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BILL ANALYSIS

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Senate Bill 802 (Substitute S-5 as reported by the Committee of the Whole)
Sponsor: Senator Jason E. Allen
Committee: Commerce and Labor

CONTENT

The bill would amend the Michigan Economic Growth Authority Act (MEGA) to:

-- Increase from 25 to 35 the number of new written agreements that MEGA may execute each year for single business tax (SBT) credits for eligible businesses that are not qualified high-technology businesses, distressed business, or rural businesses.
-- Of the 50 new written agreements allowed annually for qualified high-technology businesses or rural businesses, increase from five to 10 the number that may be awarded to qualified rural businesses.
-- Allow MEGA to reduce the number of full-time jobs required in an agreement with a business for an SBT credit, in order to adjust for decreases in the business's full-time jobs in Michigan due to the divestiture of operations, if another employer continued to maintain those jobs.
-- Authorize MEGA to enter into a written agreement to provide SBT credits to an eligible business that maintained 175 retained jobs and made new capital investment at a facility in a county with a population of at least 7,500 but not more than 8,000.
-- Authorize MEGA to enter into a written agreement to provide SBT credits to an eligible business that was located in Michigan on the date of application, maintained at least 675 retained jobs at a facility, agreed to create 400 new jobs, and agreed to make a new capital investment of at least $45.0 million to be completed or contracted for not later than December 1, 2007.
-- Refer to new capital investment completed or contracted for by December 31, 2007, in a provision that authorizes MEGA to enter into an agreement with an eligible business that completes $10.0 million of new capital investment by December 31, 2006.
-- Reduce the average wage requirement for high-technology businesses from 400% to 300% of the Federal minimum wage.
-- Expand the definition of "rural business" to include a business in a county with a population of 90,000 or less, rather than 80,000 or less.
-- Revise the definition of "qualified new job" to refer to a full-time job created by an eligible business that exceeds the *lowest* number of full-time jobs maintained by that business in Michigan in the immediately preceding 120 days before it became an authorized business.
-- Delete a provision that excludes a site that was a vaccine laboratory owned by the State on April 1, 1995, from the definition of "facility" (a site in Michigan where an authorized business or subsidiary business maintains retained jobs or creates qualified new jobs).

The bill is tie-barred to Senate Bills 434, 579, 599, 900, and 922 and House Bills 4733 and 4734, which address various economic development issues.

MCL 207.803 & 207.808 Legislative Analyst: Patrick Affholter

FISCAL IMPACT

The bill would reduce State revenue by an unknown amount, depending on the credits authorized (and the characteristics of the firms receiving them) as a result of the bill's changes. Generally, the bill would make it easier for certain taxpayers to qualify for credits under the MEGA Act. The bill would add businesses located in Lapeer and Midland Counties to the definition of "rural business" and expand the definition of "full-time job" to include employees of other firms that are the result of the credit recipient's selling off part of the firm as part of a divestiture. The bill also would expand the definition of "high-technology activity", lower the threshold for computing qualified new jobs, and lower the average wage requirements, which would enable more jobs at credit recipients to qualify for credits. The bill would remove the prohibition on a vaccine laboratory owned by the State on April 1, 1995, from being a qualifying facility. The bill also would increase the number of credits that may be authorized in a given year and expand eligibility to a firm maintaining 175 jobs and making new capital investment in a facility located in Ontonagon County.

Because credits under the MEGA Act are approved for specific amounts under specified circumstances, the bill likely would not affect any existing credits that have been approved. Similarly, the bill would have no effect on revenue if no MEGA credits were approved for taxpayers meeting the changed requirements under the bill or if the approved credits under the bill replaced another credit that otherwise would have been approved under the Act. However, because the bill would expand the number of credits that may be granted in any year, it is expected that the additional credits would be approved and that the bill would not merely redistribute credits (assumed to be for identical amounts) that otherwise would be approved.

The provisions allowing agreements with firms that meet certain qualifications, including making $45.0 million in new investments, would potentially make credits available to a wide array of taxpayers. (In 2002, approximately 16,500 establishments located in Michigan had more than 500 employees.) While the provision could potentially affect numerous taxpayers, the bill would not require agreements to be made with all of those firms or require that all firms meeting the requirements to be authorized to receive credits.

Credits granted under the MEGA Act are expected to reduce single business tax revenue by approximately $41.7 million FY 2005-06. If the increased credits allowed under the bill raised the cost of MEGA credits by 10% in a year, the bill would reduce General Fund revenue by an additional $4.2 million per year.

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

Date Completed: 3-20-06 Fiscal Analyst: David Zin

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