certified Technology Park
-  Smart Zone

**Cities of Southfield and Troy
Joint Local Development Finance Authority
Executive Summary – 5 year Extension Request**

Request

The Cities of Southfield and Troy seek approval of this Executive Summary requesting a 5-year TIF Extension. The LDFA intends to meet the required legislative criteria including:

- 1) LDFA agrees to additional reporting requirements including:
 - Providing monthly reporting for the term of the TIF capture on the following information for companies served by the SmartZone: companies created, jobs created, and investment in companies by source (federal grants, state grants, venture capital, angel funding, and increase in revenue).
 - Providing annual reports for the term of the TIF capture reporting on the progress of regional collaboration.
- 2) LDFA agrees to modify its TIF plan to include regional collaboration.
- 3) The Cities also provided a summary of TIF performance against original plan.

Background

In 2003, the Cities of Southfield and Troy entered into an agreement to form a Joint Local Development Finance Authority. As a result, the Certified Technology Park designations were established within the Cities of Southfield and Troy (see Figure 1).

The major goal of the Troy LDFA was to attract and support Automation Alley Headquarters in the Certified Technology Park (CTP). Automation Alley is Michigan's largest technology business association with a membership of 1,000, connecting government business and education to drive growth of Southeast Michigan's economy. Other major employers in the CTP include Altair, Inergy Automotive Systems, INA USA Corp, Schaeffler Group USA, Seco Tools and NBS Commercial Interiors.

Automation Alley is located in a 15,430 square foot building which includes certain specialized space designed to accomplish this mission. The Alley is looking to expand operations in Troy which will require additional space. The City has currently budgeted LDFA funds to assist the Alley in evaluating their space needs.

The Southfield CTP is home to a number of large employers including Hantz Bank, CBS Radio, and Barton Malow. The former headquarters of Blue Cross is also located within CTP. Reoccupying the former Blue Cross building and stimulating development of the 34 acre campus is a major challenge faced by the Southfield LDFA. The LDFA has focused on financing and constructing major infrastructure improvements to serve the Park.

While this Executive Summary addresses a 5-year Extension, the Cities of Southfield and Troy intend to explore the feasibility of pursuing a 15-year Extension.

Accomplishments

Troy LDFA

The Joint Local Development Finance Authority adopted a Development and Tax Increment Financing Plan. The adoption of the plan allowed for financing and construction of certain public improvements, which the City of Troy needed to support the CTP. The TIF also provided a certain level of support for the business accelerator/incubator program operated by Automation Alley. As a result, the City was able to attract Automation Alley to the CTP and assist in an additional expansion.

The City's support for Automation Alley has yielded impressive results. The Alley has invested in high-tech startups, promoted expert sales and created or supported 4,791 jobs. In addition to business attraction and development, Automation Alley has secured training grants to make high level IT training available to its local partner companies.

In return for its support of Automation Alley, Troy has benefitted significantly. Over 16% of the Alley's members are Troy-based. The City has been featured in numerous Automation Alley promotions and publications. As a Foundation member, the City also enjoys the use of the Alley's facilities and meeting rooms.

Southfield LDFA

The Southfield LDFA has devoted considerable resources to improving infrastructure to the CTP. The Southfield LDFA has financed their share of the cost of I-696 interchange improvements and financed and constructed improvements to Franklin Road, Center Drive, America Drive and Eleven Mile Road. In addition, there have been landscaping and lighting improvements in conjunction with road and pedestrian improvements.

Regional Collaboration

The Cities of Southfield and Troy, in collaboration with public- and private-sector partners, are focused on helping businesses grow. Both Cities recognize the benefit of collaborative arrangements with other community partners. Expanded collaboration could be a benefit through attraction and retention of a trained workforce, nurturing existing second stage companies and formation of new technology based businesses.

The City of Troy has formed a strong alliance with key stakeholders including Automation Alley, Walsh College, Troy Chamber of Commerce, Oakland County's Economic Development Office and the Michigan Economic Development Corporation to provide targeted business assistance. Through an economic gardening approach, Troy's economic development staff assists local companies by identifying specific

business needs and providing the information, infrastructure and connectivity necessary to address those needs. By leveraging Troy's unique community assets, partnerships and available tools to promote business growth, the City is creating an environment for investment.

The City of Southfield established a strong track record of intergovernmental collaboration with more than 150 partnerships. Centrally located within the region, the City coordinates economic development activities with MEDC, Oakland County, the Detroit Regional and Southfield Area Chambers and other state and regional organizations. Southfield also has an active partnership with Lawrence Technological University (LTU). LTU is launching the LTU Detroit Design and Technology Center in Midtown Detroit.

