



CITY OF FRANKLIN

DEPARTMENT OF PLANNING & ECONOMIC DEVELOPMENT • DEPARTMENT OF ENGINEERING

Memorandum

To: Economic Development Commission Members
From: Krista Linke, Director
Date: September 27, 2010
Re: Case EDC 2010-08 – NSK Corporation

Case EDC 2010-08 – NSK Corporation: A request for a 10-year tax abatement on \$9,440,000 of personal property investment for the expansion of production of Taper Roller Bearings.

Location: 3400 Bearing Drive



Summary:

1. Characteristics of this location:

Existing location – 3400 Bearing Drive.

2. Characteristics of this petitioner:

NSK Corporation is a subsidiary of Japan’s NSK Ltd. The US operations are based in Ann Arbor, Michigan with manufacturing facilities for automotive bearings in Franklin, Indiana; Liberty, Indiana and Clarinda, Iowa.

NSK Corporation currently has the following tax abatements:

- | | |
|-------------------------------|--|
| (1) Resolution Number 2004-02 | 7 Year Personal Property |
| (2) Resolution Number 2005-18 | 7 Year Personal Property |
| (3) Resolution Number 2005-04 | 7 Year Personal Property |
| (4) Resolution Number 2005-10 | 7 Year Personal Property/10 Year Real Property |

3. Characteristics of this project:

Due to the expected increase in demand for Taper Roller Bearings (TRB), used in Automotive Drive Train applications, NSK Corporation wishes to expand its operations to match market demands. NSK Corporation has established a plan to expand their production of TRB in three phases. The initial phase of the project would be installed by the end of the 1st Quarter of 2011. The second phase of the project would be installed by the end of the 2nd Quarter of 2011. The expected investment by NSK for both phases is \$6,440,000 in new equipment. The new equipment will involve the immediate retention of 8 current employees and projected employment of 20 new employees by the end of the 2nd Quarter of 2011. A third phase is projected to be installed by mid 2012. The expected investment for the third phase is \$3,000,000 in new equipments for a total of \$9,440,000 for all three phases. The third phase has the expectation of increasing employment by an additional 4 employees for a total of 8 employees retained and 24 new employees for all three phases.

NSK would like to begin capital investment spending at the Franklin facility in November 2010 with a completion date of July 2012. They are requesting the first year of the tax abatement for 2011 payable 2012.

4. Economic Revitalization Area (ERA):

This property was designated an ERA by Resolution 2004-02 and confirmed by Resolution 2004-03, and is due to expire in 2015.

5. ERA & Tax Abatements Findings (Personal Property):

Indiana Code Section 6-1.1-12.1-4.5 states that the following findings must be made when considering an ERA designation and the granting of tax abatement for personal property:

- Whether the estimate of the cost of new manufacturing equipment is reasonable for equipment of that type;
- Whether the estimate of the number of individuals who will be employed or whose employment will be retained can be reasonably expected to result from the instillation of new manufacturing equipment;

- c. Whether the estimate of annual salaries of those individuals who will be employed or whose employment will be retained can be reasonably expected to result from the installation of the new manufacturing equipment;
 - d. Whether any other benefits about which information was requested are benefits that can be reasonably expected to result from the installation of the new manufacturing equipment; and
 - e. Whether the totality of the benefits is sufficient to justify the tax abatement.
6. City of Franklin "Tax Abatement Policy" criteria:
 The "Tax Abatement Policy" section of the *City of Franklin Community Investment Incentives Summary* states that the Economic Development Commission shall use certain criteria when considering a request for tax abatement. A comparison of those criteria and the NSK Corporation request follows:
- a. *Diversification of Local Occupations:* The total number of jobs at the current site is 204. Out of the 204 jobs, 8 will be retained as a direct result of the proposed investment. The number of new jobs created as a direct result of the proposed abatement will be 24. The average hourly wage for the new and/or retained jobs is \$16.57
 - 1 Technical/Sales/Admin. Support position with an average hourly wage of \$32.30
 - 23 Operators/Fabricators/Laborer positions with an average hourly wage of \$16.57

Wage figures do not include benefits. In addition to the above hourly wages, NSK provides the following benefits, bonuses and incentives to its employees:

