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BILL ANALYSIS

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Senate Bill 400 (Substitute S-2 as reported) *(as passed by the Senate)*
Sponsor: Senator Jason E. Allen
Committee: Commerce and Tourism

Date Completed: 4-19-07

RATIONALE

A new company called Sovereign Deed, LLC plans to develop a national infrastructure for the delivery of catastrophic response services. In recent years, following Hurricanes Katrina and Rita on the Gulf Coast and the September 11 terrorist attacks in New York City, the public system for disaster relief has been heavily burdened. The principals involved with Sovereign Deed see an opportunity to provide privatized catastrophic relief to supplement public efforts. The company intends to establish a number of local and regional response centers throughout the United States and one national response center for the country. Reportedly, the regional airport in Emmet County's McKinley Township, just outside of the Village of Pellston in northern Michigan, is one of three finalist sites for Sovereign Deed's national response center. Local and State economic development officials are attempting to assemble a package of incentives to encourage the company to choose Michigan, rather than one of the other finalist sites in Wisconsin or Illinois.

The plant rehabilitation and industrial development Act, commonly referred to as PA 198, allows local units of government 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. It has been suggested that a tax break offered under PA 198 could be a critical incentive in attracting Sovereign Deed's national response center to the Pellston Regional Airport.

CONTENT

The bill would amend the plant rehabilitation and industrial development Act to include the operation of a "strategic response center" in the Act's definition of "industrial property".

"Strategic response center" would mean a facility that provides catastrophe response solutions through the development and staffing of a national response center for which a district is created before December 31, 2007.

MCL 207.552

BACKGROUND

Under PA 198, in a local unit that has established a plant rehabilitation district or an 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

By including a strategic response center in the Act's definition of industrial property, the bill would make such a facility eligible for an industrial facilities exemption certificate if the local unit established a plant rehabilitation district or an industrial development district by December 31, 2007. This would allow McKinley Township to create a district and offer Sovereign Deed a tax break as part of the incentive package proposed by State and local officials to draw the company's national response center to the Pellston Regional Airport.

According to a Sovereign Deed document, "National Response Center Search" (2006), the national response center will involve the development of facilities for an aviation operations base, a product distribution center, a national operations center, and a national training center. The company has estimated that its national response center initially will create at least 40 new jobs, which reportedly will pay an average of $22 per hour. As the company grows, employment opportunities will expand and many more jobs likely will be created. The facility and its employees will contribute to the economy and tax base of the area where it locates, and the national training center will introduce new visitors to the area on an ongoing basis.

Sovereign Deed will need to make a considerable investment in the infrastructure wherever it decides to locate its national response center. Offering the company a comprehensive incentive package that includes a PA 198 tax break is crucial for Michigan to compete with sites in Wisconsin and Illinois to attract the response center and the facilities it will include. Economic development officials believe this measure would add over $5 million to an incentive package already valued at about $5 million to $6 million, and could make the difference in Sovereign Deed's decision of where to locate its national response center.

Legislative Analyst: Patrick Affholter

FISCAL IMPACT

The bill would reduce local unit revenue and increase School Aid Fund expenditures by an unknown amount, depending upon how many exemption certificates were issued under the provisions added by the bill and the specific characteristics of the properties receiving certificates. The change in revenue would reflect the impact relative to whether a new facility or rehabilitation would occur absent the bill. Because the provisions in the bill would affect a limited number of areas, the fiscal impact on the State would likely be negligible. However, the foregone revenue to a particular local unit affected by the bill could be more substantial.

Fiscal Analyst: David Zin

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