Troy's partnership with and support for Automation Alley resulted in one of the most successful regional collaboration efforts in Michigan. As part of the request for a 5 year extension, the City of Southfield agrees to expand their efforts at regional collaboration by providing additional support for Automation Alley, including, but not limited to, becoming a foundation member. Therefore, both Troy and Southfield agree to support the Alley's extensive program of regional collaboration. With membership located in Oakland, Macomb, Wayne, Washtenaw, Livingston, Genesee, Ingham and St. Clair Counties, Automation Alley has additional offices in Macomb County, Sterling Heights, and Detroit. As a result, Automation Alley will continue to conduct the following regional activities:

- Workforce training across region
- Programming presented across region
- Invested nearly \$9 million in companies within region resulting in several thousand jobs
- Introduced a significant number of companies within region to global marketplace visiting 22 nation and securing \$350 million in contracts
- Automation Alley Technology Gala has been held in Detroit, Wayne County, Oakland County and Macomb County
- Prepare the only State of Technology Report in Michigan

Goals of Extension

While both the Southfield and Troy LDFA's will finance their own activities, the extension would achieve the following mutual goals:

- Retain Automation Alley in Oakland County and allow it to expand.
- Continue to invest in infrastructure needed to keep both CTP's viable. This will include both drainage and road improvements.
- Attract new investment to market vacant properties, such as the former Blue Cross Headquarters, within the Southfield LDFA.
- Expand regional collaboration with existing partners and form new partnerships.

Reporting Requirements

In the request for extension, the Joint Southfield and Troy LDFA's will agree to additional reporting requirements including:

- Providing monthly reporting for the term of the TIF capture on the following information for companies served by the SmartZone: companies created, jobs created, and investment in companies by source (federal grants, state grants, venture capital, angel funding, and increase in revenue).
- Providing annual reports for the term of the TIF capture reporting on the progress of regional collaboration.

Performance against Original Plan and Effect of Extension

Troy LDFA

As has been experienced with other TIF's, the Smart Zone LDFA has captured significantly less than anticipated. The original TIF plan projected \$7,545,521 in tax capture from 2002-2013, though only \$1,840,191 was captured. While the decline in taxable value appears to have stabilized, increases in taxable value going forward will increase at the rate of inflation. No significant increases within the District can be anticipated through new development.

Table 1 provides a projection of estimated revenues for the remaining 5 years of the LDFA and for 5 additional years if extended. For the next 5 years, the LDFA will generate \$453,272. If extended for another 5 years, the LDFA would generate \$512,836.

Southfield LDFA

The Southfield LDFA has captured sufficient TIF revenues to fund infrastructure improvements set forth in the Joint LDFA Development and Financing Plan. The original TIF plan projected \$4,701,538 in tax capture (include the amount of local capture and school capture) from 2002-2013, though only \$2,559,024 was captured. Table 2 provides a projection of estimated revenue for the remaining 5 years of the LDFA and for additional 5 years if extended. For the next 5 years, the LDFA will generate \$1,275,539. If extended for another 5 years, the LDFA would generate \$1,442,015.

Table 1
Troy LDFA
Estimated Revenues

	Revenue ¹	
	Gross (\$)	Net (\$)
2014	86,234	77,610
2015	88,389	79,550
2016	90,599	81,539
2017	92,864	83,577
2018	95,186	85,667
Subtotal	453,272	407,944
2019	97,565	87,808
2020	100,005	90,004
2021	102,505	92,254
2022	105,067	94,560
2023	107,694	96,924
Subtotal	512,836	461,552
Total	966,108	869,497