 - Vacation: Based on length of service with company
 - Holidays: 13 Paid Holidays (3 designated as floating)
 - Health, Dental, AD&D, Life & Disability, Vision: Company Participates
 - 401k Plan: Company Participates
 - Bonus Plan: Annual incentive plan for all employees
 - Flexible Spending Accounts: Health and Dependent Care accounts maintained pre-tax
 - Employee Assistance: Employees & family assistance for personal issues at no cost
 - b. *Diversification of Local Manufacturing Employment:* According to the 2007 U.S. Census Bureau Economic Census, motor vehicle parts manufacturing makes up 4.5 % of the manufacturing sector in Johnson County.
 - c. *Increase in Local Salaries:* The company reports the average hourly wage for all retained and new employees at the facility will be \$16.57 per hour. This average hourly salary does not include bonuses and benefits. According to the 2007 Economic Census, the average wage for all industries in Johnson County was \$13.69 per hour. The average wage in Johnson County for the manufacturing sector was \$17.27 per hour. The average hourly wage for the manufacturing sector in Franklin was \$20.56 in 2007.
 - d. *Sustainable Land Use:* The petitioner proposes to make this investment at their current location.

- e. *Future Community Investment*: The petitioner stated in the letter of inducement that they anticipate a long and mutually beneficial association with the City of Franklin.
- f. *Conformance with the Comprehensive Plan*: The Comprehensive Plan - Future Land Use Plan identifies this property as Manufacturing. Manufacturing areas are intended to accommodate large scale businesses that produce finished products from raw materials. Uses in these areas may include product manufacturers as well as any related warehousing and offices. Manufacturing areas may include facilities that involve emissions or the outdoor storage of materials and finished products. These two factors are the primary distinction between manufacturing areas and light industrial areas.

The property is zoned IG, Industrial: General. The "IG," Industrial: General zoning district is intended to provide locations for general industrial manufacturing, production, assembly, warehousing, research and development facilities, and similar land uses. This district is intended to accommodate a variety of industrial uses in locations and under conditions that minimize land use conflicts. This district should be used to support industrial retention and expansion in Franklin.

7. Tax Abatement Duration:

The *City of Franklin Community Investment Incentives Summary* provides that longer periods of abatement on real and personal property may be considered for requests of an exceptional nature. The Summary states that development examples of an exceptional nature include projects which:

- a. Create a new plant or product line for an existing manufacturer;
- b. Creates substantial employment opportunities with higher than average wages;
- c. Increase substantially property values and the city tax base with minimal impact to city services (police & fire protection, schools, utilities, infrastructure, etc.); and
- d. Utilize existing public infrastructure (sanitary & storm sewer, roads & streets, drainage facilities, and other utilities).

8. Tax Abatement Worksheet:

A copy of the Tax Abatement Worksheet from the *City of Franklin Community Investment Incentives Summary* is enclosed with the staff report. This document is recommended as an outline for considering and documenting these tax abatement requests for this meeting.

9. Requested Effective Year:

The petitioner has requested that, if approved, the tax abatement be effective for the tax year 2011, payable 2012.

Staff Comments:

This tax abatement petition proposes an economic development project that meets all of the above outlined criteria to be considered in granting a tax abatement. Making use of an existing facility and strengthening the viability of an existing company within the City of Franklin is critical to Franklin's economy.

TAX ABATEMENT WORKSHEET

EDC Case # 2010-08

Name of Applicant: NSK Corporation

Name of Representative(s) Allen Hunt, Plant Manager

Dates of EDC Meeting(s) October 5th, 2010

City Council Resolution # 2010-19

Date of City Council Introduction: October 18th, 2010

Date of City Council Public Hearing: _____

I. Application to EDC

Circle One

- 1) All respective forms, plats, schedules, filing fees, etc. which are outlined in the EDC Procedures and Requirements have been filed in a timely manner with the EDC. Y N
- 2) All Sections of the Statements of Benefits form SB-1 have been completed with an entry in each section and box. Y N
- 3) All tax abatement schedules for all possible tax abatement periods, broken down for each individual year, have been submitted. Y N
- 4) All phase in schedules have been broken down into quarterly periods throughout the *entire* tax abatement periods. Y N
- 5) A representative from the company requesting the tax abatement is present at the EDC meeting. *Tim Sinnito* Y N
- 6) Petitioner has thus far complied with and shall continue to comply with the "prior approval" requirement of the statement of Benefits from SB-1, which states that "Approval of the Common Council must be obtained prior to initiation of the redevelopment or rehabilitation (of real property) or *prior* to the installation of new manufacturing equipment BEFORE a deduction may be approved." If not, explain... Y N

