

Legislative Analysis



SMART ZONE PROPERTY TAX EXEMPTIONS

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House Bill 5823 (Substitute H-1)

House Bill 5824 (Substitute H-2)

Sponsor: Rep. Lorence Wenke

Committee: Tax Policy

First Analysis (5-28-04)

BRIEF SUMMARY: The bills would exempt the real and personal property of “innovations centers” located in the “smart zones” throughout the state.

FISCAL IMPACT: The bill would result in an indeterminate reduction in local development financing revenues.

THE APPARENT PROBLEM:

Public Act 248 of 2000 amended the Local Development Financing Act to allow the Michigan Economic Development Corporation to designate up to ten certified technology parks in the state. (A subsequent amendment in 2002 counted two technology parks in Wayne County as one, meaning that there really are 11 technology parks.) These special parks are able to capture the growth in property taxes within the park, with the revenue to be used in the park for a variety of purposes, including infrastructure construction, property purchases, marketing and promotion, and high-technology support centers such as laboratories and facilities. The technology parks, known as smart zones, are described by the MEDC as being “collaborations between universities, industry, research organizations, government, and other community institutions intended to stimulate the growth of technology-based businesses and jobs by aiding in the creation of recognized clusters of new and emerging businesses.”

In response to Public Act 248, a smart zone in Kalamazoo was created among the City of Kalamazoo, Western Michigan University, and Southwest Michigan First, and is located in the WMU Business Technology and Research Park on the university’s Parkview Campus, home of the College and Engineering and Applied Sciences. The smart zone is designed to create a cluster of emerging businesses specializing in life sciences, advanced engineering, and high technology activities. Located in the smart zone, the Southwest Michigan Innovation Center is a state-of-the-art facility that is designed to spur the growth and development of high-technology and life science businesses. The SMIC provides start-up firms with advanced laboratory facilities and opportunities to share essential business services - such as office space, equipment, common areas, and managerial and technical assistance. The innovation center, which was recently completed last year, is now home to numerous life science-technology and intellectual property companies, many of which collaborate with WMU, created by displaced workers from Pfizer and Pharmacia.

It is generally believed that the development and growth of small, high-tech firms is a key to the state's economic well-being, as noted by a February 2004 *Detroit Free Press* article, which stated, "[t]he evolution of the state's biotech industry - still considered by many analysts to be in its infancy - could redefine the state's labor environment." Recently, the legislature took action on several bills designed to provide technology-based start-up businesses with some tax relief. Along similar lines, it has been suggested that the innovation center in the Kalamazoo smart zone (and similar innovation centers in the other smart zones) receive some tax relief as a means of fueling the growth and development of technology-based start-up businesses.

THE CONTENT OF THE BILLS:

House Bill 5823 - The bill would amend the General Property Tax Act (MCL 211.7ii) to exempt the real property of an "innovations center" located in a certified technology park (smart zone) from the taxes collected under the act. (No more than one such center per park could be exempt.)

House Bill 5824 - The bill would amend the General Property Tax Act (MCL 211.j) to exempt the personal property of an "innovations center" that is located in a certified technology park (smart zone) and that is owned or used by the administration of the center or by a "qualified high-technology business" from the taxes collected under the act.

Under both bills, an "innovations center" means real property that is a "business incubator" (as defined under the Local Development Financing Act), is located within a single building, and is primarily used to provide space and administrative assistance to one or more qualified high-technology businesses. The Local Development Financing Act defines "business incubator" to mean real and personal property that (1) is located in a certified technology park; (2) is subject to an agreement between a municipality and the Michigan Economic Development Corporation setting forth the terms and conditions of the technology park; and (3) is developed primarily to attract high-tech businesses.

Both bills also define "qualified high-technology business" to mean a business with at least 25 percent of its total operating expenses being used for research and development or a business whose primary business activities is a high-technology activity, which includes biotechnology, life science technology (such as development of pharmaceuticals products, electronic technology, and product research and development.

BACKGROUND INFORMATION:

Public Act 173 of 2003 (Senate Bill 540), a supplemental appropriation bill for FY 2003 and FY 2004, included \$10 million for the creation of the Biosciences Research and Commercialization Center (BRCC) at WMU. Located at the Southwest Michigan Innovation Center, the BRCC, as its name implies, will promote life sciences research and commercialization by coordinating research initiatives and assisting in growth and development of emerging businesses by providing them work space and assistance in

obtaining outside funding. The BRCC has the stated mission (provided in Public Act 173) of seeking to discover new knowledge, to generate and acquire intellectual property, to commercialize intellectual property, and to enrich the intellectual culture of the community. On March 29, 2004, the BRCC board awarded nearly \$1.9 million in funding for nine life science start-up firms located in the Southwest Michigan Innovation Center.

ARGUMENTS:

For:

By exempting real and personal property of an “innovations center” from taxation, the bill will help foster the creation, development, and growth of technology-based start up businesses located in a smart zone. These innovations centers, like the one in Kalamazoo, provide start-up firms with much needed assistance, including proving cost facilities and equipment. Life-science companies require huge capital investments, and exempting this property from taxation provides these businesses with some necessary tax relief to help get them off the ground.

Against:

Smart zones are partnerships between local municipalities and numerous other groups. By exempting real and personal property of innovations centers from taxation, these bills change the rules of the game after local municipalities have entered into these agreements. It is believed that the tax breaks provided in the bills should be subject to local approval. The tax credits provided for in the recent so-called start-up package (House Bill 5331 et al.) all required local approval where applicable.

Against:

The bill takes away some funding for the development of smart zones. These zones are funded through tax increment financing whereby the amount of property taxes collected beyond the base year in which the zone was created are captured and used for the benefit (public improvement) of the smart zone.

POSITIONS:

Western Michigan University supports the bills. (5-26-04)

The Department of Treasury is neutral on the bills. (5-27-04)

The Michigan Municipal League opposes the bills. (5-26-04)

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