



Senate Fiscal Agency
P. O. Box 30036
Lansing, Michigan 48909-7536



BILL ANALYSIS

Telephone: (517) 373-5383
Fax: (517) 373-1986
TDD: (517) 373-0543

Senate Bill 371 (as introduced 4-12-05)

Sponsor: Senator Alan Sanborn

Committee: Economic Development, Small Business and Regulatory Reform

Date Completed: 4-20-05

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 a city, village, or township or combination of cities, villages, or townships consents to the creation of a recovery zone within its boundaries. The MSF board may designate a recovery zone within the State if the zone consists only of one or more parcels of qualified tool and die business property.

Businesses with the following North American Industrial Classification System (NAICS) designations are included in the Act's definition of "qualified tool and die business":

- 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 bill, a business with an NAICS of 332997 (industrial pattern manufacturing) would be included in the Act's definition of "qualified tool and die business".

Under the Act, a qualified tool and die business also 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; and have fewer than 50 full-time employees. The bill would add businesses with an NAICS of 332997 (industrial pattern manufacturing) 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 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.

MCL 125.2688d

BACKGROUND

Public Act 266 of 2003 amended the Michigan Renaissance Zone Act to allow tool and die renaissance recovery zones. According to the Michigan Economic Development Corporation, the MSF designated eight recovery zones in 2004 and the deadline for applications to be submitted for the next round of designations is September 12, 2005.

Those companies located in a tool and die renaissance recovery zone do not pay the following:

- The single business tax (SBT).
- The 6-mill State education tax.
- Local personal property tax.
- Local real property tax.
- Local income tax.
- Utility users tax (levied in Detroit only).

Tool and die renaissance recovery zone businesses must pay taxes mandated by the Federal government, local bond obligations, and school sinking fund or special assessments. The companies also are not exempt from paying the Michigan sales tax.

The duration of a recovery zone’s renaissance zone status may not exceed 15 years, as determined by the MSF board. In all cases, the tax relief will be phased out in 25% increments over the last three years of the zone designation.

The Department of Treasury makes reimbursements to intermediate school districts, local school districts, community college districts, and public libraries on behalf of the businesses in a zone. The State does not replace the tax revenue lost to the local unit of government.

Public Act 202 of 2004 amended the Michigan Renaissance Zone Act to allow the MSF 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 business, and to authorize the board to revoke renaissance zone status for failure to participate in or comply with a qualified collaborative agreement.

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.

Fiscal Analyst: David Zin

S0506\sb371sa

This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.