



## CITY COUNCIL AGENDA ITEM

August 4, 2010

TO: The Honorable Mayor and City Council

FROM: John Szerlag, City Manager *JS*  
 John M. Lamerato, Assistant City Manager/Finance & Administration *JML*  
 Mark F. Miller, Acting Assistant City Manager/Economic Development Services *MF*  
 Nino Licari, City Assessor *NL*  
 Pamela Valentik, Economic Development Specialist *PV*

SUBJECT: Tax Abatement Policy

### Background

The City of Troy has historically granted tax abatements authorized by the Industrial Facilities Tax Abatement (P.A. 1974 No.198). In February of 2009 City Council amended the Personal Property Tax Abatement Policy 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. This policy continued to disqualify real property from the abatement. The following matrix was included to provide guidance for City Council in granting the abatements:

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				

This matrix illustrates the requirement for applicants to create more than 10 jobs and/or have 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. 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 P.A. 1974 No.198.



## CITY COUNCIL AGENDA ITEM

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Recently a major corporation contacted the Michigan Economic Development Corporation, Oakland County and City Management about structuring an incentive package to locate in the City of Troy. The Corporation is requesting that City Council consider a tax abatement on personal and real property under P.A. 1974 No.198. However, the City of Troy only has a policy on personal property tax abatement, which does not allow real property to qualify (unless it is leasehold improvements, directly connected to the personal property).

City Management ultimately would only recommend any tax abatement if it is tax revenue neutral. In other words would the continuing empty building generate more tax revenue than a new business with tax abatements.

### **Recommendation**

We would like City Council to provide direction on real property tax abatements so we can bring a revised property tax abatement policy to a meeting in the near future.

We are providing additional information regarding other tax abatements, to see if City Council would like additional analysis for applicability to Troy:

- Personal Property Tax Relief In Distressed Communities (P.A. 328 of 1998)
- Tool & Die Recovery Zones, Michigan Renaissance Zone Program (P.A. 376 of 1996)
- Commercial Redevelopment Act (P.A. 255 of 1978)

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CITY OF TROY

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**E-7 Amending the Personal Property Tax Abatement Policy**

Resolution #2009-02-042

Moved by Beltramini

Seconded by Kerwin

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;

THEREFORE, BE IT RESOLVED, That Troy City Council hereby **ADOPTS** the following minimum criteria, as authorized by the Industrial Facilities Tax Act (P.A. 1974 No. 198):

1. An Industrial Facilities Exemption Certificate (IFEC) tax abatement shall not be granted until there is compliance with MCL 207.559; and
2. Real property shall not qualify for an IFEC tax abatement, except for those unique situations where there are building improvements that are required to support the personal property that otherwise qualifies for a tax abatement; and
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 will create more than 10 jobs and/or has a personal property investment of at least \$750,000.00, 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.

BE IT FURTHER RESOLVED, That Troy City Council hereby **APPROVES** 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:

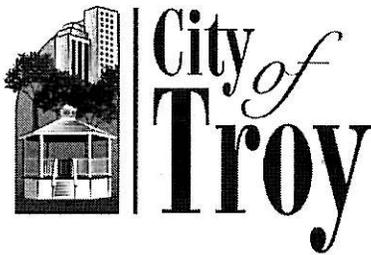
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150 - 199	5 years	10 + year	4 years	\$ 20,000,000	5 years
200 +	6 years				

BE IT FINALLY RESOLVED, That Troy City Council hereby **AUTHORIZES** 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, and the City of Troy will not charge or collect any other fees for the application, in keeping with MCL 207.555 (3).

Yes: Fleming, Kerwin, Schilling, Beltramini, Broomfield

No: Eisenbacher, Howrylak

**MOTION CARRIED**



## **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.

**Amending the Personal Property Tax Abatement Policy**  
**February 5, 2009**  
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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
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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.

