Legislative Analysis

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MEGA CREDIT REVISIONS

House Bill 6118
Sponsor: Rep. Tonya Schuitmaker
Committee: Commerce

Complete to 6-5-06

A SUMMARY OF HOUSE BILL 6118 AS INTRODUCED 5-31-06

The bill would amend the Michigan Economic Growth Authority Act to authorize MEGA to provide single business tax (SBT) credits to a business that meets the following criteria.

** Maintains 100 retained jobs at a facility.

** Is a rural business (meaning a business located in a county with a population of 90,000 or less.)

** Its facility is at risk of being closed, with the result that work would go to a location outside the state.

** Has new management or new ownership proposed that is committed to improve the facility's viability.

** Needs the tax credits for the facility to maintain operations.

This would only apply until December 31, 2007; MEGA could not enter into a written agreement with such a business after that date.

MEGA could enter into three written agreements under the terms of the bill that would waive certain requirements of the act that usually apply. This could occur only if the authority considers it to be in the public interest and if the business involved would have met the following requirements within the immediately preceding six months from the signing of the written agreement for the tax credit.

** The expansion, retention, or location of the business will not occur without the tax credits.

** The tax credits are an incentive to expand, retain, or locate the business in Michigan and address the competitive disadvantages with sites outside the state.

** A cost-benefit analysis reveals that authorizing the tax credits will result in an overall positive fiscal impact to the state.

** The expansion, retention, or location of the business will benefit the people of the state by increasing opportunities for employment and by strengthening the economy.

The following requirements would be fully waived: 1) the local governmental unit or a local economic development corporation will make a staff, financial, or economic commitment to the business; 2) the business's financial statements indicate it is financially sound (or has submitted a Chapter 11 bankruptcy plan) and indicate that its plans for the expansion, retention, or location are economically sound; and 3) the business has not begun construction of the facility.

The bill would also do the following.

-- The term "written agreement" would be amended to specify that a written agreement could address new jobs, qualified new jobs, full-time jobs, retained jobs, or any combination of such jobs.

-- A provision (similar to the new one in the bill) added by Public Act 185 of 2005 that allows a credit to be issued to a facility at risk of being closed with the result that work would go out of state would be revised. The provision requires that 300 jobs be retained and that the business be a rural business. The requirement that a firm be a rural business would be deleted.

-- The act says that of the 50 new written agreements allowed annually for qualified high-technology businesses or rural businesses, not more than five can be for qualified rural businesses. The bill would increase that number to 25.

-- MEGA's annual report to the Legislature would have to include the number of new written agreements entered into that the MEGA board determined should be allowed to waive one or more of the standard requirements, as described earlier

FISCAL IMPACT:

The bill as written appears to apply to a single firm, DSM Industries, a pharma-chemical company located in South Haven Michigan. The likely fiscal impact is a decrease in Michigan Single Business Tax revenue. However, because MEGA tax credits are the result of negotiations between the qualifying company and the Michigan Economic Development Corporation, the exact amount of lost revenue is indeterminate.

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