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 885 (as enacted) **PUBLIC ACT 117 of 2008**
Sponsor: Senator Roger Kahn, M.D.
Senate Committee: Economic Development and Regulatory Reform
House Committee: Agriculture

Date Completed: 7-22-08

RATIONALE

The Michigan Renaissance Zone Act provides for the designation of various types of renaissance zones in Michigan. Residents of renaissance zones or businesses that are located and conducting business activity within a zone may receive certain tax exemptions, deductions, or credits. The Act allows the State Administrative Board to designate up to 10 renaissance zones for renewable energy facilities upon the recommendation of the Michigan Strategic Fund (MSF) board. The term "renewable energy facility" includes a system that creates energy from a process using residues from agricultural products. Although ethanol production from corn is an emerging industry for generating alternative renewable energy, the State was largely unable to use the renewable energy renaissance zone designation to spur development of ethanol production facilities because the ethanol production process typically uses the actual agricultural crop, not residues from it. To address this, some people suggested that the definition of renewable energy facility should refer to processes using agricultural crops or their processed products, in addition to residues from agricultural products. Also, it was suggested that a recommendation of the Agriculture Commission, as well as that of the MSF board, should be required for the designation of a renaissance zone for renewable energy if the facility uses agricultural or plant products as its primary raw material source.

In addition, the Act allows the MSF board to designate up to 25 tool and die renaissance recovery zones in Michigan, in order to help the State's tool and die companies survive in the face of global competition. Some people believe that the Act should allow the expansion of a recovery zone when a tool and die business in the zone wishes to purchase property and increase its operations.

CONTENT

Senate Bill 885 amended the Michigan Renaissance Zone Act to do all of the following:

-- **Include in the definition of "renewable energy facility" a system that creates energy from a process using agricultural crops or processed products from agricultural crops.**
-- **Require the recommendation of the Agriculture Commission in order for the State Administrative Board to designate a renaissance zone for a renewable energy facility, if it uses agricultural crops or residues, or processed products from agricultural crops, as its primary raw material source.**
-- **Allow the MSF board to expand a tool and die renaissance recovery zone if the additional real property is contiguous to and becomes qualified tool and die business property, and the local unit where it is located consents.**

The bill took effect on April 29, 2008.

Renewable Energy Facility

The Act allows the State Administrative Board, upon the recommendation of the MSF board, to designate up to 10 renaissance zones for renewable energy facilities in one or more cities, villages, or townships if the municipality or combination of municipalities consents to the creation of a renaissance zone for a renewable energy facility within its boundaries. The State Administrative Board must require a development agreement between the Michigan Strategic Fund and the renewable energy facility, and may revoke the designation of all or part of the renaissance zone if it determines that the facility fails to commence operation, ceases operation, or fails to commence construction or renovation within one year from the date the zone is designated.

Under the bill, the recommendation of the Commission on Agriculture also is required if the renewable energy facility uses agricultural commodities or residues, plants, or plant products as its primary raw material source.

The Act defines "renewable energy facility" as a system that creates energy from a process using residues from agricultural products, forest products, paper products industries, and food production and processing; trees and grasses grown specifically to be used as energy crops; and gaseous fuels produced from solid biomass, animal wastes, or landfills. The bill includes a system that creates energy from a process using agricultural crops or processed products from agricultural crops.

Tool & Die Recovery Zones

Under the Act, the MSF board may designate up to 25 tool and die renaissance recovery zones within the State in one or more cities, villages, or townships if a city, village, or township or combination of cities, villages, or townships consents to the creation of a recovery zone within its boundaries. Property owned or leased by a qualified tool and die business may be designated as a recovery zone, which exempts the company from various taxes—including the single business tax, property taxes, and local income tax—for up to 15 years.

The bill allows the MSF board to modify an existing recovery zone to add property under the same terms and conditions as the existing recovery zone if both of the following are met:

-- The additional real property is contiguous to existing qualified tool and die business property and becomes qualified tool and die business property once it is brought into operation, as determined by the MSF board.
-- The city, village, or township in which the qualified tool and die business is located consents to the modification.

