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BILL ANALYSIS

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Senate Bill 371 (as reported without amendment)
Sponsor: Senator Alan Sanborn
Committee: Economic Development, Small Business and Regulatory Reform

CONTENT

The bill would amend the Michigan Renaissance Zone Act to include an industrial pattern manufacturer as a "qualified tool and die business" eligible to receive tool and die renaissance recovery zone designation from the Michigan Strategic Fund.

Under the Act, the board of the Michigan Strategic Fund (MSF) may designate up to 20 tool and die renaissance recovery zones within the State in one or more cities, villages, or townships if they consent to the creation of a recovery zone within their boundaries. The MSF board may designate a recovery zone if it consists only of one or more parcels of qualified tool and die business property.

The Act's definition of "qualified tool and die business" includes businesses with specific North American Industrial Classification System (NAICS) designations. Under the bill, a business with an NAICS of 332997 (industrial pattern manufacturing) would be added to the definition.

MCL 125.2688d Legislative Analyst: J.P. Finet

FISCAL IMPACT

The bill would reduce State and local revenue by an unknown and possibly insignificant amount. Current law authorizes the creation of 20 "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 became operational. The bill would not alter the number of zones authorized, but would increase 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 1997 Census of Businesses, there were 70 establishments in Michigan that would have an NAICS of 332997. The average number of employees at each establishment was less than 20, suggesting that few firms would exceed the 50-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 current law. Without adjusting for the relative sizes of firms, if all 70 firms were still in business and located within a zone, it would represent a 7.8% 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 would lower property tax revenue by about $80,000 and SBT revenue by about $50,000. Approximately, $10,000 of the property tax impact would be lower State education tax revenue, while another $44,000 would represent property tax losses to local school authorities that would need to be made up with increased School Aid Fund expenditures. Alternatively, using the same 7.8% 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 would reduce property tax revenue by $0.9 million and SBT revenue by about $260,000. 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.

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

Date Completed: 4-21-05 Fiscal Analyst: David Zin