

CITY of NOVI CITY COUNCIL

Agenda Item 1
July 7, 2008

SUBJECT:

- 1) Approval to agree to allocate up to \$18,000 of City and/or other funds for public infrastructure improvements such as drive approaches, road curb-cuts, pervious asphalt, traffic signage, and/or bioswale/rain garden, to be determined upon submission of final site plan as part of required local contribution for a State of Michigan high-tech MEGA credit recently granted to Brembo North America. City will seek payment/reimbursement from the Novi Economic Development Corporation (EDC);
- 2) Approval to agree to allocate up to \$5,000 of City and/or other funds for public infrastructure improvements such as drive approaches, road curb-cuts, pervious asphalt, traffic signage, and/or bioswale/rain garden, to be determined upon submission of final site plan as part of required local contribution for a State of Michigan high-tech MEGA application for Harman/Becker Automotive Systems. City will seek payment/reimbursement from the Novi Economic Development Corporation (EDC);
- 3) Discussion of a local participation funding strategy for future economic development MEGA projects.

SUBMITTING DEPARTMENT: Neighborhood & Business Relations / Economic Development

CITY MANAGER APPROVAL 

EXPENDITURE REQUIRED	\$23,000
AMOUNT BUDGETED	N/A
APPROPRIATION REQUIRED	\$23,000
LINE ITEM NUMBER	General Fund 101 (Reimbursement from EDC)

BACKGROUND INFORMATION:

As Michigan maneuvers to establish a solid footing for business growth, economic development becomes an ever-changing world of opportunities. In this past year, we have seen positive state legislative amendments for several Michigan Economic Development Corporation (MEDC) programs—e.g., Brownfield redevelopment requirements, film credits, and Michigan Economic Growth Agency (MEGA) credits. Recent changes to the MEGA statute, including revised eligibility criteria regarding the nature and extent of local contributions, may prove particularly significant as Novi continues to attract quality commercial development.

In a report about business site selection published in January, 2008 by the Michigan Economic Developers Association (MEDA), at the end of quantitative analysis, executives tend to narrow the choice of locations to a list of their top three potential sites. At that point, incentives can make a difference in the final location decision, as companies “comparison shop” for the best incentive package—wherever they can get it.

The MEGA credit is one of the better incentive programs offered by the State of Michigan. As noted, among the recent changes to the MEGA program was the broadening of language regarding how the

MEGA Board can evaluate the nature of the local government participation being offered. The amendments clarify that local participation does not necessarily require compromising our property tax base with tax abatements; they also more clearly tie the credit to job creation.

Brembo North America and Harman Becker represent two mid-sized projects that came recently about after MEGA legislation was revised. Both present business growth opportunities.

1) Brembo North America

Brembo North America has shared that it is in the final stage of site selection between two locations (one in Novi and the other out-of-state) to construct an approximately 45,000 square foot NAFTA headquarters and technical center building, to be completed by the end of 2008 at a cost of approximately \$7,250,000. Brembo is an Italian maker of precision braking products. It is also pursuing an expansion of its facility in Homer (Albion Township), Michigan.

The project would transfer 22 jobs (from Northville and Farmington Hills) into Novi. Brembo has also discussed the possibility of creating of 42 additional new jobs by relocation of jobs from their Costa Mesa facility and/or hiring of new positions. A majority of the Novi jobs would be professional and technical salaried positions, along with clerical and administrative support jobs. Average annual wage for the salaried jobs retained is \$100,000 and for the new jobs would be \$75,000.

Brembo was granted a high tech MEGA on June 18, 2008, contingent on the City Council's local contribution decision. Brembo's proposed North American Headquarters location in Novi is near Twelve Mile and West Road (Amson-Dembs development).

2) Harman/Becker Automotive Systems

Harman/Becker Automotive Systems, a division of Harman International, is a supplier of high-end automotive audio and infotainment systems. It already has a strong presence in the Detroit area and is seriously considering relocating its entire North America Acoustic Development Group from Indiana to Michigan for the purpose of creating a world-class Acoustic Engineering and Development Center to support the North American and Asian automotive markets. The location of this facility (51,536 sq. ft) is proposed to be at 28845 Cabot Drive. It would create a separate engineering/support service center to supplement the Divisional headquarters located in Farmington Hills. It is projected that approximately 135 jobs would be created for this center and that the total estimated project costs associated with the building, furniture and equipment would be around \$9 million.

Harman/Becker will go before the MEGA Board of Review on July 15, 2008 for a decision on the MEGA credit. We understand a conditional approval has been given.

Tax Implications

The Brembo and Harman/Becker projects are similar in size and scope. Currently, the City of Novi is receiving an estimated property tax of (city tax, not total property tax) of \$140,000 to \$150,000 annually for other similar office development projects of 45,000/50,000 square feet. The Assessing Department has indicated that this amount can fluctuate depending on building and school district specifics.

