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SFA BILL ANALYSIS

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Senate Bill 625 (Substitute S-1 as reported)
Sponsor: Senator Bill Schuette
Committee: Economic Development, International Trade and Regulatory Affairs

Date Completed: 6-9-99

RATIONALE

The Michigan Renaissance Zone Act was enacted in 1996 to encourage commercial, industrial, and residential improvements in economically distressed areas in the State. The Act provides for the designation of a limited number of renaissance zones in qualified local governmental units. Businesses and residents in a renaissance zone may receive certain tax exemptions or credits, and property in a zone is exempt from taxation, for up to 15 years. In December 1996, the State Administrative Board designated 11 renaissance zones, the maximum allowed under the Act. It has now been suggested that additional renaissance zones should be permitted in order to promote economic development in a greater number of communities.

CONTENT

The bill would amend the Michigan Renaissance Zone Act to do the following:

- **Allow the State Administrative Board to designate up to nine additional renaissance zones.**
- **Allow the Board of the Michigan Strategic Fund to designate an additional five zones.**
- **Allow any city, village, or township to apply for a renaissance zone, and eliminate the ability of counties to apply.**
- **Allow the Legislature to reject an additional designation made by the State Administrative Board or the Michigan Strategic Fund Board.**
- **Provide that a zone could contain up to 10 (rather than six) distinct geographic areas, and allow local units to designate additional distinct geographic areas until December 31, 2002.**
- **Require each geographic area to be at least five acres, but permit a local unit to designate four areas with no minimum size requirement.**
- **Provide that the renaissance zone review board would consist of the Board of the Michigan Strategic Fund.**

Currently, a qualified local governmental unit is either a county, or a city, village, or township that contains an eligible distressed area as defined in the State Housing Development Authority Act. (An eligible distressed area is 1) a blighted area in a city with a population of 10,000 or more; 2) a municipality that meets requirements pertaining to population loss, a below-average increase in the State equalized valuation of property, an above-average poverty rate, and an above-average unemployment rate; or 3) an area in a local unit of government certified by the Michigan Enterprise Zone Authority.) The bill, instead, would define "qualified local governmental unit" as a city, village, or township.

The bill provides that the State Administrative Board, until December 31, 2002, could designate nine additional renaissance zones within the State. Up to six of the zones could be located in urban areas and up to four in rural areas. (For purposes of determining whether a renaissance zone was located in an urban or rural area, the entire zone would have to be considered to be in an urban area if any part of it were located in an urban area.) In addition, the Board of the Michigan Strategic Fund could designate up to five additional renaissance zones in one or more cities, villages, or townships if the city, village, or township, or combination of cities, villages, or townships consented to the creation of a renaissance zone within its boundaries.

The designation of a renaissance zone under the current Act took effect on January 1, 1997. For purposes of the Act's property tax exemption, a designation took effect on December 31, 1996. The bill specifies that the designation of a zone would take effect on January 1 in the year following designation. For purposes of the property tax exemption, a designation would take effect on December 31 in the year of designation.

Under the Act, the State Administrative Board had to submit a list of the renaissance zones to the Legislature, and the Legislature had until December 31, 1996, to reject the list by concurrent resolution. Under the bill, the Board would have to submit to the

Legislature each renaissance zone designated by the Board. The Legislature, by concurrent resolution adopted by a majority vote in each house, could reject the designation within 45 days after the Board's designation or by December 31 of the year of designation, whichever was earlier.

Under the Act, a renaissance zone may not contain more than six distinct geographic areas (commonly called subzones). The minimum size of a subzone must be as follows:

-- 30 acres, for an area that is wholly or partly within a city with a population over 500,000.
-- 10 acres, for an area that is wholly or partly within a village.
-- 20 acres, for an area other than one described above.

The bill provides, instead, that a renaissance zone could contain up to 10 subzones. Each subzone would have to be at least five acres in size, although a qualified governmental unit could designate up to four subzones in each renaissance zone to have no minimum size requirement. The bill would delete a provision under which not more than 50% of the real property in each subzone may be owned by the same person.

