House Legislative Analysis Section
House Office Building, 9 South
Lansing, Michigan 48909
Phone: 517/373-6466

PA 198 ABATEMENTS FOR GENERATING PLANTS

House Bill 5568 as introduced
First Analysis (3-7-02)

Sponsor: Rep. Nancy Cassis
Committee: Tax Policy

THE APPARENT PROBLEM:

Public Act 140 of 1999 (House Bill 4844), among other things, allowed local units of government to grant a property tax abatement for certain electric generating plants. It did this by amending the definition of "industrial property" in the Plant Rehabilitation and Industrial Development Act, commonly known as PA 198. That act says that property of a public utility is not considered "industrial property" eligible for an abatement. Public Act 140 created an exception specifically for "an electric generating plant not owned by a local unit of government". The abatement provision, however, only applies to applications approved by a local unit between June 30, 1999, and June 30, 2002.

Supporters of this policy say that it has succeeded in attracting 15 new generating plants to Michigan communities, and propose that the policy be extended for four and a half years.

THE CONTENT OF THE BILL:

House Bill 5568 would amend Public Act 198 of 1974 to extend the approval deadline for granting tax abatements for electric generating plants to December 31, 2007.

MCL 207.552

FISCAL IMPLICATIONS:

According to the House Fiscal Agency, to date, 15 abatements totaling almost $600 million in taxable value have been granted. Based on the fiscal year 1999-2000 average tax rate of $50.82 per $1,000 of taxable value, the total revenue loss for fiscal year 2001-2002 is approximately $13.4 million. The revenue loss to local units is about $8 million, while the remaining $5.4 million is a loss of state revenue.

Extending the sunset would enable new facilities to file for the abatement. Based on estimates by the Public Service Commission, there are about 15 proposed electric generating plants that would be eligible for the abatement if the sunset is extended. If all of these plants are actually constructed, and if abatements are granted for each, the total revenue loss would be in excess of $48 million when the plants are fully phased in by 2004. Local units would lose $29.4 million in revenue.

The fiscal agency states that a more likely scenario might be that only one half of the proposed new construction actually occurs, resulting in a total revenue loss of slightly more than $24 million, with local units losing almost $15 million and the state losing the remainder. (3-5-02)

ARGUMENTS:

For:

The bill would extend the policy of allowing local governments to grant tax abatements for electric generating plants. Since the deregulation of the electricity generating market in Michigan and other states, new generating plants are being built and Michigan communities are seeking these developments to bolster their tax and employment bases. The 1999 legislation appears to be working: 15 plants have been granted abatements so far, adding several thousand megawatts of electric generating power within Michigan's borders. By extending the sunset date on the 1999 legislation, the legislature would continue to encourage developers to locate power projects in Michigan, and help to ensure sufficient power supplies and competitive prices for Michigan residents and businesses.

Against:

Representatives of counties point out that a longstanding issue is the unfairness of allowing cities, villages, and townships to grant tax abatements that affect other taxing units – such as counties, community college districts, and library districts – when those other taxing units have no voice in the decision. Counties often have the most revenue to lose when a tax abatement is granted.

Response:
It should be noted that revenue cannot be "lost" if no construction takes place; if a local government does not grant a tax abatement, the development is likely to be moved to a jurisdiction (perhaps another state) that will offer such consideration.

POSITIONS:

DTE Energy supports the bill. (3-6-02)

A representative of the Michigan Economic Development Corporation testified in support of the bill. (3-6-02)

A representative of Consumers Energy testified in support of the bill. (3-6-02)

A representative of the Michigan Association of Counties testified in opposition to the bill. (3-6-02)

Analyst: D. Martens

■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.