

Requesting Department:

City Manager

Submitted By:

Keith Van Beek

Meeting Date:

January 24, 2022

Agenda Item:

Study Session - Renaissance Zone – LG Energy Solutions

Agenda Item #:

Report # 1 Study Session

City Council Study Session

Meeting Type:**Attachments:**

Renaissance Application from LG (to be attached on Monday); Policies on Review of Renaissance Zones; Local Development Agreement; Letter from LGES to the State confirming their intent to proceed with the project; Letter of support from the MEDC; Letter of support from Lakeshore Advantage (to be attached on Monday); Site Map; State Incentive Matrix

Suggested Caption / Motion / Recommendation:

This Study Session topic provides a background and project overview of the LG Energy Solution Renaissance Zone Application.

Summary of Request:

Summary: On Wednesday, January 19, 2022, City Council scheduled a public hearing for Wednesday, February 2, 2022, at 6 PM to consider an application for a Renaissance Zone for LG Energy Solutions at 1 LG Way. It is common practice for City Council to utilize a study session to further examine and discuss large issues, such as this renaissance zone and proposed project. This study session is being held on Monday, January 24, 2022, at 6 PM, which is an atypical night for council meetings.

This communication builds upon the information provided to City Council when setting the public hearing. We plan to have several attendees (listed below) at the study session to present more information and be available to answer questions. Mayor and Council, if you have questions prior to the meeting please send those to my attention so we are best able to prepare for and address those questions in the study session.

The potential list of attendees include;

- Lakeshore Advantage President Jennifer Owens and Business Solutions Manager Greg King
- Holland Board of Public Works General Manager Dave Koster
- City Staff including; City Manager Keith Van Beek, Assistant City Manager/Director of Housing Next Ryan Kilpatrick, Community and Neighborhood Services Director Mark Vanderploeg, City Attorney Ron VanderVeen, and Finance Director Lynn McCammon.

Background and Project Overview: In 2010, the City of Holland (City) considered and approved a 15-year Renaissance Zone (RZ) for LG Chem (LGC), then operating under the subsidiary of Compact Power, Inc. (CPI). The approval of the RZ was one component of a larger set of approvals for what became the lithium-ion battery plant located at 1 LG Way off 48th Street, east of Waverly Road. As part of that larger approval process, the existing plant was described to be “phase 1” with the potential to expand for up to two (2) additional phases.

In April 2009, the State of Michigan (State) announced that it had approved tax incentives for four (4) companies to build batteries to power automobiles. The combination of the LGC/CPI project and the then Johnson Control, now Clarios Advanced Solutions, battery plant on 48th Street set Holland on the edge of an exciting future of alternative

energy powered vehicles. With this proposed expansion, having these two world-renowned companies within two miles of each other keeps Holland, West Michigan, and the State at the forefront of alternative energy production. Suppliers to these companies, including companies presently located in the Holland/Zeeland area, will retain current business and continue to be provided with opportunities to be part of the automobile manufacturing legacy so identifiable with our State.

Recently, the State approved a new economic development package entitled SOAR (Strategic Outreach and Attraction Reserve). Those legislative bills appropriated approximately \$1 billion dollars for two job creation funds to use for cash incentives and construction site improvements. The State Michigan Economic Development Corporation (MEDC), local economic development agency Lakeshore Advantage (LA), and more recently both the City and Holland Board of Public Works (HBPW) have been actively working with LG Energy Solution (LGES) to proceed with “phase 2” at their site at 1 LG Way. The planning approval process for this expansion is significantly simplified, as this is “phase 2” of an initial site plan already approved by the Planning Commission. This has been a very competitive process, with other communities both in and out of the state vying for this project.

As in 2010, part of the tax incentive package offered by the State is the provision of a local RZ. With a RZ, there are no non-debt local property taxes paid during the term of the zone. The company is required to pay property taxes on debt-related millage. For this project, the parties are proposing a 20-year RZ. As with the existing RZ at this site, taxes are phased back in at 25% increments over the final three years of the RZ. The existing RZ begins to pay 25% of the increment in 2023, and will completely return to the tax roll in 2026. The RZ application by the applicant is attached.

