



P.A. 198 INDUSTRIAL FACILITIES TAX EXEMPTION

INFORMATION PACKET AND GUIDELINES

What is an Industrial Facilities Tax Exemption?

The Michigan Legislature passed the Plant Rehabilitation and Industrial Development Districts Act (the Act), also known as the Industrial Facilities Tax Exemption Act (Michigan Public Act 198 of 1974, MCL 207.551 et seq.) in 1974 to encourage industrial and commercial investment, expansion, and job creation. The law provides tax incentives for improvements to eligible industrial properties.

What industrial facilities are eligible for an Industrial Facilities tax exemption?

The Act has a very detailed definition of industrial property. See MCL 207.552(7). In general, a facility the primary purpose and use of which is the manufacture of goods or materials or the processing of goods and materials by physical or chemical means is an industrial facility.

Can a Ludington based industrial plant apply for an Industrial Facilities Tax Exemption?

Generally yes. Ludington is a local government unit as defined in the Act.

What Industrial Developments does the Act cover?

The Act covers replacement facilities, new facilities, and speculative buildings.

What is a replacement facility?

A replacement facility is industrial property constructed or altered to replace or restore obsolete industrial property.

What is a new facility?

A new facility is new industrial property other than a replacement facility.

What is a speculative building?

A speculative building is a building constructed for the purpose of providing a manufacturing facility before the identification of a specific user of the building.

I want to upgrade my factory which needs serious repair and improvements, and qualify for tax relief. How do I determine if my property is obsolete?

The City Assessor is responsible for determining whether an industrial or commercial property is obsolete as defined by the Act. You should consult with the City Assessor early in your planning process.

The City Assessor has determined that my factory is obsolete. What do I do next?

Your property has to be in a Plant Rehabilitation District (PRD). The City Council can establish a PRD on its own initiative or on the request of the owner or owners of 75% of the state equalized value of the industrial property within the proposed district.

I want to build a new factory in Ludington. Can I apply for an Industrial Facilities Tax Exemption? Yes. But first, your property has to be in an Industrial Development District (IDD). The City Council can establish an IDD on its own initiative or on the request of the owner or owners of 75% of the state equalized value of the industrial property within the proposed district.

Is there any crucial limitation I need to be aware of at the start of the process? Yes. Do not start acquisition, construction, or installation on your replacement facility or new facility until you have filed a request with the City Clerk for the establishment of a PRD or an IDD. If you do, the City Council cannot approve your request.

What are the steps for approval of a Plant Rehabilitation District or an Industrial Development District?

- If the property is not located in a PRD or IDD already established by the City Council, send a written request to the City Clerk from the owner or owners of 75% of the state equalized value of the industrial property within the proposed district requesting the establishment of the appropriate district.
- The City Council sends a written notice by certified mail to the owners of all real property within the proposed PRD or IDD of a public hearing at which the owners and other residents or taxpayers of the City have a right to appear and be heard.
- After the hearing the City Council adopts a resolution establishing or denying the establishment of the proposed district.

Can the City terminate a PRD or IDD?

After notice and public hearing the City Council can terminate a PRD or IDD if there are no IFECs in effect in the PRD or IDD at the time of the resolution.

My property is in a PRD or IDD established by the City Council. How do I get an Industrial Development Exemption Certificate (IFEC)?

- File an application for an IFEC with the City Clerk in the manner and form prescribed by the State Tax Commission (the Commission). The application is Michigan Department of Treasury Form 1012 with all required attachments.
- Pay the \$500.00 application fee established by the City Council.
- The City Clerk notifies the City Assessor and the legislative bodies of each taxing unit which levies property taxes which will be affected by the application that the

application has been filed and that the applicant, the City Assessor and a representative of each affected taxing unit will have an opportunity for a hearing on the application.