The bill provides that, through December 31, 2002, upon application to and approval by the State Administrative Board, a qualified local governmental unit in which a renaissance zone was designated under the current Act, could designate additional subzones, not to exceed a total of 10 subzones. If a local unit designated additional subzones, it could extend the duration of the renaissance zone status of all of the subzones in that renaissance zone so that the zone status of all of the subzones ended at the same time.

Under the Act, the tax reductions for an individual include an exemption under the Income Tax Act, the City Income Tax, and the City Utility Users Tax. The bill provides that, for tax years beginning on or after January 1, 1997, an individual who was a resident of a renaissance zone could not be denied this exemption if he or she were entitled to a refund under the Income Tax Act and failed to file a return by December 31 of the prior tax year under that Act.

Currently, the Act provides that the renaissance zone review board consists of the Director of the Department of Management and Budget, the Chief Executive Officer of the Michigan Jobs Commission, and the State Treasurer, or their designees. Under the bill, the review board would consist of the Board of the Michigan Strategic Fund.

MCL 125.2683 et al.

<u>BACKGROUND</u>

Under the Michigan Renaissance Zone Act, a qualified local governmental unit may apply to the renaissance zone review board for designation as a renaissance zone if specific criteria are met. Among other things, the local unit must submit a development plan that contains such information as the methods proposed to increase economic opportunity and expansion, facilitate infrastructure improvement, and identify job training opportunities; and current social, economic, and demographic characteristics of the proposed zone and anticipated improvements in education, health, human services, public safety, and employment. The State Administrative Board must review all recommendations submitted by the review board and determine which applications meet the Act's criteria.

A person who is a resident of a renaissance zone or a business that is located and conducts business activity within a zone may receive, for up to 15 years, an exemption, deduction, or credit under the following laws: the Single Business Tax Act, the Income Tax Act, the City Income Tax Act, and the City Utility Users Tax Act. Property located in a zone is exempt from taxes under all of the following: the General Property Tax Act, the Plant Rehabilitation and Industrial Development Districts Act, the Commercial Redevelopment Act, the Enterprise Zone Act, the Technology Park Development Act, the Neighborhood Enterprise Zone Act, Public Act 189of 1953 (which provides for the taxation of lessees or users of tax-exempt property), and Section 51105 of the Natural Resources and Environmental Protection Act (which provides for a tax on commercial forests).

If a business in a qualified local governmental unit relocates from outside a zone into a zone within the same local unit, the business is ineligible for the tax reductions unless the local unit's governing board approves the relocation. The Act also restricts the eligibility of a business that relocates to a renaissance zone more than 25 full-time jobs from a local unit without a renaissance zone.

On December 16, 1996, the State Administrative Board designated six zones in urban areas, three in rural areas, and two former military installations. The designated zones, and their size and duration, are as follows:

-- Benton Harbor/St. Joseph/Benton Township (120 acres, 10 years)
-- Detroit (1,345 acres, 12 years)
-- Flint (836 acres, 15 years)
-- Grand Rapids (536 acres, 15 years)
-- Lansing (110 acres, 12 years)
-- Saginaw (743 acres, 12 years)
-- Gogebic/Ontonegon/Houghton Counties (2,917 acres, 15 years)

-- Manistee County (556 acres, 15 years)
-- Montcalm/Gratiot Counties (1,870 acres, 15 years)
-- Warran Tank (153 acres, 15 years)
-- Wurtsmith Air Force Base (2,202 acres, 15 years)

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

Although a number of State taxes have been cut, the State's economy is thriving, and the unemployment rate is down, some urban and rural communities across Michigan still have not been able to participate in the State's economic resurgence. The Michigan Renaissance Zone Act was designed as an innovative approach to encourage business and residential development in economically depressed neighborhoods. As a result of the law's tax exemptions, it costs considerably less to establish and expand businesses, build homes, and live and work in these areas. The renaissance zone program also gives local governments a free hand to design a system of economic development that is tailored to meet their communities' needs.

