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SFA BILL ANALYSIS

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Senate Bill 102 (as enrolled) **PUBLIC ACT 20 of 1999**
Sponsor: Senator Bill Bullard, Jr.
Senate Committee: Finance
House Committee: Tax Policy

Date Completed: 9-7-99

RATIONALE

The General Property Tax Act (as amended by Public Act 328 of 1998) allows the governing body of a city, village, or township that contains an "eligible distressed area" to exempt from personal property taxes all new personal property of an "eligible business" located in an "eligible district". In general, an "eligible distressed area" is an area in a city that has been designated as blighted; a municipality that shows a negative population change from 1970, and a poverty rate and unemployment rate greater than the statewide average; or an area certified as a neighborhood enterprise zone. An "eligible district", in general, includes such areas as industrial development districts, downtown development areas, renaissance zones, enterprise zones, empowerment zones, and brownfield redevelopment zones. "Eligible business" meant that term as defined in the Michigan Economic Growth Authority Act, that is, a business that proposes to create qualified jobs in Michigan in manufacturing, mining, research and development, wholesale and trade, or office operations; it does not include retail establishments, professional sports stadiums, or that portion of a business used exclusively for retail sales.

The City of Lansing, which qualifies for a neighborhood enterprise zone and therefore contains an eligible distressed area, is in the process of using Public Act 328 to grant the personal property tax exemption to Jackson National Life, which may locate its headquarters in the area. Further, it has been widely reported that General Motors is considering Lansing or the Lansing area as a site for a new facility. Evidently, however, the city could not offer General Motors a tax exemption for new personal property unless the definition of "eligible business" was revised.

CONTENT

The bill amended the General Property Tax Act to redefine "eligible business" in regard to the tax exemption for new personal property; to specify that new personal property includes property owned or leased by an eligible business; and to exclude from the exemption certain new personal property. Under the bill, "eligible business", effective August 7, 1998, means a business engaged primarily in manufacturing, mining, research and development, wholesale trade, or office operations. (The new definition deletes reference to the creation of qualified jobs.) "Eligible business" does not include retail establishments, professional sports stadiums, that portion of eligible businesses used exclusively for retail sales, or casinos, including all property associated or affiliated with the operation of a casino.

Under the Act, "new personal property" is personal property that was not previously subject to taxation and that is placed in an eligible district after a resolution exempting new personal property is approved by the eligible local assessing district. The bill provides that new personal property does not include buildings located on leased land (where the owner of the building is not the owner of the property and is not subject to real property taxes); and does not include certain personal property held under leaseholder arrangements as specified in the bill.

The bill provides that the clerk of the eligible local assessing district must give written notice to the assessor of the local tax collecting unit in which the eligible district is located, and the legislative body of each taxing unit that levies ad valorem property taxes in the eligible local assessing district in which the eligible district is located. Before acting on the resolution to exempt new personal property from taxation, the governing body of the eligible local assessing district must give the assessor and a representative of the affected taxing units an opportunity for a hearing.

MCL 211.9f

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 apparently is needed for the specific purpose of allowing the City of Lansing to offer General Motors an exemption from taxation for new personal property. The bill gives the city the ability to offer General Motors a substantial incentive to locate a new facility in Lansing.

<u>Opposing Argument</u>
At this time it is not known what the granting of special tax breaks to one company will mean in lost revenue to the city, or to the State for reimbursement to city schools. The bill is an example of how the State abuses taxpayers in its pursuit of granting corporate welfare. The bill includes no provisions to link the proposed tax break for General Motors to the number of employees who General Motors might retain or add; nor does it contain any provisions for General Motors to reimburse local units for lost revenue if the company decided to move elsewhere after it was granted the tax break. The bill will do taxpayers little good if the tax revenue lost exceeds the taxes generated by the (possible) jobs created.

<u>Response</u>: Granting the exemption is entirely at the discretion of the governing body of a local unit. If a local unit studies the issue and determines that it would be a bad deal to forgo the taxes generated from personal property, then the local unit need not grant an exemption.

Further, if General Motors were to locate a new facility in the area, it could have a tremendous positive effect in terms of spin-off employment and other economic activity. If the city wants to compete for a General Motors facility, it must do so with other states, local governments in other states, and other nations. Any additional tool that it has at its disposal is welcome, and a personal property tax exemption is a powerful tool.

Legislative Analyst: G. Towne

<u>FISCAL IMPACT</u>

This bill allows eligible local units to exempt new personal property owned or leased by all eligible businesses located in eligible districts. Information is not available to accurately determine the fiscal impact. However, this bill will reduce local government personal property tax revenue and local school personal property tax revenue. State government revenue from the State education property tax will decline; however, due to the State's guaranteed school foundation allowance, the State will have to reimburse the schools for their loss in personal property taxes.

Fiscal Analyst: R. Ross