

**CITY of NOVI CITY COUNCIL**

**Agenda Item 6  
September 8, 2008**

**SUBJECT:** Adoption of revisions of existing PA198 Property Tax Abatement Policy.

**SUBMITTING DEPARTMENT:** Neighborhood & Business Relations – Economic Development

**CITY MANAGER APPROVAL** 

**BACKGROUND INFORMATION:**

As part of the 2008 Economic Development goals (December, 2007), city staff indicated that an updated report discussing potential changes to the existing property Tax Abatement Policy would be forthcoming by the end of September, 2008.

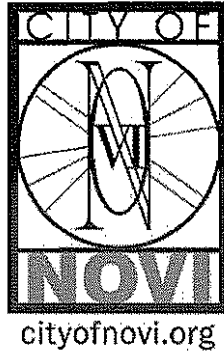
The essence of the policy remains unchanged. The existing policy provides a conduit and criteria for considering major projects, but treats investments fairly, recognizes our role primarily for providing public safety and infrastructure, and does not fundamentally undermine the City's tax base, our primary source of revenue for essential services. Property tax abatements have a valid, but limited benefit for attracting **major** or unique new projects or for retaining/expanding existing projects. The proposed tax abatement policy outlines fewer criteria which have also been simplified and emphasizes high-paying jobs as part of the basis for considering abatements.

Having a policy is important because it clearly states guidelines and expectations for potential business seeking abatements from the City of Novi. It is suggested monitoring continue to of this tax abatement policy and revisit for potential updates every two years due to an ever-changing local economy. Novi has developed a policy for the possible consideration of tax abatements with goals focused on: exceptional projects, rehabilitation, significant capital investment, high-end salary employment, and architectural excellence.

**RECOMMENDED ACTION:** Adoption of revisions of existing PA198 Property Tax Abatement Policy.

	1	2	Y	N
Mayor Landry				
Mayor Pro Tem Capello				
Council Member Crawford				
Council Member Gatt				

	1	2	Y	N
Council Member Margolis				
Council Member Mutch				
Council Member Staudt				



**RESOLUTION CLARIFYING CITY OF NOVI TAX ABATEMENT POLICY**

WHEREAS the Novi City Council adopted the Tax Abatement Policy on May 15, 2000 for the purpose of providing standards for the consideration of requests for the establishment of Industrial Development Districts, and requests for the issuance of Industrial Facilities Exemption Certificates; and

WHEREAS, on January 13, 2007, the City Council adopted goals and strategies of the City of Novi Economic Development Corporation and subsequently discussed these goal in December 2007; and

WHEREAS, the existing Tax Abatement Policy provides a conduit and criteria for considering major projects but treats investments fairly, recognizes our role primarily for providing public safety and infrastructure, and does not fundamentally undermine the City's tax base which is our primary source of revenue for essential services.

NOW, THEREFORE, BE IT RESOLVED, that the Novi City Council hereby acknowledges that with an ever-changing local economy, that this policy be monitored and updated every two years: and

That the current Tax Abatement Policy be amended with goals focused on: exceptional projects, rehabilitation, significant capital investment, high-end salary employment and architectural excellence.

AYES:

NAYS:

ABSTENTIONS:

ABSENT:

RESOLUTION DECLARED ADOPTED.

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MARYANNE CORNELIUS, CITY CLERK

**CERTIFICATION**

I hereby certify that the foregoing is a true and complete copy of a Resolution adopted by the City Council of the City of Novi at a Regular meeting held this 8th day of September, 2008.

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MARYANNE CORNELIUS, CITY CLERK

## **City of Novi Tax Abatement Policy**

### **Tax Abatement Statement of Purpose**

The City of Novi established this policy in order to permit the possible consideration of tax abatement incentives for certain exceptional projects that propose to locate/relocate in the City of Novi. Possible consideration of any tax abatement or any form of local participation with the Michigan Economic Growth Authority will be on a limited basis.

To qualify for the possible consideration of tax abatement under the Plant Rehabilitation and Industrial Development Districts Act, PA 198 of 1974, an applicant must first meet the eligibility requirements. If an application meets such requirements, the application may be reviewed on its own individual merits with respect to the degree to which the project achieves the economic development goals and satisfies the criteria outlined in this policy. Applicants must bear the quantitative burden of proof to demonstrate that exceptional economic benefits will accrue to the City of Novi as a result of a tax abatement approval. Such proposals must specifically relate to the City Council's Tax Abatement Goals and Guidelines. Applicants must substantially satisfy conditions of the policy at initial application in order to be considered for abatement.

Historically, the City of Novi has utilized this tool on a few occasions. It is the policy of the City of Novi to consider property tax abatements for large, high quality investors with considerable long range and ancillary benefit.

In order to continue the high quality that is expected by Novi residents and the business community, abatements that do not meet the criteria set forth in the City's Tax Abatement Policy cannot be recommended unless there are unique or strategic additional reasons. Property taxes and state shared revenue monies are the City's two primary revenue sources to provide service that help make us attractive.

