

RENAISSANCE ZONES

**House Bill 4733 as enrolled
Public Act 98 of 1999
Sponsor: Rep. Clark Bisbee**

**Senate Bill 625 as enrolled
Public Act 139 of 1999
Sponsor: Sen. Bill Schuette
Third Analysis (10-21-99)**

**House Committee: Economic Development
Senate Committee: Economic
Development, International Trade
and Regulatory Affairs**

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 and Senate Bill 625, which are tie-barred to each other, would amend the act to provide the following:

*Permit the state administrative board to designate up to nine new renaissance zones before December 31, 2002.

*Permit the board of the Michigan Strategic Fund to designate an additional five zones.

*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.

House Bill 4733

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 state that they would 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 that designated membership with the board of the Michigan Strategic Fund.

New Renaissance Zones. The bill would allow up to nine new renaissance zones to be established, excluding zones established on land containing military bases and zones that were on public land adjacent to these. 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 one or more cities, villages, or townships, if that city, village, or township consented to the creation of a renaissance zone within its boundaries.

Military Bases. In addition to the nine additional renaissance zones permitted under the bill, the board could designate additional renaissance zones in one or more qualified local governmental units if there were a U.S. Department of Defense military installation within the unit that had been closed after 1990. Further, land

owned by a county or by the qualified local governmental unit or units could be included in this zone if it were adjacent to a zone that contained a military base.

Senate Bill 625

Date of Renaissance Zone Designation. The bill would specify that the designation of renaissance zone status would be effective on January 1st of the year following each designation. Further, 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.

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," or sub-zones. Minimum size restrictions are provided for sub-zones, 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 sub-zone may be owned by the same person.

The bill would delete these provisions. Instead, the bill would specify that a renaissance zone could contain no more than 10 distinct areas, and that, generally, the

minimum size of a sub-zone would be no less than five acres. However, a qualified local governmental unit or units could designate in each renaissance zone up to four sub-zones that had no minimum size requirement.

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 through December 31, 2002, a qualified local governmental unit or units in which a renaissance zone had been designated before December 31, 1996, could apply to the state administrative board to designate additional sub-zones, up to a total of ten, including those previously designated. Each additional sub-zone would be designated as a renaissance zone for up to 15 years. In addition, the duration of the renaissance zone status of one or more sub-zones could be extended until 2017. The bill would also permit a qualified local governmental unit in which a renaissance zone had been designated before December 31, 1996, to extend the renaissance zone status until 2017.

Ineligibility for Exemptions. Currently, under the act, a resident of a renaissance zone, or a business located and conducting business activities there, receives for up to 15 years an exemption, deduction, or credit from certain taxes, including the state income tax; the Single Business Tax; city income taxes; and city utility users taxes. The act excludes from tax exemptions, credits, or deductions a resident, property-owner, or business, if the business or resident is delinquent in the taxes, fees, or special assessments collected under one or more of the following: the Single Business Tax Act; the Income Tax Act; the City Income Tax Act; the plant rehabilitation and industrial development Act; the Commercial Redevelopment Act; the Enterprise Zone Act; Public Act 189 of 1953, providing for the taxation of lessees or users of tax-exempt property; the Technology Park Development Act; Part 511 of the Natural Resources and Environmental Protection Act, regarding taxation on commercial forests; the Neighborhood Enterprise Zone Act; the City Utility Users Tax Act; or the General Property Tax Act.

The act also excludes from exemptions, credits, or deductions those who are "substantially delinquent" -- as defined in the qualified local unit's written policy -- in paying city income taxes or general property taxes. The bill would clarify that the exclusions would apply to a resident, business, or property owner who was delinquent on taxes, fees, or assessments on December 31 of the prior tax year. However, the bill would specify that -- for

tax years beginning on or after January 1, 1997 -- a renaissance zone resident who had failed to file a state income tax return on or before December 31 of the prior tax year could not be denied the exemption if he or she were entitled to a refund.

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. The act also 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:

A Senate Fiscal Agency (SFA) analysis of Senate Bill 625 notes that renaissance zone provisions cost the state \$4.1 million in forfeited tax revenues for fiscal year 1997-98, as follows: 133 income tax filers and 123 single business tax filers claimed renaissance zone credits and realized tax savings of \$1.7 million; and \$2.4 million was reimbursed by the state to K-12 school districts,

intermediate school districts, community colleges, and public libraries for property taxes forfeited under the act. The SFA estimates that the bill could result in a cost to the state of approximately \$5.2 million, if future renaissance zones attract business in the same correlation as existing ones. However, the estimate notes that the actual fiscal impact could be much smaller or larger, depending on such variables as here the new zones are located, how many businesses are attracted to the new zones, the size of these business, the number of people living in the new zones and their average income, and how many new businesses are attracted to existing zones under the provisions of the bill. (6-10-99)

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 bills 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 bills could render existing local development authorities unable to generate sufficient local revenues to cover their obligations. Also, since 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 bills 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 bills, 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 single business tax exemptions for fiscal year 1997-98. (6-10-99)

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 bills would include provisions intended to improve the renaissance zone program:

*The bills would allow smaller "sub-zones" 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 bills 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 bills would allow existing renaissance zone communities to apply for additional "sub-zones," and to extend the renaissance zone status of existing subzones, so that the zone status of all subzones would end simultaneously. This would ensure uniformity among current renaissance zones and those that received their designation under the provisions of the bills.

*The bills 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:

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 bills include provisions designed to avoid incidences such as the one that occurred in Poletown. They require 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.

Against:

There should be some restriction on who may qualify for tax credits under the act. Currently, an extremely wealthy person or a thriving business can move into a zone and be relieved of virtually all tax liability. Also, the tax breaks are available to anyone who is or was living or located in zone at the time of its creation; they are not limited to people who move into an area because of its renaissance zone status. The state should focus more on helping the poor residents of these areas by making sure that job training programs are established in economically distressed areas and by providing transportation for persons enrolled in the programs.

Response:

Renaissance zones are designed to stimulate investments in distressed areas, and the presence of a wealthy resident or successful business would do just that. In addition, giving the tax breaks to individuals and companies already in a zone helps to keep them there, and encourages businesses to expand in the zone. Once more businesses are established in distressed areas, job opportunities will improve for local residents.

Analyst: R. Young

■ This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.