Legislative Analysis

Mitchell Bean, Director
Phone: (517) 373-8080
http://www.house.mi.gov/hfa

TOOL AND DIE RECOVERY ZONES

House Bill 4812
Sponsor: Rep. John Stahl

House Bill 4813
Sponsor: Rep. Darwin Booher

House Bill 4814
Sponsor: Rep. Phil Pavlov

House Bill 4815
Sponsor: Rep. Tom Pearce

House Bill 4816
Sponsor: Rep. Bill Huizenga

House Bill 4817
Sponsor: Rep. Bill Caul

House Bill 4818
Sponsor: Rep. Rick Baxter

House Bill 4819
Sponsor: Rep. Goeff Hansen

Committee: Commerce

Complete to 5-23-05

A SUMMARY OF HOUSE BILLS 4812-4819 AS INTRODUCED 5-19-05

Public Act 266 of 2003 amended the Michigan Renaissance Zone Act to allow for the creation of up to 20 tool and die renaissance recovery zones where eligible businesses can be granted virtually tax-free status for up to 15 years. The Michigan Strategic Fund is responsible for designating the zones, which require local government approval.

Under the original legislation, to be a qualified tool and tie business, a business must have fewer than 50 employees; have the proper classification in the North American industrial classification system (NAICS); and must enter a "qualified collaboration agreement" as approved by the MSF with other businesses in the appropriate NAICS classifications.

The bills would each amend the Michigan Renaissance Zone Act (MCL 125.2683 et al.) to make changes in the tool and die program.

<u>House Bill 4812</u> would allow up to 35 (rather than 20) zones to be designated beginning January 1, 2006.

House Bills 4813-4815 would address collaboration agreements. Currently, the act requires a tool and die company to enter a collaboration agreement in order to be eligible to be part of a recovery zone, and the act allows the MSF to revoke a company's eligibility if it fails to participate in an agreement or ceases to participate in an agreement.

<u>House Bill 4813</u> would specify that a company must enter an agreement consisting of not fewer than four or more than 20 other businesses in the appropriate classifications.

House Bill 4814 would allow a tool and die business to enter into another qualified collaborative agreement once it is part of a recovery zone, and would not allow the MSF board to prevent a group of tool and die businesses subject to a collaborative agreement from merging into another group of tool and die businesses subject to a different collaborative agreement.

House Bill 4815 would allow a tool and die business to enter into a pre-existing collaboration agreement with the consent of all the other businesses that are part of the agreement and with the consent of the MSF. The bill also would prohibit the MSF from requiring a business seeking qualified tool and die status to create a new collaborative agreement if the business can join an existing agreement with other tool and die businesses.

House Bill 4816 would address the criteria tool and die businesses must meet to be eligible for recovery zone participation. The act specifies that a business must have less than 50 employees. The bill would say a company must have less than 50 employees "actually engaged in the tool and die work of the business entity." Currently, for property to qualify as "qualified tool and die property" it must be owned or leased by a qualified tool and die business and be used primarily for tool and die purposes. The bill would specify that property was used "primarily for tool and die business operations" if the businesses that owned or leased the property generated 51 percent or more of its gross revenues from the tool and die operations on the property.

House Bill 4817 would move the definition of the term "recovery zone" to the act's general definitions section.

The act currently allows a recovery zone to have renaissance zone status for a period not to exceed 15 years. House Bill 4818 would also allow a zone to be granted a duration of 15 years, with the local units of government retaining the right to revoke the designation in the fifth year or the tenth year if they determine that the recovery zone status is no longer appropriate.

House Bill 4819 would specify that if a business had its recovery zone status revoked in the fifth year or tenth year (as permitted by House Bill 4818), it would not be subject to the general requirement that any exemption, deduction, or credit be reduced over the last three years that a business is in a renaissance zone.

FISCAL IMPACT:

House Bill 4812. MEDC estimates that during calendar year 2004 there were 33 companies operating in the 20 Tool and Die Renaissance Zones. These firms received an estimated $600,000 in Single Business Tax relief, and $1 million in local property tax reductions. However, the number of additional firms who will receive such tax benefits if the number of zones expands to 35 can only be estimated through a survey of all eligible firms. Therefore, the fiscal impact of this bill is indeterminate.

House Bill 4813. In the absence of a survey of eligible firms, it is unclear how many firms would be prevented from participating in a Tool & Die Renaissance Zone if each collaborative must include no fewer than four or more than 20 firms. Therefore, the fiscal impact, if any, is indeterminate.

House Bill 4814. In the absence of a survey of eligible firms, it is unclear whether any firms would be affected by either being allowed to enter into another qualified collaborative agreement, or not being constrained from merging into another group in a different collaborative agreement. Therefore, the fiscal impact, if any, is indeterminate.

House Bill 4815. In the absence of a survey of eligible firms, it is unclear whether any will wish to join a pre-existing collaborative. Therefore, the fiscal impact, if any, is indeterminate.

House Bill 4816. In the absence of a survey of eligible firms, it is unclear whether expanding the definition to include firms with fewer than 50 employees "actually engaged in the tool and die work of the business entity" will increase the number eligible for tax benefits. Similarly, it is unclear, without surveying potentially eligible firms, whether using a 51 per cent gross revenue test, as opposed to the current 80 per cent test, will actually add to the number of firms receiving tax benefits. Therefore, the fiscal impact, if any, is indeterminate.

House Bill 4817. There is no fiscal impact on the State of Michigan or its local units of government.

House Bills 4818 and 4819. There is no means to determine which local government will exercise the right, which this bill creates, to revoke the Tool and Die Recovery Renaissance Recovery Zone status in the fifth or tenth year of a 15-year span. Therefore, the fiscal impact, if any, is indeterminate. House Bill 4819 would take affect only if House Bill 4818 is enacted. Therefore, like House Bill 4818, its fiscal impact is indeterminate.

Legislative Analyst: Chris Couch
Fiscal Analyst: Richard Child

■ This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.