House Legislative Analysis Section
Romney Building, 10th Floor
Lansing, Michigan 48909
Phone: 517/373-6466

RENAISSANCE ZONES

House Bill 4733 with committee amendments
First Analysis (6-1-99)

Sponsor: Rep. Clark Bisbee
Committee: Economic Development

THE APPARENT PROBLEM:

Public Act 376 of 1996 created the Michigan Renaissance Zone Act to establish renaissance zones across the state in which businesses and residents receive certain tax exemptions from most property and income taxes for up to 15 years. The purpose of the renaissance zone program is to encourage business and residential development in some of the state's most economically depressed areas. The state is required to reimburse local and intermediate school districts, as well as community colleges and public libraries, for revenues lost because of the tax exemptions. No reimbursements, however, are made to local governments affected by the tax breaks. The program was administered by the Michigan Jobs Commission, which recently was replaced by the Michigan Economic Development Corporation (MEDC). (See *Background Information* for additional information.)

Beginning on January 1, 1997, nine geographic areas of the state received renaissance zone designations: the Benton Harbor/St. Joseph/Benton Township area, Detroit, Flint, the Gogebic/Ontonagon/Houghton Counties area, Grand Rapids, Lansing, Manistee County, the Montcalm/Gratiot Counties area, and Saginaw. In addition, the former Warren Tank Arsenal and the former Wurtsmith Air Force Base received designations. The deadline for applications under the renaissance zone program expired on December 31, 1996. However, the Michigan Economic Development Corporation (MEDC) proposes to allow a "second round" of renaissance zones. Under the MEDC proposal, new renaissance zones would be designated and present renaissance zones would be allowed to expand.

THE CONTENT OF THE BILL:

Currently, under the Michigan Renaissance Zone Act (MCL 125.2681 et al.), a qualified local governmental unit (defined under the act to mean either a county, or a city, village, or township that contains an eligible distressed area, as defined under the State Housing Development Authority Act (MCL 125.1411), may apply to the Renaissance Zone Review Board to have a geographic area within its boundaries designated as a renaissance zone. Applications are reviewed by the review board, which then makes recommendations to the state administrative board for approval, based on certain criteria. House Bill 4733 would amend the act to provide the following:

• Permit nine new renaissance zones to be designated until December 31, 2002.

• Allow a local governmental unit to modify the boundaries of certain renaissance zones.

• Permit additional "distinct geographic areas" (commonly referred to as "sub-zones") to be designated in existing renaissance zones, which, in most cases, would receive renaissance zone status for 15 years.

• Allow a local governmental unit to designate up to four "distinct geographic areas," or sub-zones, in each renaissance zone, with no minimum size requirements.

• Specify that the designation of renaissance zone status would be effective on January 1st of the year following designation, and for the purpose of tax exemptions would take effect December 31st in the year of the designation.

• Replace the current membership of the Renaissance Zone Review Board with the board of the Michigan Strategic Fund.

Legislative Intent. The bill would state that it was the intent of the legislature that local governmental units subject to the provisions of the act would be required to follow all state statutes that related to condemnation of property, and would also be subject to the provisions of the Open Meetings Act.

Renaissance Zone Review Board. Currently, the act specifies that the Renaissance Zone Review Board consists of the following members, or their designees: the director of the Department of Management and Budget, the chief executive officer of the Michigan Jobs Commission, and the state treasurer. House Bill 4733 would replace membership on the board with the board of the Michigan Strategic Fund.

New Renaissance Zones. The bill would allow up to nine new renaissance zones to be established. Under the bill, no more than six of these could be located in urban areas, and up to four could be located in rural areas. If any part of a renaissance zone was located within an urban area, the entire zone would be considered "urban" for the purpose of determining whether a renaissance zone was located in an urban or rural area. In addition, the board of the Michigan Strategic Fund could designate up to five additional renaissance zones within the state in cities, villages, or townships, if that city, village, or township consented to the creation of a renaissance zone within its boundaries. The bill would specify that the designation of renaissance zone status would be effective on January 1st of the year following designation.

Under the act, school districts in which renaissance zones are located are protected from revenue losses, since the state must reimburse local and intermediate school districts, as well as community colleges and public libraries, for revenues lost because of the act's tax exemptions. In addition, the act requires that the state reimburse the school aid fund, and also requires that foundation allowances calculated under the State School Aid Act may not be reduced as a result of lost revenues. Under the bill, for the purposes of tax exemption status, a renaissance zone designation would take effect on December 31st in the year of the designation. The bill would also specify that the state administrative board could not designate a renaissance zone after December 31, 2002.

Modification of Existing Zone Boundaries. Until December 31, 2002, a qualified local governmental unit with a renaissance zone that had been designated before December 31, 1996, could modify the boundaries of the zone to include contiguous parcels of property, as determined by the qualified local government and approved by the review board. However, the additional contiguous parcels of property would not constitute an additional distinct geographic area. Should the renaissance zone boundaries be modified, the additional contiguous parcels of property would become part of the original renaissance zone, on the same terms and conditions as the original designation of the zone.

