Senate Fiscal Agency
P. O. Box 30036
Lansing, Michigan 48909-7536

SFA BILL ANALYSIS

Telephone: (517) 373-5383
Fax: (517) 373-1986
TDD: (517) 373-0543

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

Date Completed: 4-17-02

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.

MCL 207.552

BACKGROUND

Under the Act (which is commonly called PA 198), local units of government may establish industrial development districts and provide property tax abatements for new, renovated, or expanded industrial facilities within the districts. The owner or lessee of industrial property in a district may apply to the local unit for an industrial facilities exemption certificate, which will exempt the facility from ad valorem taxes and make it subject to a specific industrial facilities tax. Upon the approval of the legislative body of the local unit, the application is forwarded to the State Tax Commission, which issues an industrial facilities exemption certificate if it determines that the facility conforms with the Act.

The Act prescribes what is, and what is not, considered to be industrial property. Public Act 140 of 1999 amended the definition of "industrial property" to include an electric generating plant that is not owned by a local unit of government, for applications approved by the local legislative body between June 30, 1999, and June 30, 2002.

Legislative Analyst: George Towne

FISCAL IMPACT

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.

Fiscal Analyst: David Zin

S0102\s5568sa