The process for considering a RZ is that the City must first approve and then pass along the application to the State, and it is the State that has final approval of the RZ at the Michigan Strategic Fund (MSF) meeting. The State and LGES has requested that this process be initiated as soon as possible, and we are currently anticipating that should the City approve this request the MSF would consider it at their February 22, 2022 meeting.

The City does have, and in fact modified in 2010 for the original RZ for LGC, a policy for the review of request for the establishment of renaissance zones (see attached). The proposed project meets the criteria of City policy, with the following notes;

- The adjustments in 2010 for a Renewable Energy RZ were made as the number of jobs (500 within 3 years) would not be met. That is not an issue with this proposal.
- Procedurally the company (LGES) is responsible to submit an application for consideration on forms provided by the State, not the City as outlined in the policy.
- The policy references that State legislation allows for RZ's up to 15 years, to be phased out in the last three years. The policy matches then then term of the RZ, not to exceed 15 years. More recent state legislation allows for, and the State and LGES are proposing a 20-year term for this RZ.

In 2010, a development agreement was used to document the various elements and responsibilities of the parties, including but not limited to elements such as; land option and buy/sell agreements for land, rezoning, annexation, water and sanitary service, electric service, road improvements, wetland mitigation, and more. Many of these items that were required for phase 1 of the plant are not required at this phase. For example, the initial planning and zoning anticipated this potential phase, so at this point we do not anticipate anything other than an administrative staff review of the site plans. We do, however, expect to adopt an amended local development agreement with LGES. A preliminary draft of the local development agreement is attached. The HBPW will review and consider for approval this local development agreement and associated investments to support the project at their February 7, 2022 meeting, which would then be forwarded to City Council for consideration and approval at the February 16, 2022 meeting.

Additionally, you will find attached to this report;

1. A letter from LGES to the State confirming their intent to proceed with the project.
2. A letter of support from the MEDC.
3. A letter of support from Lakeshore Advantage.
4. A map of the proposed site, depicting the existing parcel containing phase 1 and the newly proposed parcel that will contain phase 2.

Some project specifics include;

1. \$1.5 billion in investment by 2025, including both real and personal property.
2. 1,000 skilled, well-paying new jobs, also expected by 2025.
3. One primary with ancillary support buildings totaling approximately 1 million square feet. A parcel split would be approved, separating the current facility from the area for new construction and the associated new RZ.
4. The parties are working to explore and provide ancillary support for the project, including for utilities necessary to serve the project.
5. The expansion will require a significant utilization of electric capacity, approximating up to a 40% increase in the total electrical energy supply of the HBPW. To support this growth, the HBPW is planning to construct a new \$10 million substation near the new facility. In alignment with the HBPW's service extension policies, net revenues are projected to cover the cost of this investment. Assurance of this recovery will be an element of the local development agreement.
6. The HBPW has an Economic Development Incentive Rate (EDIR) available to customers that are adding significant new investments that lead to increased demand for electricity. It is estimated that the value of this EDIR will be over \$1 million to LGES over its 3-year period of effectiveness.

In addition to consideration of the RZ, the State is providing a package of incentives and support, including;

1. A total package of incentives totaling approximately \$525 million. An outline of the various incentives proposed for this project is attached.
2. A workforce Housing Loan Program of \$10 million, to be administered by the State, used specifically in our region to support affordable housing.

Proposed Project Timeline: A proposed tentative timeline for project review and approval is as follows;

- February 2, 2022 - City of Holland Public Hearing and Approval of the RZ
- February 7, 2022 – Holland Board of Public Works Consideration and Approval of Local Development Agreement and Associated Purchases
- February 16, 2022 – City of Holland Consideration and Approval of Local Development Agreement and Associated Purchases
- February 22, 2022 –Michigan Strategic Fund Consideration and Approval of RZ and Associated Incentive Package

Financial Information:

Total Cost: General Fund Cost: Included in Budget: Yes No N/A

If not included in budget, recommended funding source:

Action is related to the Strategic Plan and Business Plan:

Goal:

1: To maintain and improve a strong financial position

Objective:

1.3: Grow the City tax base

City Manager: Recommended Not Recommended Without Recommendation

Board / Commission / Committee Approval Date: