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BILL ANALYSIS

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Senate Bill 1356 (as reported without amendment)
Senate Bill 1357 (Substitute S-2 as reported by the Committee of the Whole)
Sponsor: Senator Glenn D. Steil
Committee: Finance

CONTENT

Senate Bill 1356 would amend the Single Business Tax (SBT) Act to do the following:

- Permit a taxpayer or a "qualified taxpayer" (a taxpayer that owned a public school facility and leased it to a public school facility authority) to claim a credit against the SBT for tax years beginning after December 31, 2000, and before January 1, 2023.
- Specify that, for a qualified taxpayer, the tax credit would equal 10% of the cost of "eligible income" (rental and lease income that the qualified taxpayer received from a public school facility authority for use of a public school facility) for a tax year.
- Provide that a taxpayer's credit would equal 10% of the amount that the taxpayer contributed during the tax year to a public school facility authority.

Senate Bill 1357 (S-1) would create the "Public School Facility Authority Act" to:

- Permit a public school district, not including a public school academy, to establish a public school facility authority.
- Specify that the school district would have to be located in a city that had a population over 170,000 and was the most populous city in a county with a population over 500,000 (i.e., the Grand Rapids City School District).
- Provide for the appointment of a five-member authority board.
- Specify duties of the authority, including receiving public school facilities from the district for a nominal fee; leasing public school facilities to the district for a nominal fee; selling, leasing, or purchasing property for projects involving a public school facility; and, developing a public school facility.
- Provide for the creation of a public school facility authority fund.
- Prohibit the authority from levying a tax.
- Exempt from State and local taxes property of the authority, including property it leased to or from private persons.

The bills are tie-barred to each other.

Proposed MCL 208.39d & 208.39e (S.B. 1356)

Legislative Analyst: S. Lowe

FISCAL IMPACT

Senate Bill 1356 would reduce State General Fund revenues by an unknown amount. The bill would affect single business tax revenues through two credits for different activities relating to a public school facility authority: 1) a credit for donations to an authority, and 2) a credit for income received from property leased to an authority. Depending on how property transfers would be handled under the bill, the bill also could increase the State School Aid Fund by an unknown amount. No precise information is available regarding how many taxpayers would use each credit or engage in new business activity with an authority, or the extent to which revenues would be affected.

Single business tax revenues would be reduced in four ways, only two of which are proposed by the bill; the

remaining losses would stem from current tax provisions that would apply to the business activity created/altered by the bill: 1) the tax credit on income from the lease, 2) the tax credit from the donation of facilities, 3) the investment tax credit that the business can claim upon purchasing the property, and 4) a reduction in the tax base in the year of the donation because the donation would qualify as a charitable contribution, thus lowering both the Federal corporate income tax base and the SBT base.

Although SBT revenues would increase as taxpayers took on new business with a public school facility authority, the structure of the credits ensures that revenues losses would exceed revenue gains.

The Grand Rapids City School District is the only district in Michigan that would be able to create a public school facility authority under the bill. The following example, based upon a recent \$40 million proposal and 1998 capital outlay expenditures, illustrates the impact the bill could have. Assuming a 10-year lease period, and certain additional factors, the bill would reduce net SBT revenues by \$10.8 million in the first year, approximately \$1.0 million per year afterward until the lease was completed, and an additional \$14.4 million when the lease ended and the property was donated to the authority. Each year during the lease period, the State School Aid Fund would receive an additional \$1.1 million in State Education Property Tax, while local units such as the Grand Rapids Public School District and the City of Grand Rapids would receive an additional \$1.7 million in property tax revenues. In the year of the donation, the business also would experience a reduction in Federal tax liability of \$35.8 million.

The bill also would have an unknown fiscal impact on the Grand Rapids City School District and the City of Grand Rapids. The district could experience changes in the timing and/or levels of certain expenses or revenues. The bill does not clearly define how the authority would ensure that sufficient funds existed to cover the lease payments, given the increase in property values resulting any improvements; so local units could experience some increase in expenses in the long term if transfers to the authority were needed to cover the lease payments. Furthermore, while property was owned by a business, rather than the district or the authority, the property would be subject to local property taxes. The extent to which property tax revenues to the school district or the city would increase is unknown.

This estimate is preliminary and will be revised when more information is available.

Senate Bill 1357 (S-1) could cause the eligible local school district to experience reduced costs associated with developing public school facilities if the authority proposed under this bill were able to generate more gifts, grants, loans, or contributions than the district otherwise would generate on its own. It is unknown how "successful" the authority would be in reducing costs of development compared with members of the school district or the district itself seeking such assistance. According to eligibility criteria in this bill, Grand Rapids public schools is the only district that would qualify.

Date Completed: 11-13-00

Fiscal Analyst: D. Zin
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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.