

Legislative Analysis



SMART ZONE PROPERTY TAX EXEMPTIONS

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House Bill 5823 as enrolled
Public Act 245 of 2004

House Bill 5824 as enrolled
Public Act 244 of 2004
Sponsor: Rep. Lorence Wenke

House Committee: Tax Policy
Senate Committee: Finance

Second Analysis (12-31-04)

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, depending on the extent to which local tax collecting units approve the exemptions.

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 are actually 11 technology parks.) These special parks are able to capture the growth in property taxes within the park, with the captured 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 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 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 the pharmaceutical firms Pfizer and Pharmacia-Upjohn.

Some people believe 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 tax relief. Along similar lines, it has been recommended that the innovation center in the Kalamazoo smart zone (and similar innovation centers in the other smart zones as they are developed) receive 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 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 would amend the General Property Tax Act (MCL 211.j) to exempt the personal property of an "innovations center" 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.

Both exemptions would apply to taxes levied after December 31, 2004 and would be subject to approval by the governing body of the local tax collecting unit. To claim the exemptions, the administration of the innovations center would have to file an affidavit with the assessor of the local tax collecting unit. Before acting on a resolution to approval the exemptions, the governing body of the local tax collecting unit would have to provide a hearing on the resolution to the assessor and representatives of each of the affected taxing units.

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 pharmaceutical 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 a \$10 million appropriation 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 facilities and equipment. Life-science companies require huge capital investments, and exempting this property from taxation provides these businesses with some needed tax relief to help get them off the ground.

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.

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