A report by the Michigan Economic Development Corporation (within the Michigan Strategic Fund) indicates that business activity within the designated zones has been significant. In 1997, according to the report, the zones experienced a total of 57 projects involving such products or services as scrap metal recovery, restaurants, nonprofit health clinics, grocery stores, printing, auto supplies, steel blasting, aircraft maintenance, and antiques. These projects produced an estimated 4,110 jobs and investments totaling $176,375,000. In 1998, there were 26 projects in renaissance zones, an estimated 508 jobs, and investments of $20,793,160. This year's figures through April 28 show 11 projects, 391 jobs, and $27,824,471 in investments.

Clearly, the creation of renaissance zones is a viable way to encourage businesses to expand or locate in a community. By allowing the State Administrative Board to designate nine more zones, and allowing the Michigan Strategic Fund also to designate five zones, the bill would more than double the number of municipalities that may participate in this opportunity to stimulate commercial and residential investment.

Supporting Argument

The bill would enable local units to target parcels of blighted property, without foregoing the taxes generated in surrounding areas, by reducing the minimum size of subzones, allowing subzones with no minimum size requirement, increasing the maximum number of subzones permitted, and removing the requirement that 50% of the real property in a subzone be owned by one person. In addition, the bill would promote uniformity within renaissance zones by allowing local units to extend the renaissance zone status of existing subzones so that the zone status of all subzones would end simultaneously.

Opposing Argument

By allowing any city, village, or township to apply for designation as a renaissance zone, the bill would remove one of the chief underpinnings of the renaissance zone concept: that a qualified local unit be economically distressed. The tax breaks allowed by the Act cost the State millions of dollars in lost revenue, and should be limited to communities in need.

Response: Although any community could apply, only those that met the statutory criteria could be designated by the State Administrative Board. The local units still would have to go through the Act's application process, be recommended by the review board (which would be the Strategic Fund Board), and be approved by the Administrative Board. The Act requires the Administrative Board to consider such factors as evidence of adverse economic and socioeconomic conditions, the viability of an applicant's development plan, and how renaissance zone designation would relate to a broader plan for the community as a whole. Presumably, municipalities designated by the Strategic Fund Board would be subject to the same or similar considerations. In regard to the lost tax revenue, that must be viewed in light of the number of jobs created in renaissance zones and the amount of investments made in them.

Opposing Argument

There should be some restrictions on who qualifies for a tax credit 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 a zone at the time of its creation; they are not limited to people who move into an area because of its renaissance zone status.

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.

Legislative Analyst: S. Lowe

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FISCAL IMPACT

In FY 1997-98, 133 income tax filers and 123 single business tax filers claimed the renaissance zone credit, and realized a total tax saving of $1.7 million. In addition, State government reimbursed K-12 school districts, intermediate school districts, community colleges, and public libraries $2.4 million for the property taxes they lost due to the 11 existing renaissance zones. Therefore, the direct cost to State government due to the special tax reductions granted to businesses and people living in renaissance zones totaled an estimated $4.1 million in FY 1997-98. Establishing up to 14 new renaissance zones, and expanding the duration of the existing renaissance zones, as proposed in Senate Bill 625, would have a fiscal impact on State government; however, it is very difficult to estimate what the additional fiscal impact would be because it is not known: 1) where these new renaissance zones would be located, 2) how many businesses would be attracted to these new renaissance zones, 3) the size of the businesses that would be attracted to these renaissance zones, 4) the number of people living in these yet-to-be-determined new renaissance zones and their average income, and 5) how many new businesses would be attracted to the existing renaissance zones due to the changes proposed in this bill. Assuming the new renaissance zones attracted businesses, and had people living in them, in the same proportion as the existing zones, this bill would result in a direct cost to State government of an estimated $5.2 million; however, because there are so many unknown factors that would affect the direct cost to State government, the actual fiscal impact could be much smaller or much larger than this amount.

Fiscal Analyst: J. Wortley