II. Economic Revitalization Area (ERA)

- 1) The project area of the present request is currently designated as either an economic revitalization area (ERA) or an economic development target area (EDTA). If so, complete items A, B, and C and go to Section III. (Y) N
- a) The project area has been designated as an ERA or EDTA (circle one).
- b) The designation was made under Resolution No: 2004-02/2004-03
- c) The designation is due to expire in (year) 2015
- 2) If the project area is not presently designated as either an ERA or an EDTA, list the condition(s) which exist that make the project area undesirable for or impossible of normal development.
- _____
- _____
- _____

- 3) Based upon these findings, the EDC recommends that the project area be designated as an ERA or EDTA. Y N

III. Economic Inducement and Employment

- 1) If approved, granting the present tax abatement serves as an economic inducement for one of the following economic development activities: development of a new facility; expansion of an existing facility or retention of an exiting facility. (Y) N
- 2) If approved, granting the present tax abatement serves as an Employment mechanism to either create or retain jobs. (Y) N

IV. Tax Abatement Periods

- 1) *Real Property Improvements* NA
- a) Applicant is seeking tax abatement on real property improvements. Y (N)

b) If so, the tax abatement period being requested is for NA years.

c) Based upon all of the information provided by the applicant concerning these Guidelines and all of the criteria shown in the Tax Abatement Policy of Franklin, Indiana, the EDC recommends granting the following tax Abatement period for real property improvements: NA years.

2) *New Machinery and Equipment*

a) Applicant is seeking tax abatement on new machinery and equipment.

Y

N

b) If so, the tax abatement period being requested is for 10 years.

c) Based upon all of the information provided by the applicant concerning these Guidelines and all of the criteria shown in the Tax Abatement Policy of Franklin, Indiana, the EDC recommends granting the following tax Abatement period for new machinery and equipment for 10 years. *with a 5% economic development fee*

V. Termination of ERA Designation and Tax Abatement Periods

1) The EDC recommends that the ERA designation for the project area (a) runs concurrently with the longer of the two tax abatement periods show above in Section IV, and (b) terminates upon the same termination date as the termination date of the longer of the two tax abatement periods shown in Section IV above.

Y

N

2) The EDC further recommends that the tax abatement periods for both real property improvements and new machinery and equipment automatically expire upon the predetermined termination date set for each respective tax abatement.

Y

N

3) The EDC further recommends that the termination date for the purchase and installation of the new machinery and equipment shall be 2012.

VI. Additional Information for the Common Council

- 1) A representative from the company requesting the tax abatement is present at the Common Council meetings. Y N

- 2) Applicant has submitted:
 - a) Company's financial statement as of the end of the last fiscal year. Y N

 - b) A notarized statement attesting to the fact that (1) the project will pose no environmental hazards to the community, and (2) the company will comply with all of the following municipal codes and ordinances, including zoning, site plan reviews and permitting requirements. Y N

VII. Certification

A copy of this worksheet, completed by the EDC at a public meeting held on the 5th day of October, 2010, has been completed and forwarded to the Common Council for further proceedings.



Sam Yount, Economic Development Commission President

NSK Corporation

Sample Property Tax on Personal Property (3 Year Period) Schedule

Personal Property Tax Investment: \$9,440,000

Tax Rate: 3.6195%

	2011 Payable 2012	2012 Payable 2013	2013 Payable 2014	
Cost of Equipment	\$9,440,000	\$9,440,000	\$9,440,000	
True Cash Percentage Rate	65%	50%	35%	
True Cash Value	\$6,136,000	\$4,720,000	\$3,304,000	
Net Tax Rate	3.6195%	3.6195%	3.6195%	Total
Tax w/o Abatement	\$222,093	\$170,840	\$119,588	\$512,521
Abatement Rate	100%	66%	33%	
Amount Abated	\$222,093	\$112,755	\$39,464	Total
Taxes Paid w/Abatement	\$0	\$58,086	\$80,124	\$138,210

NSK Corporation

Sample Property Tax on Personal Property (5 Year Period) Schedule

Personal Property Tax Investment: \$9,440,000

Tax Rate: 3.6195%

	2011 Payable 2012	2012 Payable 2013	2013 Payable 2014	2014 Payable 2015	2015 Payable 2016	
Cost of Equipment	\$9,440,000	\$9,440,000	\$9,440,000	\$9,440,000	\$9,440,000	
True Cash Percentage Rate	40%	56%	42%	32%	24%	
True Cash Value	\$3,776,000	\$5,286,400	\$3,964,800	\$3,020,800	\$2,265,600	
Net Tax Rate	3.6195%	3.6195%	3.6195%	3.6195%	3.6195%	Total
Tax w/o Abatement	\$136,672	\$191,341	\$143,506	\$109,338	\$82,003	\$662,861
Abatement Rate	100%	80%	60%	40%	20%	
Amount Abated	\$136,672	\$153,073	\$86,104	\$43,735	\$16,401	Total
Taxes Paid w/Abatement	\$0	\$38,268	\$57,402	\$65,603	\$65,603	\$226,876