Expansion of Current Renaissance Zones. The bill would specify that a qualified local governmental unit or units in which a renaissance zone was designated could apply to the Michigan Renaissance Review Board through December 31, 2002, for approval by the state administrative board, to designate additional distinct geographic areas, up to a total of ten distinct areas, including those previously designated. Each additional distinct geographic area would be designated as a renaissance zone for up to 15 years. In addition, the duration of the renaissance zone status of all distinct geographic areas within a zone could be extended so that the status of all distinct geographic areas within that zone ended at the same time.

Minimum Size Restrictions on Renaissance Zones. Currently, under the act, certain conditions must be met before an area can be designated as a renaissance zone: among other requirements, the proposed zone may contain no more than six "distinct geographic areas." Minimum size restrictions are provided for distinct geographic areas, as follows: for a geographic area located wholly or partially within a city with a population over 500,000, the area may not be less than 30 acres; for a geographic area located wholly or partially within a village, the area may not be less than 10 acres; and for other geographic areas, a geographic unit may not be less than 30 acres. In addition, the act specifies that not more than 50 percent of the real property in each distinct geographic area may be owned by the same person.

House Bill 4733 would delete these provisions. Instead, the bill would specify that the minimum size of a distinct geographic area would be five acres. Also, a qualified local governmental unit or units could designate in each renaissance zone up to four distinct geographic areas that had no minimum size requirement.

Report to Legislature. Currently, the act requires that a list of renaissance zones designated by the state administrative board must be submitted to the legislature, which may reject the entire list by concurrent resolution adopted by a majority vote. The bill would amend the act to specify, instead, that the legislature could reject the designation of an individual renaissance zone.

Currently, the act specifies that rejection by the legislature must be done no later than December 30th, 1996. The bill would specify, instead, that rejection by the legislature would have to take place the earlier of 45 days following the date of the designation by the state administration board, or December 31 of the year of designation.

BACKGROUND INFORMATION:

Executive Order Number 2 of 1996 reorganized the Department of Commerce into a new department, the Department of Consumer and Industry Services, and transferred some of the department's functions to the Michigan Jobs Commission. Effective April 5, 1999, the Jobs Commission was abolished by the governor, and its functions were divided between two new departments: the Department of Career Development (MDCD), and the Michigan Economic Development Corporation (MEDC).

The MDCD administers employment and job training programs such as "school-to-work" and "welfare-to work" programs, occupational rehabilitation services for handicapped individuals, and job search assistance for displaced workers. Administered as a corporation under the auspices of a board drawn mostly from the private sector, the MEDC is modeled after local economic development corporations. The MEDC oversees the state's travel promotion, business ombudsman, and the Michigan Strategic Fund. It conducts marketing campaigns, and forms partnerships with universities to attract high-technology employers to the state.

FISCAL IMPLICATIONS:

According to the Michigan Economic Development Corporation (MEDC), the renaissance zone legislation would have an indeterminate fiscal impact on the state, since the size and location of potential renaissance zones has not been determined. Although the potential impact of job creation or economic development within the zones cannot be estimated, the MEDC estimates that the bill could impact state and local government finances as follows:

** Local governments with renaissance zones would face a loss in revenues from city income taxes, local property tax assessments, and local utility users taxes. In addition, since property in a renaissance zone would also be exempt from assessments by neighborhood enterprise zones, local development financing authorities, or downtown development authorities, in cases where such designated areas overlapped, the bill could render existing local development authorities unable to generate sufficient local revenues to cover their obligations. Also, since a reduction in state revenues from the income tax and single business tax exemptions or credits would lead to a proportionate reduction in the amount of funds set aside for revenue sharing, this would have a secondary effect of reducing the allocation for revenue sharing payments to all local units of government.

** The bill would result in a loss to the school aid fund of the 23 percent of gross income tax revenue and other taxes, such as the six mill state education property tax, that would otherwise be generated by zone residents and dedicated to the school aid fund. Also, school aid fund costs would increase for the state, since it would be required, under the bill, to reimburse community college districts, public libraries, and school districts for any property tax reductions they would sustain due to the proposed property tax exemptions in the renaissance zones.

** With regard to the general fund, the fiscal impact of the legislation would be to reduce single business tax revenue and income tax revenue attributable to renaissance zone businesses and residents.