Funding Mechanism and Sources

In both of these cases, the amount and nature of the proposed local participation is a relatively low cost to the City as the City maintains quality services and maintains long-term equity concerns for taxpayers. At

the same time, an up-front City participation can widen and deepen our tax base long-term. The Council has previously emphasized that infrastructure and public improvements should be our first choice for local participation—i.e., that it relate to things that tend to be viewed as “public” in nature, even if in some case they are normally borne by property developers. In both of the projects, there will likely be a need for various infrastructure improvements, such as drive approaches, road curb-cuts, pervious asphalt, traffic signage and/or bioswale/rain gardens, or similar improvements.

We note that currently, the Economic Development Corporation (EDC) has funds totaling \$29,000. It is possible that both Brembo and Harman/Becker’s local contribution towards the MEGA credit could come from the EDC fund. The EDC will be approached.

3) Guidance for Future Projects

Staff is ready to work with any quality business prospects for retention/expansion/attraction that submit applications to the MEDC for the State MEGA program. As noted, recent legislation for MEGA has opened the door for municipalities to become ever more creative in how they participate with a local contribution, and we therefore anticipate receiving even more requests for assistance. Because of the nature of the changes, it is very likely that the MEGA Board of Review will be looking for a local contribution with a “cash” value (even if not a cash payment). A MEGA credit set of guidelines for high-tech headquarter type projects such as Brembo and Harman/Becker would be a useful complement to the tax abatement policy that the City already has.

Some of the items that the Council might consider including in the policy are:

- Novi will participate in no more than five MEGA applications per fiscal year at no more than \$20,000 per proposal, etc.
- A total of \$100,000 could be allocated as a budgeted line item that would be used unless a project presents itself and deems beneficial to the City of Novi.
- For firms qualifying for the High Tech MEGA credits, designed to attract new, innovative and cutting-edge companies that specialize in new technologies which are the types of companies we wish to attract and retain in Novi.
- In concert with our tax abatement policy, job creation is and should continue to be a priority in offering incentives. Staff recommends such companies create a minimum of ten new jobs in the first year and 25 by the second year.
- It is recommended that these jobs have a minimum average salary of \$50,000.
- Allowing flexibility for own or at least a long-term (10 year) lease of a building would be recommended in order to give the company future flexibility for expansion.

RECOMMENDED ACTION:

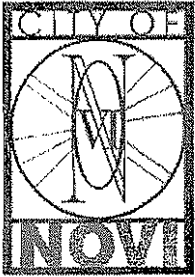
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Systems. City will seek payment/reimbursement from the Novi Economic Development Corporation (EDC);

3) Discussion of a local participation funding strategy for future economic development MEGA projects.

	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				



6/18/08

CITY COUNCIL

- Mayor
David B. Landry
- Mayor Pro Tem
Kim Capello
- Bob Gatt
- Terry K. Margolis
- Andrew Mutch
- Kathy Crawford
- Dave Staudt
- City Manager
Clay J. Pearson
- City Clerk
Maryanne Cornelius

June 18, 2008

Chris Rau
 Senior Manager, Human Resources
 HarmanBecker Automotive Systems
 39001 West Twelve Mile Road
 Farmington Hills, MI 48331

To: Mayor and City Council Members

Work in progress for future consideration.

Dear Chris:

It was a pleasure seeing you again and discussing the consolidation of HarmanBecker Automotive Systems entire North America Acoustic Development Group from Indiana to the City of Novi for the purpose of creating a world class Acoustic Engineering and Development Center to support the North American and Asian automotive markets.

We are in receipt of your June 18, 2008 letter indicating that you are in the process of filing an application with the State of Michigan for a MEGA Tax Credit. As part of the application process, we are aware that local government or a local economic development organization must make a financial or economic commitment to your project. In the legislation, the nature of that support is that it be agreeable to the company and the host community. I believe we have achieved that with our discussions.

Such local participation would ultimately need City Council approval and we cannot guarantee or speak for them. However, staff believes your project merits serious consideration and we are prepared to submit a request for the following proposal which we feel meet the requirements for your application and also will add a significant value to HarmanBecker Automotive Systems's bottom line.

1. Expeditious review process and inspection times.
2. Reduced/reimbursement of portion of permit fees. (not to exceed \$5,000.)
3. Staff support and coordination of above.

Please feel free to contact me at your convenience to talk more, thank you in advance for your consideration.