NSK Corporation

Sample Property Tax on Personal Property (10 Year Period) Schedule

Personal Property Tax Investment: \$9,440,000

Tax Rate: 3.6195%

	2011 Payable 2012	2012 Payable 2013	2013 Payable 2014	2014 Payable 2015	2015 Payable 2016	2016 Payable 2017	2017 Payable 2018	2018 Payable 2019	2019 Payable 2020	2020 Payable 2021
Cost of Equipment	\$9,440,000	\$9,440,000	\$9,440,000	\$9,440,000	\$9,440,000	\$9,440,000	\$9,440,000	\$9,440,000	\$9,440,000	\$9,440,000
True Cash Percentage Rate	40%	60%	55%	45%	37%	30%	25%	20%	16%	12%
True Cash Value	\$3,776,000	\$5,664,000	\$5,192,000	\$4,248,000	\$3,492,800	\$2,832,000	\$2,360,000	\$1,888,000	\$1,510,400	\$1,132,800
Net Tax Rate	3.6195%	3.6195%	3.6195%	3.6195%	3.6195%	3.6195%	3.6195%	3.6195%	3.6195%	3.6195%
Tax w/o Abatement	\$136,672	\$205,008	\$187,924	\$153,756	\$126,422	\$102,504	\$85,420	\$68,336	\$54,669	\$41,002
Abatement Rate	100%	90%	80%	70%	60%	50%	40%	30%	20%	10%
Amount Abated	\$136,672	\$184,508	\$150,340	\$107,629	\$75,853	\$51,252	\$34,168	\$20,501	\$10,934	\$4,100
Taxes Paid w/Abatement	\$0	\$20,501	\$37,585	\$46,127	\$50,569	\$51,252	\$51,252	\$47,835	\$43,735	\$36,902
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September 17, 2010

Krista Linke, Director
Franklin Economic Development Department
70 E. Monroe Street
Franklin, IN 46131

RE: Tax Abatement Letter of Inducement for NSK Corporation

Dear Economic Development Commission Members:

This letter is being written on behalf of the NSK Corporation, a subsidiary of Japan's NSK Ltd. The US operations are based in Ann Arbor, MI with manufacturing facilities for automotive bearings in Franklin, IN; Liberty, IN and Clarinda, IA. Due to the expected increase in demand for Taper Roller Bearings (TRB), used in Automotive Drive Train applications, NSK Corporation wishes to expand its operations to match market demands.

NSK Corporation has established a plan to expand our production of TRB in three phases. The initial phase of the project would be installed 1st Quarter of Calendar Year 2011. The second phase of the project would be installed by 2nd Quarter of Calendar Year 2011. The expected total investment by NSK for both phases will be \$6,440,000 of new equipment. The new equipment will involve the immediate retention of 8 current employees and projected employment of 20 local workers by 2nd Quarter 2011. A third phase is projected to be installed by mid 2012 in the amount of \$3,000,000 of new equipment. The third phase has the expectation of increasing employment by an additional 4 local workers.

For the above stated reasons, NSK Corporation respectfully requests that the Franklin Economic Development Commission give a favorable recommendation to the Franklin City Council that tax abatements be granted for personal property. NSK Corporation requests that these abatements be granted for the time period 10 years on the personal property. NSK Corporation further requests that the recommendation for the first year of tax abatement on personal property be for the tax year 3-1-2011 payable in year 2012.

Attached to this letter are all of the required documents outlined in Item 2 of the "Procedures and Requirements" form sent to our office by the Economic Development Commission. If the Commission requires any additional information, please make your request to my attention at the number below, and I will ensure that the necessary information is provided.

NSK Corporation is honored to have a long and mutually beneficial association with the City of Franklin. We also look forward to expanding our participation in the community and continuing to provide more to the community of Franklin than the amount of tax abatements we are presently requesting.

Thank you for your time and assistance in this most important matter.

Sincerely,

Allen Hunt
Plant Manager
NSK Corporation – Franklin

Enclosure (6)