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Senate Bill 625 (as enrolled)

House Bill 4733 (as enrolled)

Sponsor: Senator Bill Schuette (Senate Bill 625)

Representative Clark Bisbee (House Bill 4733)

Senate Committee: Economic Development, International Trade and Regulatory Affairs

House Committee: Economic Development

PUBLIC ACT 139 of 1999

PUBLIC ACT 98 of 1999

Date Completed: 12-15-99

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. More recently, it was suggested that additional renaissance zones should be permitted in order to promote economic development in a greater number of communities.

acres, but permit a local unit to designate four subzones with no minimum size requirement.

- **Allow a local unit with an existing renaissance zone to extend the duration of the zone and subzones, and modify the zone's boundaries.**

The bills were tie-barred to each other.

House Bill 4733

Of the nine additional renaissance zones that may be designated by the State Administrative Board, up to six may be located in urban areas and up to four in rural areas. (The bill provides that, for purposes of determining whether a renaissance zone is located in an urban or rural area, the entire zone must be considered to be in an urban area if any part of it is located in an urban area.)

In addition to these nine zones, the bill allows the Administrative Board to designate additional renaissance zones in one or more qualified local governmental units if the units contain a military installation that was operated by the U.S. Department of Defense and has closed after 1990. Land owned by a county or the qualified local unit adjacent to these zones may be included in them.

The bill also permits the Board of the Michigan Strategic Fund to 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 consents to the creation of a renaissance zone within its boundaries.

Originally, the renaissance zone review board consisted of the Director of the Department of Management and Budget, the Chief Executive Officer of the Michigan Jobs Commission, and the

CONTENT

The bills amended the Michigan Renaissance Zone Act to do the following:

- **Allow the State Administrative Board to designate up to nine additional renaissance zones, until December 31, 2002.**
- **Allow the Administrative Board also to designate additional zones in qualified local units containing a closed military installation.**
- **Allow the Board of the Michigan Strategic Fund to designate an additional five zones.**
- **Allow the Legislature to reject an additional designation made by the State Administrative Board.**
- **Provide that a zone may contain up to 10 (rather than six) distinct geographic areas (commonly called "subzones"), and allow local units to designate additional subzones until December 31, 2002.**
- **Require each subzone to be at least five**

State Treasurer, or their designees. Under the bill, the review board consists of the Board of the Michigan Strategic Fund. (The review board is responsible for reviewing applications from qualified local governmental units for renaissance zone designation.)

The bill states a legislative intent that local governmental units subject to the Act must follow all State statutes that relate to condemnation of property and the Open Meetings Act.

Senate Bill 625

Under the original Act, the State Administrative Board had to submit a list of the renaissance zones to the Legislature, and the Legislature had until December 30, 1996, to reject the list by concurrent resolution. Under the bill, the Board must submit to the Legislature each additional renaissance zone designated by the Board. The Legislature, by concurrent resolution adopted by a majority vote in each house, may reject the designation within 45 days after the date of the designation or by December 31 of the year of designation, whichever is earlier.

The designation of a renaissance zone under the original 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 takes effect on January 1 in the year following designation. For purposes of the property tax exemption, a designation takes effect on December 31 in the year of designation.

Originally, a renaissance zone could not contain more than six subzones. The minimum size of a subzone had to be as follows:

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

The bill provides, instead, that a renaissance zone may contain up to 10 subzones. Each subzone must be at least five acres in size, although a qualified governmental unit may designate up to four subzones in each renaissance zone to have no minimum size requirement. The bill deleted a provision under which not more than 50% of the real property in each subzone could 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 previously designated, may designate additional subzones, not to exceed a total of 10 subzones. The additional subzones will have the duration of renaissance zone status as determined by the qualified local unit, not to exceed 15 years. If a local unit designates additional subzones, however, it may extend the duration of the renaissance zone status of one or more of the subzones in that renaissance zone until 2017.

Under the Act, the duration of renaissance zone status may not exceed 15 years. Under the bill, through December 31, 2002, a local unit in which a renaissance zone previously was designated, may seek to extend the duration of zone status until 2017, upon application to and approval by the Administrative Board. Upon application, the Board must extend the duration of renaissance zone status as specified in the local unit's application.

In addition, the bill provides that, through December 31, 2002, a qualified local governmental unit in which a renaissance zone previously was designated, may modify the boundaries of that zone to include contiguous parcels of property, as determined by the local unit and the review board. If the boundaries of the renaissance zone are modified in this way, the additional parcels will become part of the original zone on the same terms and conditions as the original designation of that zone. The additional parcels do not constitute an additional subzone.

Under the Act, a taxpayer is not eligible for a tax exemption, deduction, or credit if the taxpayer is delinquent under any of the applicable tax laws. Under the bill, a taxpayer is ineligible for an exemption, deduction, or credit if the taxpayer is delinquent under those laws on December 31 of the prior tax year.

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 is a resident of a renaissance zone may not be denied this exemption if he or she was 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.

MCL 125.2684 et al. (S.B. 625)
125.2683 et al. (H.B. 4733)

BACKGROUND

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. (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.) 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 189 of 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 more than 25 full-time jobs to 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/Ontonagon/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.

According to the Governor's office, each of the 11 original zones has received commitments for at least one new investment, and Grand Rapids leads all of the zones with 50 projects announced as of last June. Altogether, 103 new projects are expected to create 5,169 jobs, and investment in the projects totals almost \$260 million. Also, because of the program's success, Pennsylvania and North Dakota already have implemented similar programs.

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 additional zones, plus more zones in local units with closed military installations, and allowing the Michigan Strategic Fund also to designate five zones, the bills will more than double the number of municipalities that may participate in this opportunity to stimulate commercial and residential investment.

Supporting Argument

The bills 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 bills promote uniformity within renaissance zones by allowing local units to extend the renaissance zone status of existing zones and subzones until 2017.

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 individuals or businesses that 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.

Opposing Argument

Major league professional sports teams that are located in a renaissance zone should be denied eligibility for the tax breaks allowed by the Act. An amendment to make this change had been included in the Senate-passed version of Senate Bill 625.

Legislative Analyst: S. Lowe

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 allowed by the bills, will have a fiscal impact on State government; however, it is very difficult to estimate what the additional fiscal impact will be because it is not known: 1) where these new renaissance zones will be located, 2) how many businesses will be attracted to these new renaissance zones, 3) the size of the businesses that will 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 will be attracted to the existing renaissance zones due to the changes made in these bills. Assuming the new renaissance zones attract businesses, and have people living in them, in the same proportion as the existing zones, the bills will result in a direct cost to State government of an estimated \$5.2 million; however, because there are so many unknown factors that will affect the direct cost to State government, the actual fiscal impact may be much smaller or much larger than this amount.

Fiscal Analyst: J. Wortley

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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.