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PA 198 ABATEMENTS FOR GENERATING PLANTS, FED RESERVE BANK

House Bill 5568 as enrolled
Public Act 280 of 2002
Second Analysis (6-12-02)

Sponsor: Rep. Nancy Cassis
House Committee: Tax Policy
Senate Committee: Finance

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.

In a related matter, the Federal Reserve Bank of Chicago, one of twelve reserve banks established as part of the quasi-governmental Federal Reserve System, plans to build a new facility in the city of Detroit. The Chicago Reserve Bank has requested a property tax abatement for its new facility, and the City of Detroit has reportedly requested legislation that would allow it to grant the abatement.

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. In addition, the bill would include a federal reserve bank located in the City of Detroit in the definition of "industrial property", which would make such property eligible for a property tax abatement.

MCL 207.552

FISCAL IMPLICATIONS:

With regard to extending the sunset on allowing abatements on electric generating plants, the House Fiscal Agency has reported that, 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)

With regard to the federal reserve bank, the Senate Fiscal Agency reports that if an abatement were granted under the bill, the abatement would reduce property taxes by approximately $700,000 in the initial year of a 12-year abatement. Of this amount, local property taxes would be reduced about $450,000 during the initial year, and school taxes would be reduced $250,000, which would increase school aid expenditures by the same amount. In addition, if the state granted a partial or total exemption from the 6-mill state education property tax, school aid fund revenue could be reduced for up to 12 years, with an initial year reduction of up to $200,000. (4-23-02)

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.

For:
The Detroit branch of the Federal Reserve Bank of Chicago proposes a new $65 million facility, comprising two buildings on 17.5 acres within the City of Detroit, to house new operations, including high-speed check processing and high-tech processing/destruction of currency that cannot be reused. Additionally, telecommunications and computer operations will be expanded at the new 288,000 square foot facility. Construction is due to begin in the spring of 2003. The bank currently employs 275 people and anticipates expanding its employee base to 350 at its new facilities. The existing facility will be marketed and will remain on the tax rolls. Despite the quasi-governmental structure of the federal reserve system, the regional reserve banks receive no tax dollars and operate as private corporations. The tax abatements granted to businesses under PA 198 are designed for just this kind of situation: to help make it possible for businesses such as the federal reserve bank to expand and create more jobs in a community.

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.

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.