

CITY of NOVI CITY COUNCIL

Agenda Item 7
July 28, 2008

SUBJECT: Approval of strategy/criteria for pursuing high-tech MEGA projects as part of economic development attraction efforts.

SUBMITTING DEPARTMENT: Neighborhood & Business Relations / Economic Development

CITY MANAGER APPROVAL: 

BACKGROUND INFORMATION:

Recent legislation has amended the requirements for local government participation in grants to businesses under the Michigan Economic Growth Authority Act (MEGA). Before these recent amendments, the MEGA Board and the Michigan Economic Development Corporation (MEDC), which processes the grants, tended to require (or at least push) local participation in the form of property tax abatements, typically under what is referred to as Act 198. As revised, the provisions of the MEGA statute relating to the "local share" refer only generally to "staff, financial, or economic assistance provided by the local government unit, or local economic development corporation or similar entity." MCL 207.808(2)(f). According to its own recent publications, the MEDC appears to be reading that language broadly to require only generally that "[t]he local government or a local economic development organization where the project is located must provide economic assistance to support the proposed expansion or location."

With a new 'streamlined' process and flexibility for local participation, the City of Novi anticipates that there might be a corresponding increase in the number of requests for MEGA grants and therefore some sort of City participation in the grant application and review process. While projects might typically take several months to percolate through the system before getting to the point of needing City response, proposals for City participation can also arise and need to be reacted to very quickly. Two recent City-approved projects, Brembo and Harman/Becker for example, came about in close proximity to each other and demanded almost immediate response by the City as to how it might participate.

The speed with which these two projects came forward highlighted the need to have in place a policy that can be pointed to (and negotiated from) quickly and easily relating to retention, expansion, or attraction prospects within the City under the MEGA program. The Novi City Council has therefore agreed to consider a policy statement with regard to its plans for participation in the MEGA program, in order to aid staff in discussions as they arise, and to provide a higher level of certainty and confluence with the City Council's direction.

Generally speaking, the amount and nature of City participation should be relatively low cost, and should emphasize infrastructure and public improvements as a first choice for local participation. City participation on MEGA projects should also be confined to an up-front, known amount and should generally not involve multi-year property tax abatements. From Novi's perspective, the local function is to help encourage projects that are selecting the City for the merits of the location but who need a "final mile" encouragement to close the decision.

It is therefore the policy of the City is to avoid the granting of tax abatements (e.g., under PA 198) for these types of projects (a separate property tax abatement policy, to be

reviewed in August, addresses those criteria) in favor of participating in infrastructure and required public improvement. A total of \$100,000 to be allocated as a budgeted line item that would not be used unless a project presents itself and deems beneficial to the City of Novi under the following guidelines:

INCOMING BUSINESS that wish to become eligible for local contribution:

- **Business must provide a letter of intent** outlining the project and request for local contribution from the City of Novi. Letter should include information that details:
 - history of company
 - years in current location
 - local job creation plan
 - total capital investment
 - estimated personal property investment
 - actual address of desired location or possibilities
- **Participation only in High Tech MEGA projects.** Businesses that are primarily engaged in a “high technology activity” or that use at least 25% of total operating expenses for research and development may qualify for the MEDC credit, which are the types of companies we wish to attract and retain in Novi. Eligible activities are outlined through the MEDC guidelines.
- In accordance to current tax abatement policy, job creation is a priority in offering incentives. It is recommended that such **companies create a minimum of ten new jobs in the first year and 25 no later than the fifth year.**
- It is recommended that these jobs have a **minimum average salary of \$50,000 per employee.**
- City to look for **long-term/stable business** that can demonstrate and substantiate growth by providing appropriate documentation.
- Prefer business to **own building**; allowing flexibility for **long-term lease (a minimum of 10 years)** of a building would be recommended in order to give the company future flexibility for expansion.

