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

House Bill 6118 (Substitute S-1)
Sponsor: Representative Tonya Schuitmaker
House Committee: Commerce
Senate Committee: Commerce and Labor

Date Completed: 11-28-06

CONTENT

The bill would amend the Michigan Economic Growth Authority (MEGA) Act to do all of the following:

-- Revise the composition of the Authority and designate the president of the Michigan Strategic Fund as the chairperson of MEGA.
-- Revise conditions for a tax-credit agreement with an eligible business that files a Chapter 11 reorganization plan with the U.S. bankruptcy court.
-- Allow MEGA to waive a requirement that a tax-credit agreement provide for new management, under certain circumstances.
-- Allow MEGA to waive a tax-credit agreement requirement that a business be located in a rural county (for a business in Kent County).
-- Authorize MEGA to enter into a tax-credit agreement with a business that made capital investment of more than $250 million at a northern Michigan facility.

MEGA Composition

Under the Act, MEGA consists of the following eight members:

-- The Director of the Department of Labor and Economic Growth (DLEG), or his or her designee, as chairperson of the Authority.
-- The State Treasurer, or his or her designee.
-- The chief executive officer of the Michigan Economic Development Corporation (MEDC), or his or her designee.
-- The Director of the Department of Transportation, or his or her designee.
-- Four other members appointed by the Governor, by and with the advice and consent of the Senate, who are not employed by the State and who have knowledge, skill, and experience in the academic, business, local government, labor, or financial fields.

The bill would remove the MEDC chief executive officer from the Authority and add the president of the Michigan Strategic Fund, or his or her designee. The Strategic Fund president, rather than the DLEG Director, would serve as chairperson.

MEGA Credits

Chapter 11 Reorganization. The Act allows MEGA, after receiving an application, to enter into an agreement with an eligible business for a single business tax (SBT) credit, if the Authority determines that certain criteria are met. A written agreement between an eligible business and MEGA must contain certain criteria, including a condition that, if the eligible business qualified for a tax credit by maintaining 150 retained jobs at a facility, maintaining 1,000 or more full-time jobs in Michigan, and making new capital investment in Michigan, and filed a Chapter 11 plan of reorganization with the bankruptcy court, the plan must be approved by the bankruptcy court within two years of the date of the agreement or the agreement is rescinded. The bill would refer to the plan being "confirmed" rather than "approved" and would allow that action within three years, rather than two.

New Management Waiver. A written agreement with an eligible business must meet one or more of the sets of conditions described in the Act. One of those sets of conditions is that the business maintains 300 retained jobs at a facility; the facility is at risk of being closed and, if it were to close, the work would go to a location outside of Michigan, as determined by MEGA; new management or new ownership is proposed for the facility and is committed to improve its viability; and the tax credits offered are necessary for the facility to maintain operations. Of the written agreements entered into under this set of conditions, MEGA may enter into three that are exempt from certain requirements, if the Authority considers it in the public interest and if the eligible business would have met the requirements within the six months before the written agreement for a tax credit was signed. Under the bill, for those three written agreements, the Authority also could waive the requirement for new management if the exiting management and labor made a commitment to improve the viability and productivity of the facility to meet international competition better, as determined by MEGA.

Rural Business Waiver. Another set of conditions for an agreement to provide SBT credits is that the business maintains 100 retained jobs at a facility, is a "rural business", and is at risk of being closed; if it were to close, the work would go to a location outside of Michigan, as determined by MEGA; new management or new ownership is proposed for the facility; and the tax credits offered under the Act are necessary for the facility to maintain operations. Of the written agreement entered into under this set of conditions, MEGA may enter into three that are exempt from certain requirements, if the Authority considers it in the public interest and if the eligible business would have met the requirements within the six months before the written agreement for a tax credit. Under the bill, for those three written agreements, the Authority also could waive the requirement that the business be a rural business, if it were located in a county with a population of 500,000 or more and 600,000 or less. (According to 2000 U.S. Census data, only Kent County has a population in that range.) "Rural business" means an eligible business located in a county with a population of 90,000 or less.

Capital Investment in Northern Michigan. The bill would allow MEGA to enter into a written agreement with an eligible business to provide SBT credits if the business were located in Michigan on the date of the application, made new capital investment of more than $250 million in the State, and made that capital investment at a facility located north of the 45th Parallel.

MCL 207.804 & 207.808 — Legislative Analyst: Patrick Affholter

FISCAL IMPACT

This bill is designed to make three particular businesses eligible for MEGA tax credits. The businesses are Mercedes Benz Tech in Grand Rapids, Eaton Corporation in Jackson, and Federal Mogul. The bill would result in reduced single business tax revenue, but without the credits, the business activity would most likely not occur in Michigan. The size and duration of MEGA tax credits are negotiated between the qualifying businesses and the Michigan Economic Development Corporation. All reductions in single business tax revenue affect the General Fund/General Purpose budget.

Fiscal Analyst: Jay Wortley

S0506\s6118sa