Review of applications shall be as required by statute. When the Novi City Council reviews a tax abatement application, it may approve, deny, or approve the proposal with conditions within the time specified by statute.

Following such review, the City Council may consider necessary actions for a tax abatement or participation with other government incentives. All procedures, rights and obligations concerning such exemptions are subject to the Plant Rehabilitation and Industrial Development Districts Act, PA 198 of 1974, as amended.

### **Tax Abatement Goals**

The City of Novi may establish a Plant Rehabilitation and industrial Development District or participate with any other governmental incentive for any of the following reasons:

A. To attract exceptional projects to the City of Novi in order to provide a greater tax base, without creating a high demand for city services and city-funded infrastructure improvements.

B. To promote the preservation of natural resources that exceeds the requirements of the City of Novi's environmental regulations, and achieves a higher level of preservation of natural environmental features as identified in Novi's 2020 Master Plan for Land Use and Wildlife Habitat Plan.

C. To promote the rehabilitation of obsolete facilities and/or expanding of existing facilities that provides significant benefits to the community, without creating a high demand for city services and city-funded infrastructure improvements.

D. To encourage and promote significant capital investments that will serve as a catalyst for other significant investments within the community.

E. To create or retain a significant number of employment opportunities within the community that offer competitive wages within the industry.

F. To promote architectural excellence that demonstrates state of the art design, placement, sense of place, form, scale and identity that exceed City standards.

### **Application Criteria**

The following criteria will be used to evaluate requests for tax abatement and determination of the number of years of the abatement. The City Council reserves the right to modify the tax abatement criteria to reflect changing objectives, priorities or conditions of the community. All of the following items would need to be initially addressed by the applicant before consideration can move forward.

1. A project must not have started more than 6 months before an application for abatement was received by the City, and be located in a plant rehabilitation district or industrial development district established prior to the commencement of the project.
2. There must be no outstanding taxes owed by the applicant or entity on the project.
3. If the facility is leased, the number of years awarded will not exceed the length of the lease.
4. There is no pending or current litigation, including but not limited to property tax appeals, against the City by the applicant or its agents.
5. Tax incentives will only be offered for the current phase of a project.
6. The project must be fiscally beneficial to Novi from a tax revenue standpoint and must have the potential to increase employment opportunities for citizens of the community.
7. The company must demonstrate it would not locate or expand in the City if tax abatement was not available.
8. The cost disparity between expanding or locating in Novi and alternative locations outside the community must be demonstrated by the applicant.
9. The long term impact of the project on Novi's economy, particularly in both real and personal property.
10. The contributions the business has made to communities where it is currently located (i.e., are they a good neighbor. do they get involved in civic activities).
11. Diversification of the tax base that will have the effect of developing both real and personal property to Novi's tax base.
12. The development will provide enhanced opportunities for the existing business community.
13. Evidence of corporate ongoing profitability, viability and vitality must be demonstrated, such as net profit, by percentage, and in real dollars for the last three corporate fiscal years.
14. Applicants are to provide a fiscal impact analysis that demonstrates the positive impacts to the community and where the benefits outweigh the abated amount in taxes for the duration of the abatement.

15. Any approved tax abatements will undergo a yearly compliance review.
16. The applicant must be committed to the community for the entire term of the tax abatement and into the future. Evidence of this involvement would need to occur once abatement is awarded to applicant.
17. The granting of the industrial facilities exemption certificate, considered together with the aggregate amount of industrial facilities exemption certificates previously granted and currently in force, shall not have the effect of substantially impeding the operation of the City.



## CITY OF NOVI PA 198 (TAX ABATEMENT) CHART

Number of new or retained full time jobs resulting from construction or long-term lease

Value of Investment	0-24	25-75	76-100	101-175	176-225	226-275	276-300	301-350	351+
\$5,000,000 - \$9,999,999	0	0	0	3	4	5	6	7	8
\$10,000,000 - \$19,999,999	0	0	3	4	5	6	7	8	
\$20,000,000 - \$29,999,999	2	3	4	5	6	7	8		
\$30,000,000 - \$39,999,999	3	4	5	6	7	8			
\$40,000,000 - \$49,999,999	4	5	6	7	8				
\$50,000,000 +	8								

- High-tech business with full-time/high salaried positions for workforce will only be considered. (i.e. \$50K+)
- City of Novi's abatement policy is a maximum of eight years on all abatements with a minimum investment of 101 full time positions and \$10 million in investment.

Date: Wednesday, October 3, 2007  
Volume: #46 Report: #195

## **Study Says PA 198 Largely A Failure**

By Gongwer News Service/Michigan

One of the oldest economic development/tax break tools Michigan has used has largely been a failure, a study released on Wednesday says, costing local governments more than \$1 billion in revenues while largely doing nothing to attract and retain companies.

The study also suggested that the tax policy, PA 198, 1974, can help spur urban sprawl because suburban governments use the act to attract new companies.

