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ENTERPRISE ZONE AMENDMENTS

House Bill 5234 as enrolled
Second Analysis (10-7-94)

Sponsor: Rep. Robert Brackenridge
House Committee: Taxation
Senate Committee: Finance (Discharged)

THE APPARENT PROBLEM:

In 1985, the legislature authorized the creation of an "enterprise zone" in Benton Harbor, an economically depressed city of under 15,000 people in southwestern Michigan. The concept of the enterprise zone had become popular in the 1980's as an alternative method of stimulating economic development. Its basic premise was that the removal of suspected barriers to economic growth, such as high tax rates and restrictive government regulations, would be more beneficial than programmatic interventions in certain targeted areas. (Obviously, this was a controversial idea.) A variation on this idea was enacted in Michigan. Although the Enterprise Zone Act was drafted in general terms, only Benton Harbor met the criteria for participation: an unemployment rate over 25 percent; median family income less than 55 percent of the state average; an average millage rate over 30 mills; and a state equalized valuation (SEV) of under $4,000 per capita. (Benton Harbor today would not meet that criteria either.) The 1985 act granted property tax reductions, exemptions from use and sales taxes, and credits against the single business tax to new and expanding businesses in the zone. Originally, the city had two years from the date the zone was created (July 31, 1986) to certify businesses for tax reductions, but this deadline was extended in 1988 for two years and then again in 1990 for four years. The ability to certify businesses expires in July of this year unless it is extended again. A 1991 report from the Department of Commerce said that the Michigan Enterprise Zone Authority had designated over 100 new and expanding businesses in the city, creating 450 new jobs and 250 transfer jobs from within the state. The report also said firms had committed to investing over $40 million in new construction and equipment. Business and government leaders have asked for an additional two years to bring the enterprise zone program to its conclusion.

The 1990 amendments to the Enterprise Zone Act made a number of significant changes, mostly based on a report from the enterprise zone authority. One such change was to allow existing businesses that otherwise did not qualify for tax reductions to pay property taxes at the statewide average millage rate rather than at the local millage rate (a significant reduction) and to allow the city to keep the portion of revenue from those businesses that otherwise would have gone to the local school district. (State school aid was to make up the lost revenue to the schools.) With the new school financing system that will go into effect with the passage of Proposal A, the city stands to lose a substantial amount of revenue from reduced school operating property taxes. Community leaders say the sudden loss of this revenue would be disastrous to the city. They have asked for the state to assist them in a gradual phase-out in reliance on this revenue. Other amendments to the act are also being sought.

THE CONTENT OF THE BILL:

The bill would amend the Enterprise Zone Act to do the following:

* Extend the program for two more years, by allowing businesses to be certified for special tax benefits until July of 1996. (After that, no more certificates could be issued.) However, certificates would not be valid after December 31, 2004.

* Require the legislature to provide to the local unit with an enterprise zone the amount needed to cover the loss in revenue in 1994 from the reduction in the school operating millage rate from the 1993 level. For fiscal years 1995 through 2003, the legislature would be required to provide that same amount reduced each year by 10 percent of that amount.

* Delete the requirement that the local unit create a revolving loan fund for small businesses that have difficulty obtaining financing in existing markets. (This requirement was added in 1990 as a condition of allowing a property tax reduction to existing businesses that did not qualify for tax reductions granted to qualified businesses. The 1990 amendments allowed revenue that would have gone to the local school district to go instead to the city and required a spending plan for the new city revenue, with at least 10 percent of the money distributed under the spending plan to be used in creating the revolving loan fund.)

* Specify that the statewide average property tax rate used in calculating the tax obligation of a qualified business would be the average rate of taxation levied upon other commercial, industrial, and utility property statewide. (Qualified businesses pay at a rate of 50 percent of the statewide average rate.) The calculation of the tax rate for other businesses in the zone would also employ the rate paid by commercial, industrial, and utility property. (Such businesses can reduce their taxes to the statewide average through credits based on amounts spent for improvements made to property, for wages of new hires, and contributions to the local unit.)

* Require the local unit to send revenue to the county to fund emergency dispatch services, senior citizen centers, and substance abuse rehabilitation services. The amount disbursed would be equal to the voter-approved special millage levied by the county for those purposes multiplied by the state equalized valuation (SEV) of all exempted property.

* Limit the use of revenues the local unit receives that would otherwise go to schools or tax increment finance plans to the funding of capital improvements identified in the spending plan the local governmental unit submitted to the enterprise zone authority. However, those funds could be used for other authorized purposes with approval of the authority.

MCL 125.2114 et al.

FISCAL IMPLICATIONS:

According to information from the sponsor's office, an appropriation of $426,000 is anticipated for the legislature to reimburse Benton Harbor for revenue lost due to the reduction in school operating property taxes. The bill calls for this amount to be reduced by 10 percent of the original appropriation (i.e., by about $42,600) each year until 2003. The appropriation would require approval of the legislature each year. (5-11-94)

ARGUMENTS:

For:

The bill would extend for two more (and probably final) years the enterprise zone experiment in Benton Harbor. This will allow the city to continue to encourage new investment. The aim of the program has been to promote economic growth, encourage private investment, create jobs, and broaden the tax base. Advocates say that while not all that had been hoped for has been accomplished and while the city still has a long way to go to be economically healthy, the progress that has been made is sufficient to justify the state's investment over the years. The additional two years will allow the city to plan for the future and build on the gains produced by the enterprise zone program. Further, the bill will protect against the potential devastating effects of Proposal A on the enterprise zone program. The reduction in school operating taxes that has resulted from the new state school financing system will eliminate over $400,000 in anticipated revenue to the city. The bill would hold the city harmless at first, and then phase-out the state reimbursement of these dollars over nine years. It also bases various tax calculations on the statewide average millage rate of nonhomestead property, in recognition of the new differential between homestead and nonhomestead property under Proposal A. The bill also would eliminate a revolving loan program that reportedly has suffered administrative problems and uncollected loans. It would also send to the county money due from a special millage for emergency dispatch services, senior citizen centers, and substance abuse rehabilitation.

Response:

Some other cities with serious financial problems might object to the special treatment Benton Harbor will receive under this bill. It should be noted that this bill cannot guarantee that the legislature will send the reimbursement for revenue lost due to Proposal A. That will require annual legislative approval.