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TO: COUNCIL MEMBERS
FROM: David Whitaker, Director
Legislative Policy Division Staff
DATE: November 20, 2019
RE: **Dakkota Integrated Systems, Inc. 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

Dakkota Integrated Systems, Inc

The project developer is Dakkota Integrated Systems, Inc., a joint venture with majority partners Rush Group LLC and Magna International Inc., was established in 2001 to manage the complete assembly and sequencing of modules for OEMs¹ and Tier One suppliers.² This project involves the construction of a 300,000 sqft manufacturing facility for Dakkota that will create 419 full-time employees. The total investment will be \$36 million.

The company is seeking the approval of a **PA 198 tax abatement**, with an estimated value to the company in tax savings of **\$611,742**. In order to make the project a feasible investment for Dakkota, the company is seeking the assistance of a number of incentives, which we have

¹ (OEM) An original equipment manufacturer traditionally is defined as a company whose goods are used as components in the products of another company, which then sells the finished item to users.

² <https://dakkota.com/about-us/>

detailed under a separate cover, regarding, “Dakkota Integrated Systems, Inc., “Application for a Next Michigan Development Act Renaissance Zone PA 275 of 2010,” also dated November 20, 2019.

Below is a summary of the incentives:

	City of Detroit	All Taxing Jurisdictions	Term
Total PA 198	\$228,611	\$611,742	12 yrs + 1 yr construction period
Total Renaissance Zone	\$5,164,058	\$7,293,434	15 yrs
Total Brownfield TIF Capture	\$1,991,763	\$5,332,663	30 yrs
Total City of Detroit Site Prep Costs (50%) ³	<u>\$1,950,000</u>	<u>\$1,950,000</u>	~
Subtotal	\$9,334,432	\$15,187,839	~

DEGC Project Fact Sheet

Dakkota @ Kettering

Company: Dakkota Integrated Systems, Inc.

CEO: Andra Rush

Industrial Facilities Exemption, PA 198 of 1974 as amended – Industrial Development District – millage rate is reduced by 50% for up to 12 years

Detroit Next Michigan Development Corporation, Renaissance Zone, PA 275 of 2010 – property taxes 100% abated excluding debt millages and special enhancement millages, corporate income taxes abated, utility users excise taxes abated

DEGC Recommendation	PA 198 Certificate – 12 Years Establishing the DNMDC District – 15 Year Benefit
Location	
Property	Kettering High School and Rose Elementary School
Address	6101 Van Dyke St & 5840 Field St
City Council District	District 3
Located in HRD Targeted Area	Yes, Greater Downtown
Building Use	
Site Acreage	19 acres

³ These funds are to “share” in the activities needed to prepare the site. Consistent with the City’s decision to retain the northern portion (13 acres) of the site, the City agreed to participate in activities to benefit the publicly-held retained portion. This includes, sharing 50% of the following costs: a buffering apparatus on the western portion of the site, a storm water detention pond on the current Rose School site and modifying the driveway access and for utility easements. Dakkota will split the remaining \$1.95 million

Total Facility Square Footage | 300,000

Project Description

The Detroit Brownfield Redevelopment Authority (DBRA) is acquiring from Detroit Public Schools the Kettering High School site (32 acres) for \$2.6 million. The northern 13-acre portion of the site will be retained by DBRA with the goal to demolish the existing structures and prepare the site for another to-be-identified end user that will result in substantial investment and employment opportunities for Detroiters. The southern 19-acre portion will be sold to Dakkota for the construction of a 300,000 sqft manufacturing facility that will create 419 full-time employees. Further, DBRA will participate in 50% of the costs for site preparation: a screening apparatus along the western portion of the site, a shared stormwater retention pond where Rose School currently exists today, right-of-way and street improvements to accommodate operations. The shared expenses for site preparation total \$1.95 million. Dakkota has agreed to cover the ongoing costs until a user is identified on the northern 13-acre site. Dakkota plans to commence construction in December 2019 and become operational by December 2020. Dakkota has made strong commitments to hiring local Detroit talent. Dakkota has identified nearby locations that would provide a substantial operating savings in labor, rent, property taxes, and stormwater charges. The incentives are necessary to bring this investment and employment opportunity to Detroit instead of these other locales.

But-For Analysis

	<u>Detroit</u>	<u>Toledo</u>	<u>Hazel Park</u>
Labor:	\$19,042,098	\$14,701,608	\$16,965,967
Rent:	\$5,562,000	\$1,425,000	\$2,025,000
Shipping:	\$0	\$7,800,000	\$1,000,000
Property Taxes:	\$727,391	\$180,000	\$414,000
24 Hour Security:	\$594,000	\$396,000	\$0
Stormwater:	\$235,596	\$0	\$0
Annual Cost of Operating:	\$26,161,085	\$24,502,608	\$20,404,967
Annual Delta		\$1,658,478	\$5,756,118

Project Costs

Dakkota Total Investment	\$36M
Uses	\$28M Hard Construction (78%), \$1.95M Site Preparation (5%), \$883K Site Acquisition (2%)

Project Benefits (30 years)

Estimated jobs	419 FTE, 200 construction jobs (estimated)
Estimated city benefits before tax abatement	\$42,214,785
Total nominal value of incentives	\$9,334,432
Less cost of services & utility deductions	\$12,487,152
Net benefit to city	\$20,393,201

Impacted Taxing Units: Incentive Summary over the First 30 Years⁴

	Additional Benefits Before Tax Abatements	Additional Costs	Property Tax Abatement	Brownfield TIF Capture	Utility Users Tax and Corporate Income Tax Exemption	Net Benefits After Tax Abatements & Incentives
City of Detroit	\$42,214,785	(\$14,437,152)	(\$1,569,436)	(\$1,991,763)	(\$3,823,233)	\$20,393,201
Wayne County	\$2,986,960	(\$1,691,423)	(\$442,424)	(\$651,011)	\$0	\$202,101
Detroit Public Schools	\$12,025,709	(\$7,504,540)	(\$1,302,905)	(\$1,458,413)	\$0	\$1,759,851
State Education	\$816,515	\$0	(\$333,493)	(\$483,022)	\$0	\$0
Downtown Dev. Authority	\$0	\$0	\$0	\$0	\$0	\$0
Wayne RESA	\$743,613	\$0	(\$238,719)	(\$485,874)	\$0	\$19,020
Wayne County Comm. College	\$441,027	\$0	(\$178,447)	(\$262,579)	\$0	\$0
Wayne County Zoo	\$13,609	\$0	(\$5,506)	\$0	\$0	\$8,102
Detroit Institute of Arts	\$27,217	\$0	(\$11,013)	\$0	\$0	\$16,205
Total	\$59,269,434	(\$23,633,115)	(\$4,081,943)	(\$5,332,663)	(\$3,823,233)	\$22,398,480

Chart Courtesy of DEGC

Conclusion

Dakkota is seeking the approval of a **PA 198 tax abatement**, with an estimated value to the company in tax savings of **\$611,742**. Based on Dakkota's \$36 million investment, the project, which is **estimated to create 419 new full-time jobs**, of those, 359 are planned as hourly workers and 60 salaried workers and the project's projected positive cost benefit to the City of Detroit of **\$20,393,201** and a **\$22,398,480** positive cost benefit to the impacted taxing units.⁵

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

cc: Auditor General's Office
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⁴ The analysis is reflected over 30-years to account for the impact period of a future Brownfield Plan for the site.

⁵ The Dakkota Project's overall projected cost benefit figures accounts for the \$611,742 PA 198 abatement as well. Given that the employment impacts as singular project, the projected benefits could not be reflected separately in the Ren Zone and PA 198 reports.