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

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

House Bills 4813 through 4819 (as passed by the House)
Sponsor: Representative Darwin Booher (H.B. 4813)
Representative Phil Pavlov (H.B. 4814)
Representative Tom Pearce (H.B. 4815)
Representative Bill Huizenga (H.B. 4816)
Representative Bill Caul (H.B. 4817)
Representative Rick Baxter (H.B. 4818)
Representative Goeff Hansen (H.B. 4819)
House Committee: Commerce
Senate Committee: Commerce and Labor

Date Completed: 6-21-05

CONTENT

The bills would amend the Michigan Renaissance Zone Act to revise provisions pertaining to tool and die renaissance recovery zones. The bills would do all of the following:

-- **Require that a qualified tool and die business enter into a qualified collaborative agreement with at least four, but not more than 20, other businesses.**
-- **Allow the board of the Michigan Strategic Fund (MSF) to designate a recovery zone consisting of not less than four or more than 20 qualified tool and die businesses, and add businesses to a zone with fewer than 20 businesses that was designated before the bill's effective date.**
-- **Allow a qualified tool and die business to enter into another qualified collaborative agreement, and prohibit the MSF board from preventing members of one agreement from merging with another.**
-- **Allow a qualified tool and die business to have a different period of renaissance zone status than other businesses in the same zone.**
-- **Require that a qualified tool and die business have fewer than 50 full-time employees "actually engaged in the tool and die work of the business entity".**
-- **Provide that, to be considered qualified tool and die business property preliminarily used for tool and die operations, businesses would have to generate at least 51% of gross revenue from tool and die operations on the property.**
-- **Define "recovery zone" as a tool and die renaissance recovery zone.**
-- **Allow local units to retain the right to revoke a recovery zone designation in the fifth and 10th years of a 15-year designation.**
-- **Exclude a recovery zone whose designation was revoked in the fifth or 10th year from the reduction of tax breaks that occurs in the last several years of zone designation.**

House Bill 4813

Under the Act, "qualified tool and die business" means a business entity that meets all of the following:

-- Has a North American Industrial Classification System (NAICS) classification of 333511, 333512, 333512, 333513, 333514, or 333515; or has an NAICS of 337215 and operates a facility within an existing renaissance zone that is adjacent to real property not

located in a renaissance zone and is located within one-quarter mile of a Michigan technical education center.
-- Has entered into a qualified collaboration agreement as approved by the MSF with other business entities that have an NAICS classification of 333511, 333512, 333513, 333514, or 333515.
-- Has fewer than 50 full-time employees.

Under the bill, the qualified collaboration agreement approved by the MSF would have to consist of not fewer than four or more than 20 other business entities with the appropriate NAICS classification.

(The NAICS classifications listed above pertain to the following:

-- 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.
-- 337215: Showcase, Partition, Shelving, and Locker Manufacturing.)

House Bill 4814

The Act allows the MSF board to designate a recovery zone within Michigan if the zone consists only of one or more parcels of qualified tool and die business property. The bill specifies instead that the board could designate a recovery zone within this State if the zone consisted of not less than four and not more than 20 qualified tool and die business. If the board designated one or more recovery zones that contained fewer than 20 qualified tool and die businesses before the bill's effective date, it could add additional qualified tool and die businesses to that recovery zone subject to the limitations contained in the bill. A recovery zone could consist of only qualified tool and die business property.

Under the Act, the board may revoke the designation of all or part of a recovery zone with respect to one or more qualified tool and die businesses if they fail or cease to participate in or comply with a qualified collaborative agreement. The bill, however, would allow a qualified tool and die business to enter into another qualified collaborative agreement once it was designated part of a recovery zone. The bill also specifies that the board could not prevent a group of qualified tool and die businesses subject to a qualified collaborative agreement from merging into another group of qualified tool and die businesses subject to a different qualified collaborative agreement.

("Qualified collaborative agreement" means 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.)

House Bill 4815

The Act allows the MSF board to designate up to 20 tool and die renaissance recovery zones in the State in one or more cities, villages, or townships if the local unit or a combination of cities, villages, or townships consents to the creation of a recovery zone within its boundaries. A recovery zone will have a duration of renaissance zone status for up to 15 years, as determined by the MSF board. The bill specifies that a qualified tool and die business in a recovery zone could have a different period of renaissance zone status than other qualified tool and die businesses in the same recovery zone.

The bill also specifies that the board could modify an existing recovery zone to add one or more qualified tool and die businesses with the consent of all other qualified tool and die businesses participating in the recovery zone.

House Bill 4816

As mentioned above, a qualified tool and die business presently must have fewer than 50 full-time employees. The bill specifies that a qualified tool and die business would have to have fewer than 50 full-time employees "actually engaged in the tool and die work of the business entity. That phrase would mean employees whose work included the designing or manufacturing of a tool or die and would not include employees doing

other manufacturing work, shipping and receiving functions, general maintenance, secretarial support, accounting, sales, estimating, or other general or administrative tasks.

In addition, under the Act, "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 the businesses primarily for tool and die business operations.

