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SFA BILL ANALYSIS

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House Bill 5568 (as reported by the Committee of the Whole)
Sponsor: Representative Nancy Cassis
House Committee: Tax Policy
Senate Committee: Finance

CONTENT

The bill would amend the plant rehabilitation and industrial development Act to extend the deadline for approval of an electric generating plant as industrial property for the purpose of a property tax abatement. Currently, an electric generating plant that is not owned by a local unit of government may be considered industrial property if the local legislative body approves an application by June 30, 2002. The bill would change that date to December 31, 2007.

Further, the bill specifies that industrial property would include a Federal Reserve Bank located in a city with a population of 750,000 or more. (This would make a Federal reserve bank facility eligible for exemption from ad valorem taxes and subject to a specific industrial facilities tax.)

MCL 207.552 Legislative Analyst: George Towne

FISCAL IMPACT

This bill would have a fiscal impact on both State and local governments. This bill would make certain properties eligible for an industrial property tax abate by 1) extending the deadline from June 2002 to December 2007 for electric generating plants to be included in the definition of industrial property, and 2) classifying a new Federal Reserve Bank building as industrial property. The fiscal impact of both of these provisions is discussed below.

Electric Generating Plants

The bill would increase required expenditures from the School Aid Fund by as much as $5.4 million in FY 2002-03, with the impact increasing to $30.7 million in FY 2006-07. The bill also would reduce local unit revenues by as much as $8.4 million in FY 2002-03, increasing to $47.8 million in FY 2006-07. However, the likely impact may be considerably lower.

Under current statute, exemption certificates must be approved by the local unit in which the property is located and, once approved, reduce the non-State Education Tax property taxes by 50%. The State Education Tax is not affected by the exemption. The State then receives revenues from both the State Education Tax as well as the portion of property tax revenue attributable to mills levied for school operating purposes on non-homestead property. The latter revenue source reflects a tax rate of 9 mills, because without the exemption certificate the school district would receive 18 mills. As a result, revenue received by the State would be increased by the bill. However, the bill would reduce property tax revenues received by local units, including those from what would otherwise be 18 mills levied on non-homestead property for school operating purposes. Under the distribution mechanism for the School Aid Fund, a decline in locally-generated revenues increases the payments a local school district will receive from the State. As a result, the bill would have two effects: 1) reduced revenues for local units, and 2) increased expenditures from the School Aid Fund by an amount greater than the increase in revenues for the State, resulting in a net loss equal to the amount of revenue generated by a tax levy of 9 mills.

Based on an average value of $750,000 per megawatt hour of capacity and data on proposed electric generating plants to be built in Michigan during the period affected by the bill, the bill would reduce local unit revenues by $8.4 million in FY 2002-03 and increase School Aid Fund expenditures by $5.4 million. As more plants are constructed, the impact of the bill would rise, to a $47.8 million reduction in local unit revenues in FY 2006-07 and $30.7 million in increased School Aid Fund payments.

However, the actual impact of the bill could be significantly higher or lower depending on a number of circumstances, most of which suggest the impact would be lower. If more plants are built, are larger than initially indicated and/or exhibit a higher average value per megawatt of capacity, then the fiscal impact of the bill would be greater. However, an unknown proportion of the proposed plants may not be built, especially given that most of their capacity is not needed for Michigan consumption. On a month-to-month basis, the proposed capacity to be built can vary by more than 50%. Similarly, many of these plants are considering locating in a Michigan renaissance zone, where the plant would pay even less in property taxes but would not be affected by the bill. To the extent that plants locate in renaissance zones, the fiscal impact of the bill also would be lower.

Federal Reserve Bank

A proposed new Federal Reserve Bank building would qualify for a property tax abatement under this bill. If granted, this abatement would reduce property taxes by approximately $700,000 in the initial year of a potential 12-year abatement. Of this reduction in property taxes, local government property taxes would be reduced about $450,000 during the initial year and school taxes would be reduced $250,000. The State's School Aid Fund also would be affected. Due to the fact that local school property taxes would be reduced, School Aid expenditures would automatically increase by $250,000. 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.

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