

Senate Fiscal Agency
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SFA**BILL ANALYSIS**

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Senate Bill 1204 (Substitute S-1 as enrolled)
Sponsor: Senator Don Koivisto
Committee: Finance

Date Completed: 4-10-02

RATIONALE

There have been recent widespread reports of imported steel being sold in the United States at prices below what it costs U.S. companies to produce steel; these imports are said to come from countries that provide substantial subsidies to their steel and iron ore industries. The imports, combined with the economic downturn in 2001, have placed great pressure on domestic steel and iron ore producers to remain viable, and several steel companies in the United States have gone out of business in recent years.

There are two remaining iron ore mines in Michigan, the Tilden and Empire mines in Marquette County in the Upper Peninsula. Owned by Cleveland Cliffs, these mines reportedly produce approximately 20% of annual U.S. iron ore output, and have an enormous economic impact on the county and the Upper Peninsula in general, as they are responsible directly and indirectly for thousands of jobs. Some people believe that while the nation's problem with imported steel can be managed only at the Federal level, the State could do something to aid its remaining mines. It has been suggested that the special tax that mines pay on iron ore production be reduced for a time, to help the mines remain competitive.

CONTENT

The bill would amend Public Act 77 of 1951, which provides for the taxation of low grade iron ore, to reduce the tax, and hold harmless school districts and local units of government that receive disbursements from the tax.

Under the Act, low grade iron ore mining property is subject to a specific tax equal to the average annual production in gross tons

during the preceding five years, multiplied by 1.1% of the mine value per gross ton. The bill would reduce the multiplier from 1.1% to .75% beginning December 31, 2001, through December 31, 2006.

Currently, property taxed under Public Act 77 is removed from assessment and taxation under the General Property Tax Act, although the specific tax is collected in the same manner and at the same time as the property tax. Sums collected under Public Act 77 must be distributed by a township to school districts and local units of government in the same proportion as general property taxes are distributed. For specific taxes levied for school operating purposes, the amount that otherwise would be disbursed to a local school district must be paid instead to the State Treasurer and credited to the State School Aid Fund. The bill provides that the proceeds of the specific tax levied from December 31, 2001, through December 31, 2006, would have to be distributed to school districts and local units in the same amount that they would have been entitled to receive if the specific tax rate were 1.1%. After this distribution was made, the remaining proceeds would have to be deposited in the State School Aid Fund.

MCL 211.623 & 211.624

BACKGROUND

Public Act 249 of 2001 (Senate Bill 516) allows a credit against the single business tax for low-grade hematite (in pellet form) consumed in an industrial or manufacturing process. Hematite, in addition to low grade iron ore, is produced at the Tilden mine.

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

Recent times have been bleak in the iron ore and steel industries, as low-cost steel imports have flooded the U.S. market and driven down steel prices. This has had a devastating impact on domestic steel and iron ore industries, and steps must be taken to ensure that they do not disappear. As noted above, only two iron ore mines remain open in the State, and recent economic conditions have caused reductions in the number of people employed at those locations and threaten the livelihoods of many people in the area. These operations are vital to the economy in that part of the Upper Peninsula, both through direct employment and indirectly through related economic activity. While the issue of keeping the nation's steel industry viable is of national concern and demands a solution from the Federal government, the bill would provide some relief from State taxes, and offer some help and hope for the retention of the iron ore industry in Michigan.

Legislative Analyst: George Towne

FISCAL IMPACT

The bill would reduce School Aid Fund revenues to the State by approximately \$1.5 million per year, starting with FY 2002-03. The bill would have no effect on local units.

Fiscal Analyst: David 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.