



## CITY COUNCIL AGENDA ITEM

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August 11, 2010

To: The Honorable Mayor and City Council

From: John Szerlag, City Manager  
John M. Lamerato, Assistant City Manager/Finance & Administration  
Mark F. Miller, Assistant City Manager/Economic Development Services  
Nino Licari, City Assessor  
Pamela Valentik, Economic Development Specialist

Subject: Amending the Personal Property Tax Abatement Policy

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On August 9, 2010, City Council conducted a study session to discuss the current environment for attracting businesses to the City of Troy and the tools necessary to market Troy as the place to do business. One tool that was specifically discussed was the Industrial Facilities Tax Abatement (P.A. 198 of 1974). Tax abatements have been used by City Council to incentivize new investment in personal property. While the guidelines within P.A. 198 allow communities to provide a 50% abatement on both real and personal property, Troy's current policy only allows for businesses to be eligible for an abatement on their new personal property.

In recent months, City Management has been approached by prospective businesses, property owners and fellow economic development agencies to consider extending our tax abatement policy to include real property. Discussion during the August 9<sup>th</sup> study session led to the need to take advantage of available tools to make Troy competitive when bidding on large attraction and retention projects. Thus City Management has prepared an amended tax abatement policy to include real property for your review and consideration.

The amended tax abatement policy will address a number of items. First of all, companies making capital investments to their operations may be eligible for both real property (building only) and/or personal property. In order for a company to be eligible for a real property tax abatement they must build (or lease with the liability of all real property taxes) a new facility or make improvements to a facility that increase the value of the structure. The applicant will only receive a 50% abatement towards their new real property tax liability, based on the increased value of the structure.

The amended policy will eliminate reference to zoning of the property and more accurately follow the criteria for eligible projects under the guidelines of PA 198 of 1974 (industrial and high tech operations). The amended policy will also address the need for all approved tax abatements to be revenue neutral to the City of Troy. Whereas the combination of the new abated personal property (taxed at half the normal rate) and any abated real property (taxed at half the normal rate) should at least generate a total amount of City taxes equal to the current taxes on the structure and land.



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The amended policy will continue to require the applicant to create more than 10 jobs and/or have a personal property investment of at least \$750,000, and/or own the underlying real property or have a lease for the underlying property for a minimum term of five years, as long as two of the three criteria are satisfied.

However, note that the amended policy will adjust the matrix to allow for applicants with a lease term of five years to be eligible for one year term of the IFEC abatement.

Please see the attached red-lined resolution for the complete recommended changes to the current Personal Property Tax Abatement Policy that was adopted by City Council in February of 2009.

Reviewed as to Form and Legality:

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Lori Grigg Bluhm, City Attorney

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

Resolution #2010-

Moved by

Seconded by

WHEREAS, The City of Troy has the economic objective of (a) increasing employment opportunities, (b) diversifying and stabilizing the ~~industrial tax~~ 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 building~~ sites and (h) enhance our economic development tools to attract and retain businesses; 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~~ abatements for ~~certain industrial~~ eligible 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  
~~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~~
2. Any real and/or personal property tax abatement must be at a minimum, 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 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~~ for a minimum term of 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:

Tax Abatement Matrix <u>for Real and Personal Property</u>					
Job Creation		Building Terms		<u>RP and/or PP Investment</u>	
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	<del>4</del> - 5 year	<u>1 Year</u>	\$ 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				

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:

No:

**MOTION CARRIED**