

City of Frankenmuth Financial Incentives: Tax Abatements

About P.A. 198 of 1974 Tax Abatement.

PA 198 (Tax Abatement) provides a 50% abatement on ad valorem taxes on real property for qualified projects for up to 12 years. PA 198 also provides the same for projects of new construction with an option to allow the abatement for an additional two years. The Tax Abatement Exemption applies to buildings and building improvements, only. LAND is specifically excluded and fully taxable.

Personal Property for manufacturing facilities is no longer taxed per the State of Michigan. Instead of property tax, the company will pay the Essential Services Assessment (ESA) Tax. The ESA tax can be abated by the Michigan Strategic Fund if the investment is over \$25 million and meets other criteria.

The City of Frankenmuth will consider Tax Abatements for qualified projects in order ...

- To facilitate the expansion of the tax base;
- To retain and create jobs in the City;
- To support investment in qualified targeted economic sectors including 1.) Light industrial, 2.) Agribusiness, 3) Advanced or High Technology and 4.) others, as deemed important at the time of application.
- To retain Frankenmuth businesses and enable their expansion; and,
- To serve a good public purpose, i.e. providing for environmental or infrastructure improvements and/or enabling a grant opportunity or other state incentive that requires a local match or local support for the project.

The City of Frankenmuth will review the use of certain development incentives including Tax Abatements for each project as vetted by the City's Economic Development Corporation and recommended to the Council for action.

- The City will be transparent and consistent in its recommendations.
- The City has control only over incentives provided through the City, only; additional approval for Tax Abatement is required from the State Tax Commission (STC).
- While a standard for approving Tax Abatements is outlined in this policy, the City reserves the right to vary from these policies, negotiating differing terms based on potentially extraordinary benefits the development brings such as a significant number (100 or more) of retained or new employees or the opportunity for a project that represents good public purpose, among others.
- The City retains the right to make the final decision. If an applicant wants to appeal the decision, it may do so at the State Tax Commission.
- The City may recommend that the applicant use the services of Saginaw Future, Saginaw County's economic development agency, for assistance in preparing the required applications.

Who Qualifies for a Tax Abatement?

Eligible Facilities Include:

- Industrial users who primarily manufacture or process goods or materials by physical change;
- Related facilities of Michigan-located manufacturers, are also eligible for exemption. These facilities, owned by industrial users, include those such as administrative offices, engineering, research and development, warehousing or parts distribution; and
- High technology companies including advanced computing, advanced materials, biotechnology, electronic device technology, engineering or laboratory testing related to product research and

development and advanced vehicles technology or technology that assists in the assessment of threats or damage to human health or the environment.

Development Requirements:

- Applicant must be qualified to apply as defined under State of Michigan law.
- Applicant shall have no outstanding property taxes or special assessments in the City of Frankenmuth or elsewhere.
- Applicant shall not be in violation of any city ordinances.
- The development site is located in an Industrial Development District (IDD). The City can establish an IDD then approve a Tax Abatement Application at the same meeting.
- The threshold for consideration of a project for a Tax Abatement is a minimum investment of \$100,000 in real property improvements.
- The applicant must be able to answer “yes” to at least two (2) of the following five (5) questions:
 - Does the project provide for expansion of the City’s tax base?
 - Does the project create or retain jobs?
 - Does the project support the development of targeted economic sectors?
 - Does the project retain a Frankenmuth Business?
 - Does the Project provide for infrastructure or environmental improvements?

How Long Is the Approval Process?

- The City Clerk will confirm if an Industrial Development District (IDD) is in place. IF not, the applicant or City can request that an IDD be created for the project site.
- Under State Law, a qualified applicant must apply for a Tax Abatement no later than six months after the commencement of a project if an IDD is in place. If not, the applicant should request the City to create the IDD, as the first step.
- In order to receive consideration and action by December 31 of the year of application, the STC requires the tax abatement paperwork be submitted by the City no later than October 31 of that same year.
- The project must be completed no later than three (3) years after receipt of an exemption certificate.
- Provided that the City Clerk determines that the IFT application is complete, the City Council will review the application for approval no later than 45 days after certification of completeness.

The Approval Process

- Applicant submits a letter of intent to the City Clerk, who forwards the communication to the EDC or its representative. The letter (or application) includes specific information about the scope of the project, the background of the company, the amount of investment and the number of jobs created/retained. Included with the letter of intent, is a fee payment in the amount as confirmed on January 1 of each calendar year, which provides for the publication and issuance of the public hearing notice, among other tasks.
- If a project is confidential and the decision for a site location is not yet confirmed, the City Manager may verbally indicate and/or write a letter giving a soft commitment that the City has always approved IFT applications for qualified projects.
- The EDC and or its representative meets with the applicant and prepares a report for the City Council’s review and potential approval.

If the project qualifies for consideration of an Industrial Tax Abatement, the EDC representative prepares a report and recommendation. The report will include relevant information, including

- A comparison of the cost of the incentive against the benefits the project is expected to produce;
- A review of the impact of the project on current tax base and resultant revenue on the city; and
- An analysis of the impact of a project on other businesses in the City.
- The City Council will review the tax abatement request no more than 45 days after the letter of intent is submitted to, and certified complete by the City Clerk.
- Should a Tax Abatement be recommended for approval, the terms of the Tax Abatement will include a 50% abatement for a period of up to 12 years.

Other Considerations

- Should the EDC not recommend the project for tax abatement, the applicant may appeal directly to the City Council. Should the City Council not approve a requested tax abatement, the applicant may appeal the decision to the STC.
- A lessee may apply for a Tax Abatement provided the lessee is responsible for payment of the taxes and a copy of the lease is provided to the City at the time of application.
- Certificates may be transferred to a new owner or lessee with the approval of the City Council. The process to transfer will follow the same process to create the original IFT exemption. The City reserves the right to amend terms of the IFT for the new user.
- This City policy will follow legal requirements of the State Statute, which provisions will prevail should there be inconsistency between the two.
- Once an IFT Exemption Certificate is issued by the STC, no extensions or changes may be made without re-application to the City Council.
- A certificate may be revoked if the applicant is no longer compliant with the original certificate and/or fails to pay their ad valorem taxes.
- Speculative buildings may qualify for IFT exemption provided certain procedures are followed. These are outlined in the state statute.