## INDUSTRIAL PROPERTY TAX ABATEMENT (P.A. 198 OF 1974, AS AMENDED)

Industrial property tax abatements provide incentives for eligible businesses to make new investment in Michigan. These abatements encourage Michigan manufacturers to build new plants, expand existing plants, renovate aging plants, or add new machinery and equipment. High-technology operations are also eligible for the abatement. 'High-technology activity' is defined in the Michigan Economic Growth Authority (MEGA) Act as: advanced computing, advanced materials, biotechnology, electronic device technology, engineering or laboratory testing related to product development, medical device technology, product research and development and advanced vehicles technology or technology that assists in the assessment or prevention of threats or damage to human health or the environment. Abatements Under P.A. 198 can significantly reduce property taxes on new investment for eligible firms.

### ESTABLISHING THE DISTRICT

Tax benefits are granted by the legislative body of the city, township or village in which the investment will be located. A public hearing is held and a resolution is adopted to approve the establishment of an Industrial Development District (for a new project) or a Plant Rehabilitation District (for a rehabilitation project). A written request to establish the district must be filed with the clerk of the local unit of government prior to commencement of construction, alteration or installation of equipment.

Once the district is established, the company may apply for an abatement on property taxes (real and personal) for up to 12 years.

### APPLICATION PROCESS

Industrial property tax abatements must be approved at both the local and state levels. The eligible business files an application (Michigan Department of Treasury Form 1012) with the local clerk after the district has been established and no later than six months after commencement of the project. The local unit adopts a resolution approving the application and determines the length of years for the

abatement. After a local public hearing, the application is filed and reviewed by the State Tax Commission (STC) and the Michigan Economic Development Corporation<sup>SM</sup> (MEDC). The STC then grants final approval and issues the exemption certificate. Locally approved applications (with attachments) must be received by the STC no later than October 31, in order to receive consideration and action by December 31.

Applications to the STC must include an agreement signed by the local unit and the operator of the facility outlining the conditions of the abatement. This shall include an affidavit that no payment of any kind in excess of the fee allowed under the Act has been made or promised in exchange for favorable consideration of the exemption application.

Once approved, the firm pays an Industrial Facilities Exemption (IFE), instead of the property tax, that reflects the abatement savings.

### ELIGIBLE FACILITIES

Industrial plants eligible for tax abatement are those that primarily manufacture or process goods or materials by physical or chemical change. Related facilities of Michigan manufacturers such as offices, engineering, research and development, warehousing or parts distribution are also eligible for exemption.

Research and development laboratories, high-tech facilities and large communications centers can qualify throughout Michigan.

Facilities used for warehousing, distribution or logistics purposes can be eligible if they locate in specific border counties. At least 90% of the property, excluding the surrounding green space, must be used for warehousing, distribution, logistics or communications center and occupy a building or structure that is more than 100,000 square feet. Eligible border counties include Berrien, Branch, Cass, Chippewa, Dickinson, Gogebic, Hillsdale, Iron, Lenawee, Menominee, Monroe, St. Clair, St. Joseph and Wayne.

The exemption applies to buildings, building improvements, machinery, equipment, furniture and fixtures. Real and personal property are eligible whether owned or leased (provided the lessee is liable for payment of taxes on the property).

The exemption covers only the specific project that is the subject of the application. Any buildings and equipment that existed prior to construction of a new facility are not exempt. If the project is for rehabilitation, the value of any pre-existing obsolete property is exempt from ad valorem property taxes, but will be used as the base for the IFE. Similarly, any structures or equipment added after completion of the project are fully taxable.

Land is specifically excluded from the benefits of the act and is fully taxable.

### TAX IMPACT

#### **The New Industrial Personal Property Exemption and IFE Treatment**

Under the reforms related to the Michigan Business Tax (MBT), industrial personal property situated on industrial parcels will automatically be exempt from the 6-mill State Education Tax (SET) and 18 mills for local schools. The automatic exemption of 24 mills will continue after the IFE expires. The remaining local mills will be abated 50% under P.A. 198.