The bill specifies that qualified tool and die business property would be used primarily for tool and die business operations if the businesses that owned or leased the property generated 51% or more of their gross revenue from tool and die operations that took place on the property.

House Bill 4817

The bill would define "recovery zone" as a tool and die renaissance recovery zone created under the Act.

House Bill 4818

Under the Act, a recovery zone will have a duration of renaissance zone status for a period of not to exceed 15 years, as determined by the MSF board. Under the bill, as an alternative, a recovery zone could have renaissance zone status for 15 years, if the city, village, or township, or combination of cities, villages, or townships in which a qualified tool and die business was located, as a condition of granting its consent as detailed in a written agreement, retained the right to revoke the recovery zone designation in the fifth and 10th years following the year the zone was designated, if the local unit or units determined that the qualified tool and die business had violated one or more terms of the written agreement and the board concurred with that determination. "Written agreement" would mean a written agreement between the city, village, or township or combination of cities, villages, or townships, and the qualified tool and die business, detailing the terms and conditions of the right to revoke the recovery zone designation.

House Bill 4819

During the last three years that a taxpayer is eligible for a tax exemption, deduction, or credit under the Act, the exemption, deduction, or credit must be reduced by the following percentages:

-- 25%, for the tax year that is two years before the final year of designation as a renaissance zone.
-- 50%, for the tax year immediately preceding the final year of designation as a renaissance zone.
-- 75%, for the tax year that is the final year of designation as a renaissance zone.

The bill would exclude from those reductions a qualified tool and die business whose recovery zone status was revoked in the fifth or 10th year, as provided in House Bill 4818.

MCL 125.2688d (H.B. 4813-4816 & 4818)
125.2683 (H.B. 4817)
125.2689 (H.B. 4819)

Legislative Analyst: Patrick Affholter

FISCAL IMPACT

Many of these bills would amend the same section of statute. As a result, the effect of the bills would depend upon the adoption of a consistent bill reflecting changes to current law, or the order in which they would be adopted. For example, the effects of House Bill 4816 on broadening the firms to be included by changing the limitation to 50 full-time employees actually engaged in tool and die work, would not occur if House Bill 4813 were enacted at a later date, because House Bill 4813 does not include this change and would "reset" the language to that under current law. Similarly, the bills are not tie-barred to each other.

The fiscal impact of the individual bills, absent these considerations, is described below.

House Bill 4813: The bill would likely have a negligible, if any, impact. It is unknown how many tool and die organizations might

enter into collaboration agreements under the bill but would be unable to attract at least three other partners or be unable to limit the collaboration to not more than 20. Presumably, a few specific entities might be unable to meet the criteria. However, to the extent that other businesses could replace those firms, the bill would have no fiscal impact.

House Bill 4814: The bill would likely reduce State and local revenue, and increase School Aid Fund expenditures, by an unknown and likely negligible amount. The bill would have an impact only to the extent that a current business was unable to enter into a new collaborative agreement (either under current law or under House Bill 4813, although the bills are not tie-barred) with other firms and/or no remaining authorizations to be included in a tool and die renaissance recovery zone remained.

House Bill 4815: The bill would likely reduce State and local revenue, and increase School Aid Fund expenditures, by an unknown and likely negligible amount. It is unknown how many recovery zones would face potential modification and whether or not existing participants would consent to a modification.

House Bill 4816: The bill would likely reduce State and local revenue, and increase School Aid Fund expenditures, by an unknown and potentially significant amount, particularly if other proposed changes in the act were adopted. It is unknown how many tool and die firms have more than 50 employees but fewer than 50 employees doing tool and die work. Under most circumstances, these firms would generally be larger firms than those that fit within the definition under current law. As a result, the fiscal impact, on a per-firm basis, would be greater than under current law. However, the changes regarding qualified tool and die business property would generally reduce the number of firms that might qualify under the law, and thus would increase State and local revenue and lower School Aid Fund expenditures by an unknown amount. The changes regarding qualified property are expected to be minimal, given that most firms categorized within the necessary NAICS categories presumably would meet the new requirements.

House Bill 4817: The bill would have no fiscal impact on State or local government.

House Bill 4818: The bill would likely increase State and local revenue, and increase School Aid Fund expenditures, by an unknown and likely negligible amount. Revenue would increase only to the extent that local units exercised the right to revoke the necessary designation. Given that these revocations would not occur until at least five and/or 10 years after the bill was adopted, revenue in the near-future would not likely be affected unless the amendments were to exert some change in the firms seeking designated status.

House Bill 4819: This bill is not tie-barred to House Bill 4818, but would have no fiscal impact if that bill were not enacted. If House Bill 4818 were enacted, House Bill 4819 would decrease State and local revenue, and increase School Aid Fund expenditures, by an unknown and likely negligible amount. The bill would exclude firms whose designations were revoked from experiencing the gradual reductions in the tax exemption afforded under the Act during the years immediately preceding the expiration of the exemption.

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

Fiscal Analyst: David Zin

S0506\s4813sa
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.