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SFA



BILL ANALYSIS

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Senate Bill 1096 (as enrolled)
Sponsor: Senator Bill Schuette
Senate Committee: Economic Development, International Trade and Regulatory Affairs
House Committee: Tax Policy

PUBLIC ACT 468 of 1998

Date Completed: 1-8-99

RATIONALE

Federally designated enterprise communities were authorized by Congress in the Omnibus Budget Reconciliation Act of 1993. The U.S. Secretary of Agriculture designated 30 rural communities throughout the nation, including Lake County in Michigan, as rural enterprise communities. (Please see **BACKGROUND** for more details on enterprise communities.)

In conjunction with the Federal Act, 1994 amendments to Michigan's Enterprise Zone Act provided for various tax exemptions in order to encourage businesses to locate in these decayed commercial and industrial areas. In order to qualify for the tax exemptions, a business must be in a Federally designated enterprise community that also has been approved as an enterprise zone by the Michigan Enterprise Zone Authority. Reportedly, Lake County did not apply to the Authority to qualify as an enterprise zone. As a result, the State tax exemptions do not apply to businesses in Lake County.

Apparently, a natural gas distribution company is interested in establishing a business in Lake County, but the property tax would not be exempted. Therefore, it was proposed that such a company specifically be exempted from the personal property tax, beginning December 30, 1998, until December 30, 2018, if it relocates or establishes a business within a Federally designated rural enterprise community.

CONTENT

The bill amended the General Property Tax Act to exempt from the tax, beginning December 30, 1998, until December 30, 2018, personal property located in an area designated as a rural enterprise community as of the bill's effective date, under Title

XIII of the Omnibus Budget Reconciliation Act of 1993, that is a component part of a natural gas distribution system.

MCL 211.9f

BACKGROUND

The Omnibus Budget Reconciliation Act of 1993 provided for the Federal designation of a total of 95 enterprise communities (65 urban and 30 rural). The deadline to apply for designation was June 30, 1994, and designations were made only during 1994 and 1995. A number of Michigan communities submitted applications for Federal designations. Flint, Muskegon/Muskegon Heights, and Lake County received enterprise community designations.

The areas Federally designated as rural enterprise communities must have had the following: a maximum population of 30,000; an area with a continuous boundary, consisting of not more than three noncontiguous parcels; a size not exceeding 1,000 square miles; and a poverty rate of at least 20% for each of the census tracts within the designated area, with at least 90% of the tracts having a poverty rate of at least 25%, and at least 50% of the tracts having a poverty rate of at least 35%.

To be designated as an enterprise community, an area must have been jointly nominated by the local government and the state in which the area was located, as well as submitted a strategic plan by the local government and the state. A strategic plan must have identified: 1) how activities were coordinated between the state, local government, and private organizations, and what resources they committed; 2) how Federal funds were used in the

area; 3) baselines and methods for measuring progress; and 4) a guarantee that the applicant did not assist any relocation of business from outside a community to within the area. A plan also had to contain assurances from the state and local government that it would be implemented.

Congress provided \$1 billion in grants to the zones and communities. The grants were through the Title XX Social Service Block Grant program and had to be used for programs that encouraged economic self-sufficiency, prevented child neglect, preserved families, or furthered the strategic plan for the zone or community. As a result, each of the three enterprise communities in Michigan (Lake County, Flint, and Muskegon/Muskegon Heights) received \$2.9 million in Federal grants over two years.

Public Act 311 of 1994 amended the Enterprise Zone Act to provide that a local unit may qualify as an enterprise zone if it has been Federally designated an empowerment zone, rural enterprise community, or enterprise community. A qualifying local unit must submit an application to the Michigan Enterprise Zone Authority, and has two years after approval of its application to prepare a comprehensive development plan for the zone. The owner or lessee of a facility may apply to the clerk of the local unit that established an enterprise zone for certification as a qualified business. (A "facility" is real or personal industrial or commercial property located in an enterprise zone. A "qualified business" is a business located in an enterprise zone created after 1993. A facility is not eligible for certification if it is built solely on property that has never been the site of a structure.) For five years from the date of certification, a facility is exempt from real and personal property taxes and is subject to a specific tax.

ARGUMENTS

(Please note: The arguments contained in this analysis originate from sources outside the Senate Fiscal Agency. The Senate Fiscal Agency neither supports nor opposes legislation.)

Supporting Argument

The bill offers property tax abatements to natural gas service companies wishing to expand and locate in rural enterprise communities, such as MichCon (Michigan Consolidated Gas Company) in Lake County, beginning December 30, 1998, until December 30, 2018. By establishing financial incentives for a natural gas business to locate and invest in a rural enterprise zone, the bill will contribute significantly to the revitalization and

diversification of the community's economy. The financial incentives provided for enterprise communities under the Michigan Enterprise Zone Act are designed to help promote the growth and expansion of businesses, create new jobs and infrastructure, and spur community growth. This, in turn, helps increase the tax base of those areas within an enterprise community, providing local units in which communities are located with more revenue to improve local services and to offer still more incentives to make both the communities and the local units more attractive to prospective residents and business enterprises.

Legislative Analyst: N. Nagata

FISCAL IMPACT

The bill will exempt personal property located in a Federally designated rural enterprise community that is a component part of a natural gas distribution system from the property tax.

Fiscal Analyst: R. Ross

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This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.