#### **Real and Non-Industrial Personal Property IFE Treatment**

The IFE on a new plant and non-industrial personal property (like high-tech personal property) is computed at half the local property tax millage rate. This amounts to a reduction in property taxes of approximately 50%. In addition, the 6-mill SET may be abated 100%, 50% or not at all. Any SET abatement must be negotiated with the MEDC.

#### **Rehabilitation of Real or Personal Property IFE Treatment**

For an obsolete plant or machinery that is being replaced or restored, the IFE is frozen at the assessed value of the plant prior to improvement. This results in a 100% exemption from property tax on the value of the improvements.

#### **Speculative Building IFE Treatment**

In order for a speculative building to qualify for abatement, the local unit must approve a resolution declaring it as a speculative building prior to identifying occupants. Initial construction and finishing costs would be eligible for a reduction in property taxes of approximately 50%.

### ADDENDUM

#### **Personal Property Tax Relief**

In addition to the automatic reduction of 24 mills on industrial personal property, manufacturers are allowed to claim a 35% tax credit on the MBT form for property taxes paid on the same industrial personal property. The estimated overall impact is a 65% reduction in property taxes on industrial personal property.

Commercial personal property will receive an automatic reduction of 12 mills for local schools on their property tax bill.

For more information, contact the MEDC Customer Assistance Center at 517.373.9808.

## HIGH TECH

(PA 198 – Industrial Property Tax Abatement)  
(PA 247 of 2000, as amended)

Expands the definition of “Industrial Property” to include high-tech activity.

High Tech activity will be defined as that in the Michigan Economic Growth Authority (MEGA) Act, PA 24 of 1995 (MCL 207.803(I)):

- Advanced Computing: any technology used in the design and development of any of the following: computer hardware and software, data communications, information technologies.
- Advanced Materials: materials with engineered properties created through the development of specialized process and synthesis technology.
- Biotechnology: any technology that uses living organisms, cells, macromolecules, microorganisms, or substances from living organisms to make or modify a product. Improve plants or animals, or develop microorganisms for useful purposes. Biotechnology does not include human cloning or stem cell research with embryonic tissue.
- Electronic Device Technology: any technology that involves microelectronics, semiconductors, electronic equipment, and instrumentation, radio frequency, microwave, and millimeter electronics, and optical and optic-electrical devices, or data and digital communications and imaging devices.
- Engineering or Laboratory Testing: related to the development of a product.
- Technology: that assists in the assessment and prevention of threats or damage to human health or the environment, including, but not limited to, environmental cleanup technology, pollution prevention technology or development or alternative energy sources.
- Medical Device Technology: any technology that involves medical equipment or products other than a pharmaceutical product that has therapeutic or diagnostic value and is regulated.
- Product Research and Development
- Advanced Vehicles Technology: any technology that involves electric vehicles, hybrid vehicles, or alternative fuel vehicles, or components used in the construction of electric vehicles, hybrid vehicles, or alternative fuel vehicles.

## PERSONAL PROPERTY TAX RELIEF IN DISTRESSED COMMUNITIES (P.A. 328)

Public Act 328 of 1998 (P.A. 328) allows distressed communities, county seats and certain border county communities to abate personal property taxes on new investments made by eligible businesses.

### ELIGIBILITY AND PROCESS

Cities, villages, and townships that contain distressed areas (as defined under the Michigan State Housing Development Authority Act), and all county seats (as defined under the Neighborhood Enterprise Zone Act) are eligible to participate. Eligible cities, villages, townships, and county seats are listed on page two of this fact sheet.

Eligible businesses that locate in a border county and receive approval from the Michigan State Treasurer and President of the Michigan Strategic Fund may receive this incentive. Berrien, Branch, Cass, Chippewa, Dickinson, Gogebic, Hillsdale, Iron, Lenawee, Menominee, Monroe, St. Clair, St. Joseph and Wayne counties are eligible counties. The business must locate in a local governmental unit that is served by at least four of the following services: water, sewer, police, fire, trash or recycling.

In addition, businesses authorized under the Michigan Economic Growth Authority (MEGA) are eligible to receive this incentive.

Eligible projects include manufacturing, mining, research and development, wholesale trade and office operations. Retail businesses and casinos are not eligible.