- Pay the \$500.00 application fee established by the City Council.
- Within 60 days of the receipt of the application by the City Clerk, the City Council will by resolution either approve or disapprove the application.
- To approve the application, the City Council must find that the application meets all the requirements of the Act; that granting the application will not substantially impede the City's operations; that granting the application will not impair the financial soundness of any taxing unit which levies ad valorem taxes in the City; that completion of the facility is calculated to, and has at the time of issuance a reasonable likelihood to create employment, retain employment, prevent a loss of employment, or produce energy in the City.
- If the Council approves the application the Clerk forwards it to the Commission.
- If the Commission finds that the application meets the requirements of the Act, it issues the Industrial Facilities Exemption Certificate.

What can I do if the City Council denies my request for an IFEC?

If the City Council denies your request, the City Clerk will return your request to you. You can appeal the disapproval to the Commission within 10 days after the date of disapproval.

What can I do if after City Council approval the Commission denies my request for an IFEC?

If the Commission denies your request, you may appeal using the process prescribed in the Michigan Administrative Procedures Act.

How is my tax relief calculated if I build a new facility in Ludington?

A new facility built in an IDD approved by the City Council qualifies for approximately a 50% reduction in the anticipated new real or personal tax liability on the new improvements. The land on which the new facility is located does not qualify for tax relief.

How is my tax relief calculated if I replace or restore obsolete industrial property in Ludington?

The tax for a replacement facility is based on the value of the facility before the new improvements to the property, less the value of the land on which the facility is located. Any increase in the value of the improvements made to the property are not subject to real and personal property tax for the period of the exemption.

What does the City get in return for the tax relief it grants?

The City continues to receive tax revenue for the property. It gives up the increase in taxable value for a while. During the incentive period the City sees significant improvements to the properties and an increase or retention of jobs. Then the City gets the full tax value of the improved property when the incentive expires.

Does the City pay owners money as part of the IFEC incentive?

No. The City does not pay any money to owners as part of the IFEC incentive. Instead, the City forgoes the benefit of increased taxes for the improvements to the property during the incentive period.

OVERVIEW:

A company that is in the planning phase of a major business attraction or expansion project that will include a capital investment in real and/or personal property may be eligible for a P.A. 198 Industrial Facilities Tax Exemption. Companies that construct a new facility may qualify for to receive approximately a 50% reduction in their anticipated new real or personal property tax liability. Companies that rehabilitate an obsolete property may be exempt from taxes on the improvement they make to the obsolete property. The Ludington City Council has adopted the following criteria to establish eligible applications for consideration of a real property tax abatement.

The City of Ludington has the economic objective of:

- increasing employment opportunities,
- diversifying and stabilizing the tax base of the community,
- reducing economic obsolescence,
- providing homogenous industrial areas,
- encouraging expansion,
- providing for improved public facilities,
- encouraging attractive, viable building sites and
- enhancing our economic development tools to attract and retain businesses

POLICY ELIGIBILITY CRITERIA:

1. An Industrial Facilities Exemption Certificate (IFEC) tax abatement shall not be granted until there is compliance with MCL 207.559; and
2. Any real and/or personal property tax abatement at a minimum must be revenue neutral to the City of Ludington.
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 meets two of the three criteria listed below:

- Will create and/or retain more than 10 jobs.
- Has a real and/or personal property investment of at least \$200,000.00.
- Owns the underlying real property or has a lease for the underlying property for a minimum term of five years.

APPLICATION PROCESS:

Once a company has determined that it meets the minimum criteria for consideration of a tax abatement, then a company may begin the process of formally applying for the IFEC. The process is as follows:

1. Letter of Intent submitted on applicant’s letterhead to the City Clerk (purchases made after the Letter of Intent is submitted may then be eligible for Tax Abatement. No purchases made before the submittal are eligible).
2. Complete Michigan Department of Treasury Form 1012. Include with the form:
 - a. Cost Sheet for anticipated improvements in real property.
 - b. Lease Agreement showing building terms and applicants’ tax liability (if applicable).
3. Submit application and attachments to City Clerk.
4. City Council Public Hearings are scheduled.
5. City Council establishment of the District and approval of the IFEC.
6. Resolution submitted to State Tax Commission for final approval and issuance of certificates.
7. December 31st of the year the certificate is awarded – the projected investment must be complete within two years.

