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BILL ANALYSIS

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Senate Bill 345 (as passed by the Senate)
Sponsor: Senator Alan L. Cropsey
Committee: Commerce and Tourism

Date Completed: 3-27-07

RATIONALE

The plant rehabilitation and industrial development districts Act, commonly referred to as PA 198, allows local units of government, with the approval of the State Tax Commission, to grant industrial facilities exemption certificates to new and speculative buildings and replacement facilities located in an industrial development district. A certificate essentially grants a property tax abatement to an industrial facility, which is subject to an industrial facilities tax that is lower than standard property taxes. Under the Act, a local governmental unit may not approve an application and the State Tax Commission may not grant an exemption certificate unless the district was established before restoration, replacement, or construction began, and the restoration, replacement, or construction did not begin earlier than six months before application for the exemption certificate was filed. The Act includes exceptions to these requirements, however, and it has been suggested that an exception be added to accommodate the schedule of a project in Mt. Pleasant.

CONTENT

The bill would amend the plant rehabilitation and industrial development districts Act to allow an industrial facilities exemption certificate to be approved for a new facility in an existing industrial development district whose owner filed or amended an application for an exemption certificate for personal property in June 2006, if the application were approved in August 2006 and submitted to the State Tax Commission in 2007.

Under the Act, except for an application for a speculative building, the legislative body of a local governmental unit (a city, village, or township) may not approve an application and the State Tax Commission may not grant an industrial facilities exemption certificate unless the applicant complies with various requirements, which include the following:

- The proposed facility must be located within a plant rehabilitation district or industrial development district that was duly established in an eligible local governmental unit upon a request filed, or by the local unit's own initiative taken, before the restoration, replacement, or construction of the facility commenced.
- The restoration, replacement, or construction of the facility must not have commenced earlier than six months before the application for the industrial facilities exemption certificate was filed.

Additionally, except as otherwise provided, a request for the establishment of a proposed plant rehabilitation or industrial development district may be filed only in connection with a proposed replacement facility or new facility whose construction, acquisition, alteration, or installation has not commenced at the time the request is filed. The legislative body of a local governmental unit may not establish a plant rehabilitation or an industrial development district if it finds that the request for the district was filed after the commencement of construction, alteration, or installation of, or an acquisition related to, the proposed replacement facility or new facility.

The Act makes exceptions to these conditions for certain facilities.

Under the bill, these criteria would not apply to a new facility located in an existing industrial development district owned by a person who filed or amended an application for an industrial facilities exemption certificate for personal property in June 2006, if the application were approved by the local unit's legislative body in August 2006 but not submitted to the State Tax Commission until 2007.

MCL 207.559

BACKGROUND

Under the Act, in a local unit that has established a plant rehabilitation and industrial development district, the owner or lessee of industrial property in the district may apply to the local unit for an industrial facilities exemption certificate. Upon approval by the local unit's legislative body, the application is forwarded to the State Tax Commission, which issues an industrial facilities exemption certificate if it determines that the facility conforms with the Act. A certificate may be issued for a combined total of 12 years for any one facility. The certificate exempts the facility (but not the land or inventory) from real and personal property taxes, and makes it subject to a specific industrial facilities tax. For a new facility, the specific tax is 50% of what the property tax otherwise would be, plus the State education tax. For a replacement facility, the specific tax essentially is the amount that property taxes would be based on the value of the facility before renovation.

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

The CME Corporation in Mt. Pleasant manufactures component motor parts for various automobile companies. According to testimony before the Senate Commerce and Tourism Committee by a CME official, the company applied to the city for a PA 198 personal property tax exemption in June 2006 for equipment needed for a new process to produce starter motors for some

Honda vehicles. The company official and the mayor of Mt. Pleasant both testified that the city approved the application in August 2006, but the city apparently misfiled the paperwork and the locally approved application was not forwarded to the State Tax Commission as required by PA 198. Consequently, an industrial facilities exemption certificate has not been granted to CME.

The bill would allow CME's PA 198 tax exemption application, filed in June 2006 and approved by Mt. Pleasant in August 2006, to be submitted to the State Tax Commission in 2007. This would allow CME to proceed as scheduled with its project, with the opportunity to receive a personal property tax exemption certificate, without having to begin the application process again in 2007.

Response: Section 6 of PA 198 requires the clerk of a local unit to forward an approved application to the State Tax Commission within 60 days of approval or before October 31 of that year, whichever is first, in order to receive an exemption certificate effective for the following year. The bill does not address this requirement.

Legislative Analyst: Patrick Affholter

FISCAL IMPACT

If an exemption certificate were granted, the bill would reduce State and local unit revenue and increase School Aid Fund expenditures by an unknown amount. The impact on State revenue would depend on whether 0, 3, or 6 mills of the State education tax would be abated under the certificate. Any reduction in local school district operating revenue would be offset by increased expenditures from the School Aid Fund in order to maintain per-pupil funding guarantees.

The magnitude of the impact also would depend upon the characteristics of the property affected. Because the certificate would be issued for a new facility, the revenue impact would represent an increase in revenue that would not be realized when the construction is completed.

Fiscal Analyst: David Zin

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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.