Sincerely,

Ara Topouzian
 Economic Development Manager

City of Novi
 45175 W. Ten Mile Road
 Novi, Michigan 48375
 248.347.0460
 248.347.0577 fax

cityofnovi.org

- cc. Clay Pearson, City Manager
 Pamela Antil, Assistant City Manager
 Irene Spanos, Oakland County



HARMAN/BECKER AUTOMOTIVE SYSTEMS • 39001 WEST TWELVE MILE ROAD • FARMINGTON HILLS, MI 48331 • 248-994-2100

June 18, 2008

Mr. Ara Topouzian
Economic Development Manager
City of Novi
45175 West 10 Mile Road
Novi, Michigan 48375

Dear Ara:

Thank you again for taking the time to meet with me to discuss how the City of Novi might support the consolidation project proposed by Harman/Becker Automotive Systems (Harman). A site in Novi has been proposed for this project. Its address is 28845 Cabot Dr., Novi, MI 48377.

The project being presented is part of a corporate-wide restructuring effort to streamline Harman International's design and development operations for Automotive OEM audio systems. The proposal includes the closure of a site in Indiana, and a partial shutdown of a site in California. The technical resources that are responsible for the design, development, and validation of our automotive acoustics product line will then be co-located in Novi Michigan. The automotive 'Branded Audio' segment of Harman International business continues to grow and consolidation will allow for a more streamlined development cycle and allow us to leverage co-location benefits for a more efficient overhead structure. This is a consolidation effort and not tied to new product awards. The total estimated number of jobs added in the selected location will be 135. The average hourly wage of the new positions created is estimated to be \$36.00. The total capital outlay for this project by Harman International is \$16 Million (inclusive of all facility, equipment, relocation, and HR expenses associated with this project). This project is 100% internally funded.

With this project, Harman will require a MEGA Tax Credit with the State of Michigan. Support from local units of government is a significant consideration when applying for a MEGA Tax Credit. I kindly request the City of Novi to seriously consider providing the following support to Harman so that Harman can successfully obtain a MEGA Tax Credit:

1. Expeditious review process and inspection times.
2. Reduced/reimbursement of portion of permit fees.
3. Staff support and coordination of above.

I look forward to the City of Novi's continued support and contribution to this important project.

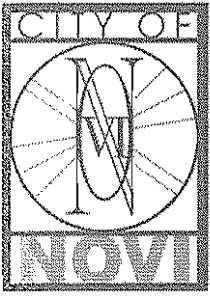
If you have any questions or require further information, please don't hesitate to contact me.

Best Regards,

Chris Rau

Digitally signed by Chris Rau
DN: cn=Chris Rau, o=Harman,
ou=Resources, email=chris.rau@harman.com,
serial=1, c=US
Reason: I am the author of this document
Date: 2008.06.18 09:00:01 -0400

Chris Rau
Senior Manager, Human Resources



CITY COUNCIL

Mayor
David B. Landry

Mayor Pro Tem
Kim Capello

Bob Gatt

Terry K. Margolis

Andrew Mutch

Kathy Crawford

Dave Staudt

City Manager
Clay J. Pearson

City Clerk
Maryanne Cornelius

June 4, 2008

Dan Sandberg
Brake Discs Business Unit President
Brembo North America Inc.
15300 Centennial Drive
Northville, MI 48168

Dear Dan:

It was a pleasure meeting you and Adrian Smith to discuss your plans for **Brembo North America** to locate your North American headquarters in the City of Novi. Brembo will be a key investment in Michigan and we welcome your confidence in us.

We are in receipt of your April 25, 2008 letter indicating that you are in the process of filing an application with the State of Michigan for a MEGA Tax Credit. As part of the application process, we are aware that local government or a local economic development organization must make a financial or economic commitment to your project. In the legislation, the nature of that support is that it be agreeable to the company and the host community. I believe we have achieved that with our discussions.

Such local participation would ultimately need City Council approval and we cannot guarantee or speak for them. However, staff believes your project merits serious consideration and we are prepared to submit a request for the following proposal which we feel meet the requirements for your application and also will add a significant value to Brembo's bottom line.

1. Expeditious review process and inspection times.
2. Reduced/reimbursement of portion of permit fees. (not to exceed \$18,000.)
3. Staff support and coordination of above.

Please feel free to contact me at your convenience to talk more, thank you in advance for your consideration.

Sincerely,

Ara Topouzian
Economic Development Manager

City of Novi
45175 W. Ten Mile Road
Novi, Michigan 48375
248.347.0460
248.347.0577 fax

cityofnovi.org

cc. Clay Pearson, City Manager
Pamela Antil, Assistant City Manager
Irene Spanos, Oakland County



Daniel M. Sandberg
President

SENT VIA EMAIL

April 24, 2008

Mr. Ara Topouzian
Economic Development Manager
45175 W. Ten Mile Road
Novi, MI 48375

Re: Brembo North America, Inc. Headquarters Project

Dear Ara,

I would like to thank both you and Clay for our lunch meeting yesterday where Adrian Smith and I discussed the proposed North American Headquarters and R&D Center for Brembo North America, Inc. As we discussed, we are currently considering locating this facility in Novi. This letter and the attached presentation will give you more information regarding the project which includes not only a new North American headquarters and technical facility, but also expanded North American manufacturing operations in Albion Township, Michigan. This project is a great opportunity for the State of Michigan and with regard to the headquarters facility, the City of Novi.

