



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 900 (Substitute S-1 as reported)
Sponsor: Senator Ron Jelinek
Committee: Commerce and Labor

Date Completed: 12-16-05

RATIONALE

The Michigan Renaissance Zone Act was enacted in 1996, authorizing the State Administrative Board to designate a limited number of renaissance zones to stimulate development in economically depressed areas. Renaissance zones are geographic areas that are virtually tax-free for any business or resident located in or moving into one of the zones. Businesses and residents in renaissance zones receive abatements from income, business, and property taxes. Public Act 259 of 2000 amended the Act to authorize the Board, until December 31, 2002, to designate up to 10 additional renaissance zones for agricultural processing facilities. By the end of 2002, nine agricultural processing renaissance zones had been designated. Because of the importance of agriculture and food processing to Michigan's economy and the hardships facing the industry, some proposed that the program be continued and expanded. Thus, Public Act 93 of 2003 amended the Renaissance Zone Act to remove the December 31, 2002, deadline and to increase the authorized number of agricultural renaissance zones from 10 to 20. Currently, 17 agricultural renaissance zones have been designated, and several applications are pending for the three remaining zones permitted under the Act. Some believe that the maximum number of agricultural renaissance zones should be increased again.

CONTENT

The bill would amend the Michigan Renaissance Zone Act to double the number of agricultural renaissance zones that may be designated, and require the State Administrative Board

to consider certain factors when designating a zone.

The Act allows the State Administrative Board to designate up to 20 renaissance zones for agricultural processing facilities in the State in one or more cities, villages, or townships, provided those entities allow the creation of the zones for that purpose. The bill would allow the Board, upon recommendation of the Agriculture Commission, to designate up to 40 agricultural renaissance zones.

Currently, the Administrative Board may revoke the designation of all or a portion of a renaissance zone for an agricultural processing facility if it determines that the facility fails to begin operation or ceases operation in a designated renaissance zone. Under the bill, the Board also could revoke the designation of a renaissance zone for an agricultural processing facility if it failed to commence construction or renovation within one year of being designated.

The bill would require the Board, when designating a renaissance zone for an agricultural processing facility, to consider the economic impact on local suppliers of raw materials, goods, and services to the facility; the creation of jobs relative to the employment base of the community rather than the static number of jobs created; the viability of the project; and the economic impact on the community where the facility is located.

(The Act defines "agricultural processing facility" as one or more facilities or operations that transform, package, sort, or grade livestock or livestock products, agricultural commodities, or plants or plant

products into goods that are used for intermediate or final consumption including goods for nonfood use, and surrounding property. Each renaissance zone designated for an agricultural processing facility must be one continuous distinct geographic area.)

MCL 125.2688c

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

Agricultural renaissance zones have been very a successful tool for encouraging growth in some counties. Oceana County alone has four zones that have reportedly spurred job development. There are currently not enough zones available to meet demand, however. At least five projects have applied for renaissance zone designation, but only three zones are available under the present limitations.

In some cases, renaissance zones are crucial in keeping jobs and businesses in the State. For instance, Michigan Biodiesel is a start-up company based in Michigan, consisting of 47 farmers working with five to seven distributors. The company applied for the designation of an agricultural processing renaissance zone in Bangor, Michigan, and plans to invest about \$7 million to establish a facility there. The business is projected to create about 26 jobs. Bangor is a city of about 1,900 people in Van Buren County, and the new business and the jobs created will have a significant impact in the small community. When Michigan Biodiesel first applied for a renaissance zone designation, however, the company was reportedly turned down because the proposed business plan was not large enough. According to testimony before the Commerce and Labor Committee, the company had received an offer of tax incentives from Indiana, and would not have located the facility in Michigan without the renaissance zone.

Renaissance zones are an important tool in helping to retain businesses like Michigan Biodiesel, and to encourage businesses to locate in economically distressed areas. The bill would help keep businesses in Michigan, and give smaller projects like this a better chance of approval by requiring the

Administrative Board, in designating renaissance zones, to consider the economic benefit relative to the size of the local economy, rather than just the total number of jobs created. The economic activity generated by these renaissance zones could bring in other businesses and stimulate the local economy. By increasing the number of renaissance zones permitted, the bill would allow more communities across Michigan to experience these benefits and could help Michigan's economy, particularly in rural areas and small cities.

Legislative Analyst: Curtis Walker

FISCAL IMPACT

The bill would reduce State and local tax revenue and would increase School Aid Fund expenditures by an unknown amount. The actual amount would depend upon the specific characteristics of the property affected by the bill and the amount of property included in the additional renaissance zones. Under current law, property inside a renaissance zone is exempt from local property taxes and the State education tax, and individuals and businesses that reside in the zone are exempt from the single business tax and individual income taxes. Current law also requires the State to reimburse many of the property taxes lost as a result of any exemptions under the Act, including revenue to intermediate school districts, local school districts, community colleges, public libraries, and the School Aid Fund.

Currently, the fiscal impact of the existing agricultural renaissance zones is relatively small because the facilities have not yet been completed and many of the 20 zones authorized by existing law have yet to have any impact at all (and some have not yet been designated). As these facilities become more fully developed, the fiscal impact is expected to grow substantially. Similarly, if the proposed changes resulted in new construction, the bill's full impact would not be experienced for several years, when the construction was completed.

Fiscal Analyst: David Zin

A0506\s900a

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.