Businesses may apply for the abatement through their local taxing unit if located in an eligible community. Locally approved applications are filed with the State Tax Commission (STC), which must approve or deny the local resolution within 60 days. The State Treasurer, with the written consent of the Michigan Economic Development Corporation<sup>SM</sup> (MEDC), is required to provide advice to the STC as to whether the exemption is necessary to "reduce unemployment, promote economic growth, and increase capital investment."

New personal property is property not previously subject to property taxes in any other jurisdiction in this state. This includes personal property already in Michigan, but exempt for another reason (i.e. if owned by a local unit of government). To determine if certain property is considered new, please contact the Department of Treasury at 517.373.3272.

### TERMS OF ABATEMENT

Abatements under P.A. 328 reduce property taxes by the full millage rate (including state and local levies). The eligible local units may, by resolution, exempt new personal property in any of the following areas: an industrial development district (P.A. 198 of 1974), a Renaissance Zone<sup>®</sup>, an enterprise zone, a brownfield redevelopment zone, an empowerment zone, a tax increment financing district, a local development financing district, or a downtown development district.

The local community and the business negotiate the length of abatement for the new personal property tax. The law does not contain a maximum or minimum number of years.

For more information, contact the MEDC Customer Assistance Center at 517.373.9808.

*(List of Eligible Distressed Areas and County Seats on next page.)*

## ELIGIBLE DISTRESSED COMMUNITIES AND COUNTY SEATS

This list of Eligible Distressed Areas and County Seats reflects a group of communities that qualify based on Neighborhood Enterprise Zone designation, pursuant to changes to P.A. 147 of 1992.

170 EDAs | 129 cities | 26 townships | 15 villages

### CITIES

Adrian	Crystal Falls	Hastings	Mason	Saginaw
Albion	Dearborn	Hazel Park	Melvindale	Sandusky
Allegan	Dearborn Heights	Highland Park	Menominee	Sault Ste. Marie
Alma	Detroit	Hillsdale	Midland	Southfield
Alpena	Dowagiac	Holland	Monroe	St. Ignace
Ann Arbor	East Lansing	Houghton	Mt. Clemens	St. Johns
Bad Axe	Eastpointe	Howell	Mt. Morris	St. Joseph
Bangor	Ecorse	Inkster	Mt. Pleasant	St. Louis
Battle Creek	Escanaba	Ionia	Munising	Standish
Bay City	Ferndale	Ironwood	Muskegon	Stanton
Benton Harbor	Flint	Iron Mountain	Muskegon Heights	Sturgis
Bessemer	Gaastra	Iron River	Niles	Tawas City
Big Rapids	Gaylord	Ishpeming	Norton Shores	Taylor
Bronson	Gibraltar	Ithaca	Norway	Three Rivers
Burton	Gladstone	Jackson	Oak Park	Traverse City
Cadillac	Gladwin	Kalamazoo	Omer	Trenton
Caro	Grand Haven	Lake City	Onaway	Vassar
Carson City	Grand Rapids	Lansing	Owosso	Wakefield
Caspian	Grayling	Lapeer	Petoskey	Warren
Center Line	Hamtramck	Lincoln Park	Pinconning	Wayne
Charlevoix	Harbor Beach	Livonia	Pontiac	West Branch
Charlotte	Harper Woods	Ludington	Portage	White Cloud
Cheboygan	Harrison	Manistee	Port Huron	Wyandotte
Coldwater	Harrisville	Manistique	Reed City	Wyoming
Coleman	Hart	Marquette	River Rouge	Ypsilanti
Corunna	Hartford	Marshall	Rogers City	

### TOWNSHIPS

Benton (Berrien)	Carrollton (Saginaw)	Elmwood (Tuscola)	Mt. Morris (Genesee)	Royal Oak (Oakland)
Buena Vista (Saginaw)	Champion (Marquette)	Emerson (Gratiot)	Oscoda (Iosco)	Sebewaing (Huron)
Calumet (Houghton)	Columbia (Tuscola)	Genesee (Genesee)	Oliver (Huron)	Sheridan (Calhoun)
Carp Lake (Ontonagon)	Duncan (Houghton)	Marlette (Sanilac)	Pulawski (Presque Isle)	Spaulding (Saginaw)
	Elba (Gratiot)	Minden (Sanilac)	Redford (Wayne)	Turner (Arenac)
		Montrose (Genesee)		Wisner (Tuscola)

### VILLAGES

Atlanta	Beulah	Eagle River	Leland	Ontonagon
Baldwin	Cassopolis	Kalkaska	Mio	Paw Paw
Bellaire	Centreville	L'Anse	Newberry	Roscommon

## TOOL & DIE RECOVERY ZONES MICHIGAN RENAISSANCE ZONE PROGRAM

The Michigan Renaissance Zone Act, P.A. 376 of 1996 (MCL 125.2681 et seq) was amended to allow the Michigan Strategic Fund (MSF) Board to designate up to 35 tool and die renaissance recovery zones ("Recovery Zone"). A Recovery Zone shall have a duration of a renaissance zone status for a period of not less than five years and not more than 15 years as determined by the board of the Michigan Strategic Fund.

To receive consideration for a Recovery Zone designation, businesses must meet the following requirements:

- Obtain an authorizing resolution of support from the local governmental unit where the respective company's parcel of property is located that consents to the creation of a Recovery Zone within their boundaries. The resolution must include the number of years that the city, township or village is willing to forego taxes;
- Lease or own the parcel of property that is to be included in the proposed Recovery Zone;
- Use the property primarily for tool and die business operations: 75% or more of the gross revenue generated from tool and die operations that take place on the business property at the time of designation;
- Have fewer than 75 full-time employees; **or**
- Companies with 75 or more full-time employees are required to enter into a written agreement with the MSF and local unit of government where parcel is located;
- Be classified as one of the following North American Industry Classification System (NAICS) codes:
  - ▷ 333511 Industrial Mold Manufacturing
  - ▷ 333512 Machine Tool (Metal Cutting Types) Manufacturing
  - ▷ 333513 Machine Tool (Metal Forming Types) Manufacturing
  - ▷ 333514 Special Die and Tool, Die Set, Jig, and Fixture Manufacturing
  - ▷ 333515 Cutting Tool and Machine Tool Accessory Manufacturing
  - ▷ 332997 Industrial Pattern Manufacturing
- Participate in a written collaborative agreement with other tool and die businesses;
- Have a collaborative agreement that demonstrates synergistic opportunities among the companies and must include, but is not limited to, all of the following elements:
  1. Sales and marketing efforts
  2. Development of standardized processes
  3. Development of tooling standards
  4. Standardized project management methods
  5. Improved ability for specialized or small niche shops to develop expertise and compete successfully on larger programs.
- 6. Strategic focus to any of the following target industries:
  - Medical Devices**
    - Collaborators will be focused on making and improving parts and machining required for medical devices.
    - Collaborators will provide a clear plan of particular focus within medical devices.
    - Qualifying plans should already be established or the collaborators should demonstrate how working together can improve their qualifying systems and part making as a whole to land business together and individually.
  - Alternative Energy Technologies**
    - Collaborators should show their focus on offering new parts to primes and Tier 1 and Tier 2 suppliers, as well as potentially offering machinery design and build.
    - Collaborators should demonstrate how working together will show improved ways of designing machinery and parts for growing alternative energy markets and offer this improved design as a value proposition in competing for contracts.
  - Defense/Homeland Security**
    - Collaborators must have CAGE codes and exhibit a level of knowledge and success in previous government bids.

- Collaborators should be able to demonstrate that by working on bids together, there is a higher likelihood of landing contracts of higher total value than companies bidding on their own.

#### **Electrified Vehicles**

- Collaborators will be focused on developing and manufacturing materials and components to be used in electrified vehicles and/or energy storage systems for the power grid.
- Collaborators should demonstrate that there will be efficiency and increased success by collaborating in order to land new business and develop a supply chain centered in Michigan.
- Collaborators should be able to exhibit some level of knowledge in competing for business within the electrified vehicle or grid storage spaces.

