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BILL ANALYSIS

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Senate Bill 371 (as enrolled) **PUBLIC ACT 93 of 2006**
Sponsor: Senator Alan Sanborn
Senate Committee: Economic Development, Small Business and Regulatory Reform
House Committee: Commerce

Date Completed: 1-5-07

RATIONALE

In order to help Michigan's tool and die companies survive in the face of global competition, Public Act 266 of 2003 amended the Michigan Renaissance Zone Act to allow the designation of up to 20 tool and die renaissance recovery zones, and Public Act 276 of 2005 increased the maximum number of these zones to 25. Originally, the designation applied only to property owned by a tool and die company, but Public Act 202 of 2004 extended it to leased property. Thus, property owned or leased by a qualified tool and die business may be designated as a recovery zone, which exempts the company from various taxes--including the single business tax, property taxes, local income tax--for up to 15 years. Qualified tool and die businesses may include various types of mold, machine tool, die, and cutting tool manufacturing facilities, as well as showcase, partition, shelving, and locker manufacturing that meets certain criteria. It was suggested that industrial pattern manufacturing property also should be eligible to receive the tool and die renaissance recovery zone designation.

CONTENT

The bill amended the Michigan Renaissance Zone Act to include an industrial pattern manufacturer as a "qualified tool and die business"; and require that at least one tool and die renaissance recovery zone include one or more industrial pattern manufacturers.

Under the Act, the board of the Michigan Strategic Fund (MSF) may designate up to 25 tool and die renaissance recovery zones within the State in one or more cities, villages, or townships if a city, village, or township or combination of cities, villages, or townships consents to the creation of a recovery zone within its boundaries. A recovery zone must consist only of qualified tool and die business property.

Under the bill, at least one zone must consist of one or more tool and die businesses that have a North American Industrial Classification System (NAICS) of 332997 (industrial pattern manufacturing).

The bill also added NAICS 332997 to the definition of "qualified tool and die business", which includes businesses with the following NAICS designations:

-- 333511 (industrial mold manufacturing).
-- 333512 (machine tool (metal cutting types) manufacturing).
-- 333513 (machine tool (metal forming types) manufacturing).
-- 333514 (special die and tool, die set, jig, and fixture manufacturing).
-- 333515 (cutting tool and machine tool accessory manufacturing).

The definition also includes a business with an NAICS of 337215 (showcase, partition, shelving, and locker manufacturing) that operates a facility within an existing renaissance zone, which facility is adjacent to real property not located in a renaissance zone and is located within one-quarter mile of a Michigan technical education center.

Under the Act, a qualified tool and die business must have fewer than 75 full-time employees and must have entered into a qualified collaboration agreement, as approved by the Michigan Strategic Fund, with other business entities that have an NAICS of 333511-333515. The bill added businesses with an NAICS of 332997 to those with which a qualified tool and die business must have a collaboration agreement.

(The Act defines "qualified collaborative agreement" as an agreement that demonstrates synergistic opportunities, including all of the following:

-- Sales and marketing efforts.
-- Development of standardized processes.
-- Development of tooling standards.
-- Standardized project management methods.
-- Improved ability for specialized or small niche shops to develop expertise and compete successfully on larger programs.

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

-- Property owned by one or more qualified tool and die businesses and used by them primarily for tool and die business operations.
-- Property that is 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 bill took effect on April 4, 2006.

MCL 125.2688d

ARGUMENTS

(Please note: The arguments contained in this analysis originate from sources outside the Senate Fiscal Agency. The Senate Fiscal Agency neither supports nor opposes legislation.)

Supporting Argument

The Michigan Renaissance Zone Act helps the State's tool and die companies compete with businesses located in other countries, by offering those businesses in the renaissance zones exemptions from the single business tax, local property taxes, the State education tax, local income taxes, and (in Detroit) the local utility tax. Industrial pattern manufacturing is related to tool and die manufacturing operations already eligible to receive the designation, and also is facing stiff competition from overseas. By including industrial pattern manufacturing in the Act's definition of "qualified tool and die business", the bill allows these manufacturers to receive the same renaissance zone status as other qualified tool and die businesses. The renaissance zone tax exemptions may enable industrial pattern manufacturers to stay in business or encourage them to remain in Michigan.

Legislative Analyst: Suzanne Lowe

FISCAL IMPACT

The bill will reduce State and local revenue by an unknown and possibly insignificant amount. Current law authorizes the creation of 25 "tool and die renaissance recovery zones", of which eight have been approved and several more are seeking approval. The fiscal impact of the 2003 and 2004 legislation regarding these zones assumed that the full 20 zones originally authorized became operational. The bill requires at least one of the zones to contain a business with an NAICS classification of 332997 and increases the number and types of firms within a zone that may use the zone's tax privileges.

Businesses located in the zones are exempt from State and local property taxes, State and local income taxes, local utility taxes, and the State single business tax (SBT). Initial estimates place the 2004 revenue loss from the eight existing zones at $1.0 million in total property taxes and approximately $650,000 in SBT revenue. According to the 2002 Census of Businesses, there were 59 establishments in Michigan that would have an NAICS classification of 332997. The average number of employees at each establishment was approximately 23, suggesting that few firms would exceed the 75-employee limit and that the major disqualification would be that firms would not be located within a zone.

Available business statistics suggest that the average firm in NAICS 332997 is smaller than the average firm covered by the law prior to the bill. Without adjusting for the relative sizes of firms, if all 59 firms were still in business and located within a zone, it would represent a 6.6% increase in the number of firms assumed to be affected when the tool and die zones were adopted. Assuming that these firms exhibit the same averages as the firms located in the currently approved zones would suggest the bill will lower property tax revenue by about $65,000 and SBT revenue by about $42,000. Approximately $8,000 of the property tax impact will be lower State education tax revenue, while another $37,000 will represent property tax losses to local school authorities that will need to be made up with increased School Aid Fund expenditures in order to maintain per-pupil funding guarantees. Alternatively, using the same 6.6% increase, but adjusting for the average size of the firms, and the original estimates for the impact of all 20 zones, would suggest that the bill will reduce property tax revenue by $0.8 million and SBT revenue by about $220,000. Given several factors, including the declines in manufacturing over the last five years, particularly in Michigan, and the fact that some portion of these firms will not be located within a zone or will not meet the other requirements in the statute, the actual impact is likely to be even less.

Fiscal Analyst: David Zin