LENGTH OF THE TAX ABATEMENT:

The Act provides that the duration of an IFT abatement can be from one to twelve years at the discretion of the City. The City has established 2, 7 and 9-year terms as the default for exemptions. These will be considered the base level of support for projects that meet the Qualification Criteria (above) and the criteria contained in the Act. Certain project qualities may allow for that standard exemption to be increased, with eligibility for an IFT extension being evaluated based on a points system.

POINTS (Up to \$100,000 investment)	TOTAL LENGTH OF ABATEMENT
1-100	2 Years
101-200	3 Years
201-300	4 Years
301-400	5 Years
401-500	6 Years

501-600	7 Years
601-700	8 Years
701-800	9 Years
801-900	10 Years
901-1000	11 Years
1001-1100	12 Years

POINTS (\$100,000- \$500,000)	TOTAL LENGTH OF ABATEMENT
1-100	7 Years
101-200	8 Years
201-300	9 Years
301-400	10 Years
401-500	11 Years
501-600	12 Years

POINTS (\$501,000- \$2million investment)	TOTAL LENGTH OF ABATEMENT
1-100	9 Years
101-200	10 Years
201-300	11 Years
301-400	12 Years

CITY INVESTMENT CRITERIA: The City Investment Criteria described below have been identified in various plans developed with input from the Ludington community, and have been prioritized in this Policy in order to incentivize outcomes desired by the City.

Electric Vehicle Infrastructure:

The City council as well as the State of Michigan have prioritized electric vehicle infrastructure. **100 points**

Sustainable Development/Green Infrastructure:

This includes pervious surfaces **100 points** Use of a green roof, i.e. a turf roof: **75 points** Achieve LEED Certification, or Net-Zero Energy Certification: **100 points**

Greening Initiatives:

The property plans include planting sites for trees, bushes, flowers, or gardens (must

include the use of native plants and be above and beyond regular screening requirements) Points can be achieved through the removal of invasive species: **50 points**

Celebration of Culture:

Development plans include a public art installation, approved by the City of Ludington, that reflects the history, culture, or spirit of the City of Ludington: **50 points**

Public Infrastructure repair, replace or add:

Streets, curbs, or sidewalks. **100 points**

Pedestrian & Bicycle Infrastructure:

Paths/Trail Construction, Bike fix-it stations with covered parking, etc. Investment must be above and beyond simple bike rack placement. **50 points**

High Quality Public Spaces:

Creation of a picnic area, pavilion, walking path, pet friendly areas, sports courts. **Up to 100 points.**

These amenities may include:

Public bike racks: **25 Points**

Public water fountains: **100 Points**

Public benches: **25 Points**

Salaries and Wages:

Wages are at 80% AMI (\$17.57 per hour): **25 points**

Wages are at 85% AMI (\$18.67 per hour): **50 points**

Wages are at 90% AMI (\$19.77 per hour): **100 points**

TAX ABATEMENT APPLICATION FEE:

The Ludington City Council has authorized the implementation of an application fee of \$500.00 and will not charge or collect any other fees for the application.

REQUIREMENTS AFTER TAX ABATEMENT IS APPROVED:

By December 31 that is two years after the December 31 of the year that the abatement is approved, the applicant will supply the City Clerk with a letter confirming that the purchases, employment numbers, and/or renovations are complete. If these figures have not been reached, a letter of explanation must be submitted to the City Clerk, for review by City Council, which may then cancel the abatement, or offer a new abatement with reduced values and years.

For assistance with your business attraction and retention needs, please contact the City Community Development Office at (231) 845-6237. For assistance with the IFEC process and application, please contact the City Manager's Office at (231) 845-6237.

Michigan Public Act 198 of 1974 is a complex statute and many of its provisions do not apply in the City of Ludington. The Chamber Alliance of Mason County, 119 S Rath Ave, Ludington, MI 49431, (231) 845-0324, chamberinfo@ludington.org, provides technical assistance to persons and companies that are dealing with IFEC issues.