The MEDC notes that the provisions of the act resulted in a loss of revenues to the state of $218,266 in income taxes exemptions, and $1,532,045 in small business tax exemptions for the 1997 calendar year. (5-26-99)

ARGUMENTS:

For:

Although many areas of the state have experienced economic growth in recent years, some urban and rural areas have not shared in this prosperity. Some of these areas are large cities that have been on a steady decline for decades; others are rural areas with minimal, or declining, tax bases. Such communities face multiple challenges to economic development, such as deteriorated infrastructure and abandoned residential and commercial sites, and need innovative approaches to encourage business and residential development. Such an innovative approach was developed in 1996 under the renaissance zone program. At the time, the program was seen as a logical follow-up to recent welfare reforms that focused on putting welfare recipients to work. In order for those reforms to succeed, work had to be found for thousands of recipients in the poorer urban and rural areas where most of them lived. These were areas that needed an infusion of economic vitality to create jobs and businesses, and to bring new life to neighborhoods. Moreover, although these were areas where tax bases were minimum or declining, the loss of revenues under the tax exemption provisions of the act were seen to be temporary, since new economic development would result in more tax revenues when the tax breaks ended.

According to the Michigan Economic Development Corporation (MEDC), the renaissance zone program has been so successful that two other states -- Pennsylvania and North Dakota -- have introduced renaissance zone programs modeled after Michigan's program. The MEDC reports that thousands of jobs and millions of dollars in new investment have poured into the communities that have designated renaissance zones. The department points to Grand Rapids as an example: in the first year of the renaissance zone program, the city announced 30 projects with the potential of creating 936 jobs and more than $43 million in private investment. These projects were in distressed areas containing existing commercial and industrial business that needed to expand; other renaissance zone districts planned industrial and commercial projects to attract new businesses. Based on this success, the MEDC proposes to expand the program.

For:

The bill would include provisions intended to improve the renaissance zone program:

• The bill would allow smaller "sub-zones" or distinct geographic areas to be designated within existing renaissance zones. This would enable communities to target parcels of property that are blighting surrounding areas, without foregoing the taxes generated in those surrounding areas.

• The bill would also delete the current requirement that 50 percent of the real property in a "sub-zone" must be owned by one person. This provision, together with the provision to allow smaller "sub-zones," would enable communities to select areas better suited for immediate development.

• The bill would allow existing renaissance zone communities to apply for additional "sub-zones." This would ensure uniformity among current renaissance zones and those that received their designation under the provisions of the bill.

• The bill would permit the Michigan Strategic Fund board to designate up to five additional renaissance zones provided that the cities, villages, or townships in which they were located consented to the designation. In this way, a community in which a renaissance zone had been designated could have another zone designated if needed to attract new economic development.

Against:

According to a November, 1998, report issued by the Citizens Research Council (CRC) *(Michigan Renaissance Zones in the Economic Development Contact*, Report No. 324), the results of the state's renaissance zone program during the first one and one-half years of its existence were less than encouraging. According to the report, the renaissance zones had attracted approximately 4,000 jobs and an estimated investment of $273 million through July 31, 1998. However, only three projects out of the 59 initiated under the program involved investment from out-of-state companies. The CRC report concluded that tax inducements alone do not ensure that businesses will develop to any great extent in targeted zones, and that, although state and local tax-free status serve as an inducement for prospective businesses, it does not change the hindrances usually associated with distressed areas. For example, the downside of renaissance zones is that they are not prime real estate: the typical parcel of land is either environmentally distressed or legally encumbered. Therefore, securing title to the property and getting permission to develop there can be difficult. This means that local governmental entities must work on eliminating red tape, crime, and high regulatory costs in areas surrounding renaissance zones.

Against:

Under the bill, a local governmental unit with a renaissance zone that received designation during the "first round" of renaissance zones in 1996 could designate additional "sub-zones," each of which could be designated as a renaissance zone for up to 15 years. In addition, the duration of the renaissance zone status of all subzones within a zone could be extended so that the status of all subzones within that zone ended at the same time. However, in a local government that chose not to designate additional subzones, subzones could not be extended for the additional time period, creating an inequity between "old" zones and "new" zones.

Against:

Residents in large urban areas urge caution when establishing renaissance zones in these areas, since economic development often results in the destruction of old neighborhoods. All too often, residents -- especially senior citizens -- are driven from ethnic neighborhoods where their families have lived for generations, and forced to live in new, unfamiliar, surroundings. In some cases, such as the Poletown district of Detroit, even historic churches were torn down to make way for new industrial projects. As a result of the Poletown situation, residents in other Detroit neighborhoods where "revitalization projects" are planned have expressed fears that they won't receive adequate compensation for the homes they're about to lose.

Response:

The bill includes provisions designed to avoid incidences such as the one that occurred in Poletown. It requires that local governmental units with designated renaissance zones follow all statutes relating to condemnation of property and of the provisions of the Open Meetings Act. Specifically, the Uniform Condemnation Procedures Act (MCL 213.51 et al.) requires that state agencies pay just compensation for property they acquire under the act.

POSITIONS:

The Michigan Economic Development Corporation (MEDC) supports the bill. (5-26-99)

The City of Grand Rapids supports the bill. (5-26-99)

The City of Saginaw supports the bill. (5-27-99)

The National Federation of Independent Businesses (NFIB) has no position on the bill. (5-27-99)

The Michigan Library Association has no position on the bill. (5-27-99)

The Michigan Townships Association (MTA) has no position on the bill. (5-27-99)

Analyst: R. Young