



CITY COUNCIL ACTION REPORT

February 5, 2009

TO: Phillip L. Nelson, City Manager

FROM: Brian Murphy, Assistant City Manager/Economic Development Services

SUBJECT: Amending the Personal Property Tax Abatement Policy

Background:

- In 2006, the City Council amended the property tax abatement policy. The property tax abatement policy was amended to serve as the City's local participation in the State of Michigan's MEGA incentive. Tax abatements are a principally accepted local match to qualify a company for MEGA incentives from the State.
- The amendment also cleaned up previous abatement policies, to better reflect PA 198 (Industrial Facilities Tax Abatement).
- Attached is the background information provided to the City Council in 2006.
- Since 2006, the City Council has reviewed and considered five personal property tax abatements, with the personal property values ranging between \$2.8 million and \$600,000.
- In 2008, the State of Michigan replaced the Single Business Tax (SBT) with the Michigan Business Tax (MBT). The MBT changes the value and the burden of the personal property tax, creating a comparatively larger local obligation. As a result, City staff reviewed past abatements and recommends amendments to the policy.
- City staff considered the Council preferred Outcome Statements when developing a model for the proposed tax abatement matrix. The three goals used in the matrix are intended to encourage capital investment, promote the creation of jobs, and show a commitment to the City.
- The proposed matrix requires that the applicant create more than 10 jobs and/or has a personal property investment of at least \$750,000, and/or owns the underlying real property or has a lease for the underlying property that exceeds 5 years, as long as two of the three criteria are satisfied.

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Financial Considerations:

- The proposed Tax Abatement Matrix is as follows:

Tax Abatement Matrix					
Job Creation		Building Terms		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	1 - 5 year	none	\$ 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				

- In order to be eligible for consideration, the application must score in 2 of 3 categories.
- The policy does not apply to real property, except for those unique situations where there are building improvements that are required to support the personal property that otherwise qualifies for abatement.
- An application fee, equal to 2% of the estimated taxes abated under the terms of the exemption, will be assessed on each application. The application fee is consistent with PA 198.
- Of the seven personal property tax abatements that are currently active (2 granted before 2006 amendment), three would qualify for full term abatements under this proposed policy. One company would not have met the eligibility requirements.

Legal Considerations:

- The City Attorney’s office has reviewed the proposed matrix, and has determined that it is consistent with PA 198 of 1974.

Policy Considerations:

- The proposed Tax Abatement Matrix continues to encourage investment in our community, and best reflects the values of a unique community in a changing and interconnected world.

Options:

- City Council may accept or reject the proposed amendment to the Personal Property Tax Abatement policy, or may provide city staff with further direction.