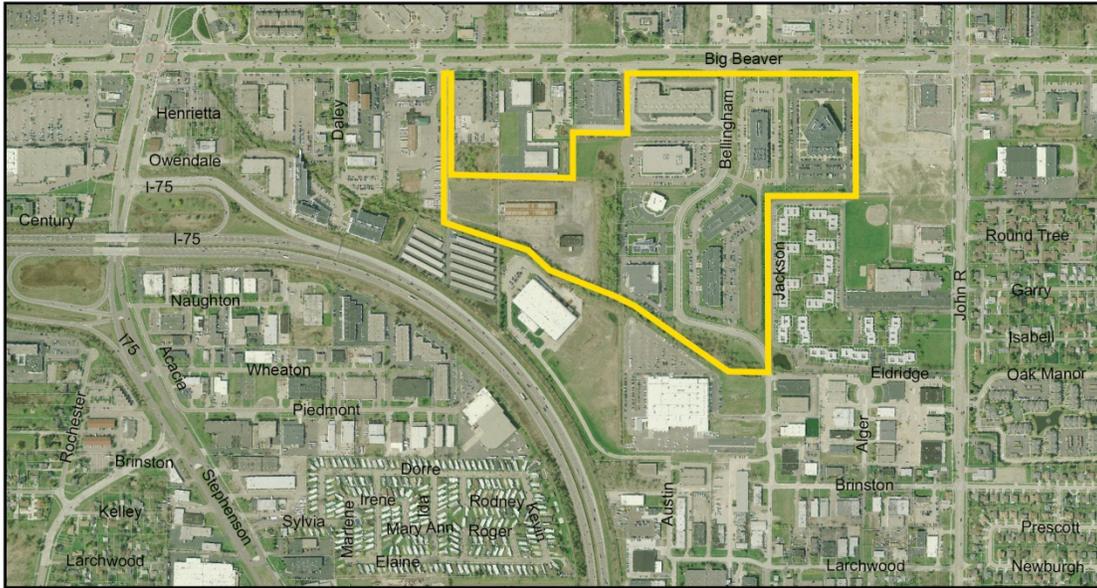
1 Gross revenue assumes 2.5% increase annually. Net revenues assume stable \$14,500 annually for administrative cost.

Table 2
Southfield LDFA
Estimated Revenues

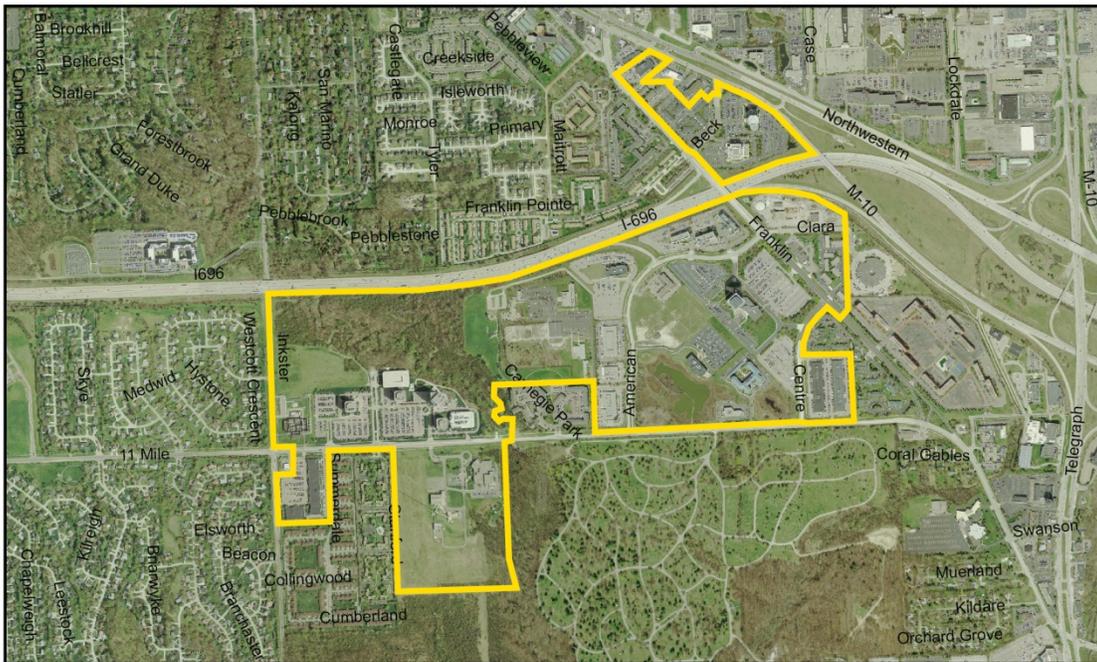
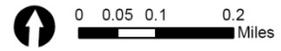
	Revenue ¹	
	Gross (\$)	Net (\$)
2014	242,477	218,229
2015	248,538	223,684
2016	254,751	229,275
2017	261,120	235,008
2018	267,648	240,883
Subtotal	1,274,539	1,147,085
2019	274,339	246,905
2020	281,197	253,077
2021	288,227	259,404
2022	295,433	265,889
2023	302,819	272,537
Subtotal	1,442,015	1,297,813
Total	2,716,551	2,444,895

1 Gross revenue assumes 2.5% increase annually. Net revenues assume 10% allocation annually to administration.

Figure 1



SmartZone - Troy Campus



SmartZone - Southfield Campus



These are not legally recorded maps.

Carlisle/Wortman Associates, Inc.
June 2014