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TO: COUNCIL MEMBERS
FROM: David Whitaker, Director
Legislative Policy Division Staff
DATE: July 15, 2019
RE: 13400 Mt. Elliot, LLC Public Act 198 Certificate Request

Industrial Facility Abatements (Public Act 198 of 1974)

Public Act 198 of 1974, as amended, is the primary tool local units of government use as an incentive to renovate and expand manufacturing plants or to build new plants. The local legislative body grants the abatement, which reduces local property taxes by roughly 50% on new plants. In the case of a rehabilitation project, the obsolete SEV is frozen and the investment on improvements is 100% exempt from property taxes. Abatements cover both real and personal property and can run from one to twelve years at the option of the local unit of government

13400 Mt. Elliot

The project developer is 13400 Mt. Elliot, LLC, an affiliate of Gallagher-Kaiser. Gallagher-Kaiser is a manufacturer of complex construction and paint finishing equipment primarily sold to the automotive industry.¹ This project involves the rehabilitation and renovation of an industrial building in the Airport Sub industrial neighborhood of Detroit. Gallagher-Kaiser purchased 13400 Mt. Elliot, a building adjacent to their current operation, in order to expand their total operations capacity. The total investment will be \$9,270,000.

The company is planning on creating a World Class Steel Fabrication Center of Excellence (COE) campus. The company prefers to make this investment in Detroit, but it had also considered making the investment in Fort Wayne, IN, due to financial feasibility. The COE campus is necessary for the company to meet its growing demands from an aggressively

¹ Company website: <http://www.gkcorp.com/>

expanding customer base. The company has indicated that it prefers to have Detroit be the primary house for fabrication and manufacturing work, and have their products shipped to project locations within and outside of the state of Michigan. This may lead to jobs that currently exist outside of the state, being relocated to Detroit, MI.

One of the significant constraints on this project is the current condition of the purchased building. The building requires extensive rehabilitation that will include significant maintenance, replacing the roof, replacing the boiler, upgrading the electrical systems, repainting the building, and replacing all windows. Other improvements are expected to be required as well.

To be eligible for the MEDC's Business Development Grant program, the company needs local support for the project. A tax incentive qualifies as local support.

DEGC Project Evaluation Checklist

Project Systems

Developer: Gallagher-Kaiser

Principal: Gallagher-Kaiser

Abatements Requested:		
1. Industrial Facilities Exemption, PA 198 of 1974 as amended – <i>Plant Rehabilitation District</i> – previous year's taxable value is frozen and taxed at current total millage rate for up to 12 years		
DEGC Abatement Length Recommendation	12 Years	
Location		
Address	13400 Mt. Elliot	
City Council District	District 3	
Neighborhood	Airport Sub	
Located in HRD Targeted Area	No	
Building Use		
Total Square Foot	130,000	
Industrial Square Foot	130,000	
But For Analysis		
Competitive Siting	Detroit	Fort Wayne
Site Purchase and Improvement	\$10,200,000	\$0
Estimated Cost of Labor Training	\$2,950,000	\$0
Estimated Total Income Taxes		
Paid	\$7,190,606	\$5,594,999
Indiana R&D Credit	\$0	\$1,300,000
MEDC BDP Grant	\$3,200,000	\$0
Estimated difference in cost of locating in Detroit	\$12,845,607	
Sources and Uses		
Total Investment	\$9.27MM	
Project Benefits		
Estimated Jobs	300-525 FTE (300 initially, potentially 525 total over time)	
Estimated FTE Salary	\$55,855	

City of Detroit: Benefits, Costs, and Net Benefits over the Next 12 Years

	Amount
Real Property Taxes, before abatement	\$711,955
Personal Property Taxes, before abatement	\$382,966
New Residential Property Taxes	\$0
Municipal Income Taxes - Direct Workers	\$3,672,121
Municipal Income Taxes - Indirect Workers	\$1,778,253
Municipal Income Taxes - Corporate Income	\$1,059,948
Municipal Income Taxes - Construction Period	\$12,731
Utility Revenue	\$739,102
Utility Users' Excise Taxes	\$233,153
State Revenue Sharing - Sales Tax	\$1,707,426
Building Permits and Fees	\$33,170
Miscellaneous Taxes & User Fees	\$2,301,745
<u>Subtotal Benefits</u>	<u>\$12,632,569</u>
Cost of Providing Municipal Services	(\$3,501,174)
Cost of Providing Utility Services	(\$739,102)
<u>Subtotal Costs</u>	<u>(\$4,240,276)</u>
Net Benefits	\$8,392,293

Impacted Taxing Units: Incentive Summary over the First 12 Years

	Additional Benefits Before Tax Abatements	Additional Costs	Real Property Tax Abatement	Business Personal Property Tax Abatement	Utility Users Tax & Corporation Income Tax Exemption	Net Benefits After Tax Abatements & Incentives
City of Detroit	\$12,632,569	(\$4,240,276)	(\$547,621)	\$0	\$0	\$7,844,672
Wayne County	\$761,152	(\$583,652)	(\$134,069)	\$0	\$0	\$43,430
Detroit Public Schools	\$2,854,600	(\$2,206,028)	(\$216,870)	\$0	\$0	\$431,702
State Education	\$130,131	\$0	\$0	\$0	\$0	\$130,131
Wayne RESA	\$130,613	\$0	(\$72,855)	\$0	\$0	\$57,759
Wayne County Comm. College	\$108,097	\$0	(\$54,064)	\$0	\$0	\$54,032
Wayne County Zoo	\$3,335	\$0	(\$1,668)	\$0	\$0	\$1,667
Detroit Institute of Arts	\$6,671	\$0	(\$3,336)	\$0	\$0	\$3,335
Total	\$16,627,168	(\$7,029,955)	(\$1,030,483)	\$0	\$0	\$8,566,729

Charts courtesy of the DEGC

Conclusion

The estimated total capital investment from the developer is approximately \$9.27 million. According to its PA 198 application, Gallagher-Kaiser will retain 54 jobs and will create 110 jobs as a result of this PA 198 application. The total value of the ten-year PA 198 abatement to 13400 Mt. Elliot is estimated at \$1 million

Based on the investment and jobs, the new 13400 Mt. Elliot Headquarters is projected to provide the City of Detroit a net benefit of **\$7.84 million** and all of the impacted taxing units, a net benefit of **\$84.56 million** over the 12 years of the PA 198 abatement.

Please contact us if we can be of any further assistance.

cc: Auditor General's Office
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