CITY OF NOVI will provide:

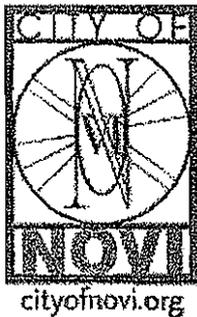
- Funds would be allocated for public infrastructure improvements such as drive approach, road curb-cuts, pervious asphalt, traffic signage and/or bioswale/rain garden, to be determined upon submission of final site plan.
- Expeditious review process and inspection times.
- Staff support and coordination of the project.

RECOMMENDED ACTION: Approval of strategy/criteria for pursuing high-tech MEGA projects as part of economic development attraction efforts.

	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				

MEMORANDUM



TO: CLAY PEARSON, CITY MANAGER
FROM: ARA TOPOUZIAN, ECONOMIC DEVELOPMENT MANAGER
SUBJECT: STRATEGY/CRITERIA FOR HIGH-TECH MEGA PROJECTS
DATE: JULY 17, 2008

To Mayor and City Council Members

For discussion 7/28.

CP

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c: Pam Antil, Assistant City Manager



MEGA STANDARD AND RURAL JOB CREATION TAX CREDITS

The Michigan Economic Growth Authority (MEGA), the state's response to interstate competition for company expansions and relocations, may provide a refundable tax credit against the Michigan Business Tax (MBT) to companies expanding or relocating their operations in Michigan. Companies eligible for a MEGA Employment Tax Credit against the MBT are those engaged in manufacturing, mining, research and development, wholesale and trade, film and digital media, office operations, or certain tourism projects. Generally, retail facilities are not eligible. Credits are awarded on the company's strength of the project, program guidelines and MEGA board approval.

Standard MEGA tax credits are available to companies creating at least 50 new jobs by the first year of the credit, as determined by the MEGA. The new jobs must be in addition to those existing during the year preceding application for the credit and previously existing jobs must be maintained for the life of the credit.

Rural MEGA tax credits are available to companies in counties with populations less than 90,000. The job creation requirement for a Rural MEGA are five new jobs by the first year of the credit and 25 new jobs by the fifth year of the credit, as determined by MEGA, along with the maintenance of the base employment level.

The following are statutory requirements on all MEGA credits:

- The MEGA tax credits must address any competitive disadvantage of expanding or locating a business in Michigan.
- Each and every new job must pay at least 150 percent of the Federal Minimum Wage.
- Employees must work at least 35 hours per week to be eligible for the credit.
- The project demonstrates how it will create employment opportunities for Michigan and strengthen its economy.
- The company cannot begin construction of the project before the MEGA credit is awarded.
- The project will require a repayment provision should the company move new jobs from the state during the term of the credit.
- The new jobs must be in addition to those existing during the year preceding application for the credit.
- Existing jobs must be maintained for the life of the credit.

Each credit may be awarded for up to 20 years and up to 100 percent of an amount equal to the salaries and wages and employer-paid health care benefits multiplied by the personal income tax rate.

The eight-member MEGA Board evaluates project applications after Michigan Economic Development CorporationSM (MEDC) staff has negotiated the terms of the project. Below is a list of factors that will be considered by the Board in determining the amount and duration of each project:

- Local government or local economic development organization financial or economic contribution to the project
- The overall capital investment for each project
- The average wage and employer-paid health care benefits relative to other companies within the county where the project will locate



- Whether the company chooses to reuse or redevelop previously utilized property
- Whether the project will occur in Michigan without the tax credit
- The potential impact on Michigan's economy.

A non-refundable application fee is collected at the time the company submits its application for a MEGA credit. In addition, a one-time only administrative fee of one-half of one

percent of the estimated value of the MEGA incentive will be assessed. This fee is payable at the time the company requests their initial tax credit and cannot exceed \$100,000.

Economic developers with specific projects potentially eligible for MEGA tax credits should contact their MEDC business development manager. For more information, contact the MEDC Customer Assistance Center at 517.373.9808 or visit our Web site at TheMEDC.org.