#### **Commercial Aerospace**

- Collaborators should be focused on offering new and replacement parts to primes and Tier 1 and Tier 2 suppliers.
- Collaborators must have or be currently working towards AS9100 certification.
- Collaborators should demonstrate that there will be efficiency and increased success in common marketing and sales outreach to primes and Tier 1 and Tier 2 suppliers through this collaboration.

The agreement must demonstrate that it will provide its participants enhanced economic effectiveness with respect to each of the elements included in the collaborative agreement.

To apply for consideration for a new Tool and Die Recovery Zone designation, there is an annual competitive process. The deadline date to submit applications is in September each year. There must be a minimum of four companies participating in a collaborative agreement. The maximum number of companies participating in a collaborative is 20.

For companies being allowed to join an existing Recovery Zone, a separate application for this situation must be submitted by the Recovery Zone on behalf of the company joining. A company being allowed to join

still must meet all the requirements in the law and all collaborative members must consent to a new company becoming a member. Applications for this circumstance will be accepted on an ongoing basis until October each year. Recovery Zone designation would become effective the year after designation. The company would have a limited duration time that could not exceed the Recovery Zone's original maximum allowable 15 year duration. A list of Recovery Zone contact individuals is on the Michigan Economic Development Corporation<sup>SM</sup> (MEDC) web site.

Companies must be current with all state and local taxes in order to be eligible for benefits under the program.

Companies located in a Recovery Zone are eligible for an exemption, deduction or credit on the following taxes: Michigan Business Tax (MBT), state education tax, personal and real property taxes, and local income tax where applicable. Taxes still due are those mandated by the federal government, local bond obligations, school sinking fund or special assessments. Companies are not exempt from paying Michigan sales tax.

The state of Michigan reimburses intermediate school districts, local school districts, community college districts and public libraries where taxes are abated. The state of Michigan does not replace the tax revenue lost to the local unit of government or other taxing jurisdictions except those listed in the preceding sentence.

Companies must still file annual Michigan Business Tax (MBT) returns and city income tax returns if applicable. Companies must still file an annual Personal Property Statement. Failure to submit these tax forms will result in delinquency and a business can be denied benefits of the program for failing to file the proper annual tax forms.

Taxes can be abated up to 15 years. In all cases, the tax relief will be phased out in 25% increments over the last three years of the zone designation.

For answers to questions regarding NAICS codes, visit the U.S. Census web site: [www.census.gov/eos/www/naics/faqs/faqs.html](http://www.census.gov/eos/www/naics/faqs/faqs.html).

For more information, contact the MEDC Customer Assistance Center at 517.373.9808.

## COMMERCIAL REDEVELOPMENT ACT

Public Act 255 of 1978 encourages the replacement, restoration and new construction of commercial property by abating the property taxes generated from new investment for a period up to 12 years. As defined, commercial property means land improvements whether completed or in the process of construction, the primary purpose and use of which is the operation of a commercial business enterprise, including office, engineering, research and development, warehousing parts distribution, retail sales, hotel or motel development, and other commercial facilities. Land and personal property are not eligible for abatement under this act.

### WHO IS ELIGIBLE?

“Local governmental unit” means a city or village.

### WHAT IS A REPLACEMENT, NEW AND RESTORED FACILITY?

Replacement Facility means commercial property to be acquired, constructed, altered, or installed for the purpose of being substituted for obsolete commercial property. Property impaired due to changes in design, construction, technology, or improved production processes, or damage due to fire, natural disaster, or general neglect shall be considered obsolete. All other *new* commercial property is considered a New Facility. For purposes of granting the tax abatement, the Replacement or New Facility must meet all following conditions:

1. Is located on property that is zoned to allow for mixed use, including high-density residential.
2. Is located in a qualified downtown revitalization district as defined in section 2 of the **Neighborhood Enterprise Zone act (PA 147 of 1992)**. This requires either being located in a **Downtown Development Authority (PA 197 of 1975)**, **Principal Shopping District** or a **Business Improvement District (PA 1961 of 120)** or an area that is zoned and primarily used for business as determined by the local government unit.