But the study acknowledged that as long as other states offered similar incentive tools, Michigan officials and economic development executives say the state has to continue to offer the tax incentives. If such incentives are offered, however, the study suggests that tax breaks be focused more on "21<sup>st</sup> Century" industries such as biotechnology, alternative fuel development, information technology, software development and the like.

The study was conducted for the Land Policy Institute at Michigan State University and was released as part of a seminar hosted by both the land policy group and the Institute for Public Policy and Social Research at MSU.

The incentive allows for a 12-year property tax abatement to companies to either preserve jobs or expand jobs.

While the act was created in response to a threat by Chrysler Corporation to close a plant in Detroit, the study found that Grand Rapids had issued the most such abatements, 522 out of some 16,700 abatements granted. Since 1980, more than 40 percent of all local governments had issued the abatements, the study said.

The study said that Detroit lost about \$40,000 in property tax revenue for each job created or preserved by the credit, while Alpine Township in suburban Grand Rapids had lost \$19,615 annually for each job related to the credit.

Overall, the study said local governments lost \$1 billion annually in property tax revenue "in a largely futile effort to attract and keep manufacturing jobs."

The only industry that actually benefited from the abatements is heavy transportation manufacturing and even that industry has lost most of the jobs created because of the state's ongoing economic stress.

"The reality is that significant financial incentives have been directed industries suffering from permanent structural decline," the study said.

But local government officials said the law is a critical tool to maintaining overall competitiveness in attracting businesses.



October 3, 2007

## Tax Abatements Ineffective

By Michigan Information & Research Service Inc. (MIRS) News

Local governments that use tax abatements as a way to attract industrial development are throwing away \$1 billion in tax revenue without the benefit of it cutting into its local unemployment rate, according to a study released today by Wayne State University Professor Gary SANDS and Laura REESE, director of Global Urban Studies at Michigan State University (MSU).

The study showed that in the 30-plus years Michigan has allowed local governments to halve the amount of property tax money industry needs to pay, the participating units of government are not necessarily better off, leading to the conclusion that the tax abatements are not only ineffective at aiding economic growth, but contributing to the fiscal distress.

Sands spoke of his new report today at an Institute of Public Policy and Social Research (IPPSR) seminar sponsored by MSU.

"Communities that seldom, if ever, granted abatements during the 1990s were about as likely to experience economic growth as communities that were generous in granting abatements," according to the report, "Industrial Facilities Tax Abatements: Current Practices and Policy Recommendation."

The report found the 70,000 jobs that abatements were supposed to produce in the high-tech manufacturing sector in the 1990s never materialized, or actually left Michigan. Also, cities offering the tax abatement as part of a strategy to preserve the dying manufacturing sectors saw industries jumping on the tax abatements awarded it by the faster growing suburb, which added to "urban sprawl."

John CZARNECKI, director of program administration for the Michigan Economic Development Corporation (MEDC), disputed the report's contention that the tax abatements don't help. He noted that the Gov. John ENGLER administration tossed around the idea of not offering financial incentives to industries that move to Michigan, but since every other state in the union has tax abatements and incentives, Michigan would be at a disadvantage if it didn't.

Some states, he noted, are actually giving industries cash for locating within its boundaries. Michigan needs all the tools it can get.

"We're not picking winners and losers," he said. "We're in a competition for jobs and the competition is fierce."

Annually, between 600 and 650 tax abatements are granted by local governments. Kent and Ottawa Counties tend to use the tool more than southeast Michigan. With unemployment numbers smaller in Western Michigan, Czarnecki wondered aloud if there may be a correlation that Sands didn't consider.

Tax abatements have been a favored industrial development tool in Michigan since 1974, when the Legislature approved Public Act 198 following the Chrysler Corporation's threat to shutter the Mac Avenue stamping plant in Detroit unless the company secured significant tax relief.

Under the law, the tax breaks are awarded as incentives for businesses to either remain in a community to retain jobs, or to encourage new businesses to locate in a community. The abatements cut in half taxes the firm must pay for new equipment or property. In return, the facility agrees to create jobs or prevent their loss. Tax abatements can be granted for up to 12 years. On average, about

600 abatements are awarded each year, sharply diminishing local tax revenue statewide by \$1 billion annually.

Abatements are popular and generally not monitored after they are awarded, the researchers found. Since 1980, according to the new study, more than 40 percent of 1,773 local governments approved at least one tax abatement. Grand Rapids has made the most use of the tool, approving 522 of the 16,700 abatements issued by local governments in Michigan.

Nearly \$70 billion in industrial investments during the past 25 years received tax abatements, according to the study, 63 percent since 1996. And manufacturers asserted that with the help of tax abatements, they retained one million existing jobs since 1980, and generated 286,000 new jobs.

Sands said, "If Indiana and Ohio kept on giving firms abatements, then yes, some plants would leave, but most of the investment covered by tax abatements could continue to happen."

"Many times, abatements are granted to the same companies over and over again," said Reese, adding that abatements are an expensive way to forestall the inevitable for maintaining firms that are struggling to stay afloat in dying industries.