COMPANY HISTORY AND BACKGROUND

Brembo, S.p.A. is a world leader in the engineering, development and production of high-performance braking systems and components for original equipment, aftermarket, motorcycle, racing and high-performance vehicles. Brembo's customers include some of the most prestigious original equipment manufacturers in the world, including Aston Martin, Audi, BMW, Daimler, Chrysler, General Motors, Honda, Harley Davidson, Ford, Ferrari, Lamborghini, Maserati, Mercedes and Porsche. In addition, most of the world's Formula 1, NASCAR and MotoGP racing teams rely on Brembo's brake systems.

Prior to November 2007, Brembo's North American operations consisted of administrative offices (sales, marketing, and engineering) and warehouse facilities in Costa Mesa, California, Farmington Hills, Michigan and Mooresville, North Carolina. Brembo also had a small joint venture manufacturing facility in Puebla, Mexico.

BREMBO NORTH AMERICA, INC.

Brake Discs Business Unit
15300 Centennial Drive
Northville, MI 48168 USA
www.brembo.com

Tel (734) 737-8302
Fax (734) 737-5552



In November 2007, Brembo, through its wholly-owned subsidiary, Brembo North America, Inc., purchased the brake component manufacturing division of Hayes Lemmerz International, Inc. As part of that transaction, Brembo acquired two large manufacturing facilities located in Homer, Michigan and Monterrey (Apodaca), Mexico. In addition, a sales, engineering and manufacturing group located in Northville, Michigan was also included as part of the transaction.

PROJECT DESCRIPTION

In the project currently under consideration, Brembo intends to rationalize all of its administrative and manufacturing locations in North America by:

- (a) combining its corporate and technical groups currently located in Costa Mesa, Farmington Hills and Northville, into a single North American Headquarters and R&D Center in Michigan; and
- (b) expanding its North American manufacturing capacity, particularly its presence in the Midwest United States.

Based on the above strategy, the project will consist of the following initiatives:

- (i) Brembo will construct an approximately 45,000 square foot NAFTA headquarters and technical center building, to be completed by the end of 2008 at a cost of approximately **\$7,250,000**; and
- (ii) Brembo will expand the capacity of the Homer (Albion Township), Calhoun County, Michigan facility. Such expansion will take place in three phases and will include a capital investment of approximately **\$40 million** for the purchase of machinery and equipment and the construction of a new building for the machining, coating and assembly of various brake components.

The employment implications to the state of Michigan from this project will be substantial. With respect to the new North American Headquarters and R&D Building, the project will result in the retention of 22 jobs -- 16 in Northville and 6 in Farmington Hills. In addition, 42 new Michigan jobs will be created by the relocation and/or hiring resulting from the relocation of the Costa Mesa facility to Michigan and increased support for the expanded manufacturing operations. A majority of these jobs are professional and technical salaried positions, along with clerical and administrative support jobs. Average annual wage for the salaried jobs retained is \$100,000 and for the new jobs will be \$75,000.



PROJECT ASSISTANCE

In order to offset certain economic cost disadvantages in Michigan, and to generate a reasonable rate of return on the substantial capital investment to be made by Brembo, we are seeking assistance from the State of Michigan's Economic Development Corporation. We have applied for incentives from the Michigan Economic Growth Authority (MEGA).

As you are aware, as part of that application process, the local municipalities involved in the project must provide incentives to the project applicant in order to qualify for MEGA credits. As we discussed, we are seeking financial assistance from the City of Novi to first, ensure that Brembo is eligible for MEGA credits and second, to enhance what is currently a marginal rate of return on the project. As we have informed the MEDC and the local municipalities involved, if we do not receive the incentives, we most likely will not proceed with the project.

To move forward, we would like to confirm with the City of Novi that it is willing to provide certain financial assistance in the construction of our headquarters and technical center, and that it will streamline the construction approval process in order to expedite the relocation of our offices in Michigan and California, thereby mitigating certain lease expenses Brembo will incur at our other locations.

In addition, we would like to meet with the City as soon as possible to specifically outline the financial components the City of Novi is willing to offer so we can complete our feasibility study.

We look forward to working with you and the City of Novi on this exciting project.

Sincerely,

A handwritten signature in black ink, appearing to read 'Daniel M. Sandberg', with a long, sweeping flourish extending to the right.

Daniel M. Sandberg

cc: A. Smith
M. Stoker

Encl: Novi Presentation