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BILL ANALYSIS

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House Bill 5243 (Substitute H-2 as passed by the House)
Sponsor: Representative David Palsrok
House Committee: Commerce
Senate Committee: Commerce and Labor

Date Completed: 6-15-04

CONTENT

The bill would amend the Michigan Renaissance Zone Act to allow the Michigan Strategic Fund Board to designate a tool and die renaissance recovery zone on property leased by a qualified tool and die business, as well as on property owned by a qualified business.

Public Act 266 of 2003 amended the Michigan Renaissance Zone Act to authorize the Board to designate up to 20 tool and die renaissance recovery zones. (A recovery zone has renaissance zone status for up to 15 years, as determined by the Board.) Under that provision, the Board may designate a recovery zone if it consists of at least one parcel of "property owned by one or more qualified tool and die businesses and used by those qualified tool and die businesses primarily for tool and die business operations". The bill instead would allow the Board to designate a recovery zone that consisted of one or more parcels of "qualified tool and die business property".

"Qualified tool and die business property" would mean one or both of the following:

-- Property owned by one or more qualified tool and die businesses and used by those businesses primarily for tool and die business operations.
-- Property leased by one or more qualified tool and die businesses for which the businesses are liable for ad valorem property taxes and that is used by those businesses primarily for tool and die business operations. The qualified tool and die business would have to furnish proof of its ad valorem property tax liability.

MCL 125.2688d Legislative Analyst: Patrick Affholter

FISCAL IMPACT

Public Act 266 of 2003 (Senate Bill 825) established tool and die renaissance recovery zones, in which qualified businesses are exempt from State and local property taxes, State and local income taxes, local utility taxes, and the State single business tax. Without regard to assumptions about property ownership and leasing arrangements, it is assumed that approximately 900 of the estimated 1,300 tool and die businesses with fewer than 50 employees would meet the qualifications for being in a zone, including the requirement to be in a "collaboration" agreement with other tool and die businesses, and it is assumed that they have been or will be approved by local governments to be included in a renaissance recovery zone, as required by Public Act 266. Compared with current law and to the extent these properties receive the exemption, the bill would reduce revenue to local units and the State by an unknown amount, as well as increase School Aid Fund expenditures by an unknown amount. If 10% of the property assumed to be eligible for the exemptions were leased and met the qualifications under the bill, the bill would reduce tax revenue approximately as follows:

-- Local property taxes by $1.5 million.
-- Local school 18-mill tax by $1.0 million.
-- State education property tax by $0.3 million
-- Community college property taxes by $0.1 million.
-- Local income tax revenue by $0.1 million.
-- Single business tax revenue by $0.9 million.

In addition, School Aid Fund expenditures would increase by $1.1 million because under existing law local schools and community colleges must be reimbursed for the property tax revenue they lose as a result of exempt property within the zones.

The fiscal impact estimated while Senate Bill 825 was under consideration did not differentiate between cases in which the property was owned by the business and cases in which the property was leased but the renter was liable for property taxes. As a result, all property was assumed to be owned by the businesses and the fiscal impact of Senate Bill 825 was likely overstated.

This analysis is preliminary and will be revised as new information becomes available.

Fiscal Analyst: David Zin