3. The city or village establishes and implements an expedited local permitting and inspection process in the Commercial Redevelopment District. In addition, by resolution provides for the walkable nonmotorized interconnections, including sidewalks and streetscapes throughout the Commercial Redevelopment District.

A “Restored Facility” means changes to obsolete commercial property as may be required to restore the property to an economically efficient condition. Restoration must result in improvements aggregating to *more than* 10% of the true cash value of the property at commencement of the restoration. Restoration includes major renovation including, but not limited to, the improvement of floor loads, correction of deficient or excessive height, new or improved fixed building equipment, including heating, ventilation, and lighting, reducing multistory facilities to one or two stories, improved structural support including foundations, improved roof structure and cover, floor replacement, improved wall placement, improved exterior and interior appearance of buildings, and other physical changes.

### WHAT IS THE PROCESS?

Before the Commercial Redevelopment Exemption Certificate (i.e. property tax abatement) can be granted for the Facility, the city or village, by resolution of its legislative body, must establish a Commercial Redevelopment District. The establishment of the District may be initiated by the local government unit or by owners of property comprising 75% of state equalized value of the property in the proposed district. At the time of the resolution’s adoption, property within District must meet one of the following:

1. Obsolete commercial property or cleared or vacant land which part of an existing developed commercial or industrial zone. The property must have been zoned commercial or industrial before June 21, 1975, and characterized by obsolete commercial property and a decline in commercial activity.
2. Land cleared as a result of fire damage, or cleared as blighted area under **Blighted Area Rehabilitation Act (PA 344 of 1945)**.

3. Cleared or vacant land included in a redevelopment plan adopted by the Downtown Development Authority (PA 197 of 1975) or Principal Shopping District or a Business Improvement District (PA 1961 of 120).

To establish the Commercial Redevelopment District, the city or village must first hold a hearing to establish a Commercial Rehabilitation District and determine in the resolution the district meets the requirements of the Act.

Once the district is established, the property owners may file an application with the local clerk for a Commercial Facilities Exemption Certificate. Applications are available from the Michigan Department of Treasury. The local clerk shall provide written notification to the assessor of the local unit of government and each taxing jurisdiction that levies ad valorem property taxes of the application hearing. Before acting on the application, the city or village shall hold a public hearing on the application and not more 60 days after receipt of the application either approve or disapprove the application by resolution. If approved, the application and resolution must be sent to the State Tax Commission for filing purposes.

### **COMMERCIAL FACILITIES EXEMPTION CERTIFICATE**

The property owner must pay a Commercial Facilities Tax rather than the normal property tax. The certificate must be issued for a period of at least one year, but cannot exceed 12 years. Certificates initially issued for less than 12 years may be extended based upon factors placed in writing at the time the certificate is approved, but shall not exceed 12 years.

### **DETERMINING COMMERCIAL FACILITIES TAX RATE**

**For a Restored Facility:** The Commercial Facilities Tax freezes the taxable value of the building at its value prior to restoration, therefore exempting the new investment from local taxes for a period not to exceed 12 years. The school operating tax and the State Education Tax (SET) are also frozen. Land and personal property cannot be abated under this act.

**For a New or Replacement Facility:** The Commercial Facilities Tax provides a 50% reduction in the number mills levied as ad valorem taxes, excluding only the State Education Tax (SET). Land and personal property cannot be abated under this act.

Within 60 days after the granting of a new Commercial Facilities Exemption Certificate, the State Treasurer may exempt 50% of the SET mills for a period not to exceed six years. The State Treasurer will not grant more than 25 of these SET exclusions each year.

### **SUPPORTING STATUTES**

**PA 255 of 1978-Commercial Redevelopment Act**

### **CONTACT INFORMATION**

For more information contact the MEDC Customer Assistance Center at 517.373.9808.