Business Tax Exemption

The Act provides that an individual who is a resident of a renaissance zone, a business that is located and conducting business activity within a renaissance zone, or a person that owns property located in a renaissance zone, is not eligible for exemptions, deductions, or credits available under the Act if the resident, business, or property owner is delinquent on December 31 of the prior year under various tax laws.

Under the bill, for tax years beginning on or after January 1, 2006, a business that is located and conducts business activity within a renaissance zone may not be denied an exemption if it failed to file a single business tax (SBT) return by December 31 of the prior tax year and the business had no tax liability under the former SBT Act for the tax year for which the return was not filed.

MCL 125.2683 et al.

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

Public Act 270 of 2006 amended the Michigan Renaissance Zone Act to allow the State Administrative Board to designate up to 10 renaissance zones for renewable energy facilities, upon the recommendation of the MSF board. Because the Act's definition of "renewable energy facility" originally referred only to a system that creates energy from a process using *residues* from agricultural products, rather than the actual agricultural crops, however, the State was able to designate only one of those zones, according to a Michigan

Economic Development Corporation (MEDC) official who testified before the Senate Committee on Economic Development and Regulatory Reform. The sole designation reportedly was for a facility that uses corn oil—the residue of an agricultural product—to produce biodiesel fuel.

While ethanol production facilities are beginning to be developed in Michigan, the designation of a renewable energy facility renaissance zone was not an available economic tool for most of those projects because ethanol production typically uses the actual agricultural crop, usually corn, rather than a residue of the crop. (Ethanol is produced by the fermentation and distillation of starch crops that have been converted into simple sugars and can be blended with gasoline to increase octane and improve emission quality.) By including agricultural crops or processed products from them in the Act's definition of "renewal energy facility", the bill allows the additional renaissance zones to be designated for a broader array of projects designed to increase the availability of alternative fuels derived from agricultural products and decrease consumers' reliance on petroleum.

Supporting Argument

The Act requires the recommendation of the MSF board for the designation of renewable energy facility renaissance zones, as it requires for other types of renaissance zones. Since renewable energy facilities often are likely to use agricultural or horticultural commodities as their primary raw material, it stands to reason that the State Administrative Board also should consider some agricultural expertise in making these renaissance zone designations. The bill addresses this issue by requiring the recommendation of the Agriculture Commission, in addition to the MSF board, for the designation of a renaissance zone when a renewable energy facility uses agricultural crops or residues, or processed products from agricultural crops, as its primary raw material source.

Response: A statutory requirement involving the Agriculture Commission in the recommendation process is unnecessarily cumbersome. Seeking a vote of the Commission to recommend the designation of a renaissance zone adds a step to the approval process, resulting in another layer of bureaucracy, and could delay a zone's approval. According to an MEDC official, this requirement could add at least another month to a process that already takes about three to fourth months to complete. The MEDC, on behalf of the MSF board, reportedly has consulted with the Department of Agriculture and other State departments and agencies in considering recommendations for renaissance zones, and will continue to do so in the future, but it should not have to secure the formal recommendation of the Agriculture Commission in order to have the State Administrative Board designate a renaissance zone for a renewable energy facility.

Supporting Argument

Since 2003, the Act has provided for the designation of tool and die renaissance recovery zones to help the State's tool and die companies compete on a global basis. An existing Michigan tool and die company with a renaissance recovery zone designation reportedly would like to buy an adjacent parcel, expand its operations, and create new jobs. The company wants to ensure that the added property and operations on it are part of its tool and die renaissance recovery zone, but the Act did not include a provision for expanding a zone. By allowing the MSF board to extend a tool and die renaissance recovery zone to contiguous real property that will become qualified tool and die business property, if the local unit consents, the bill will help to foster economic development and job growth in Michigan.

Legislative Analyst: Patrick Affholter

FISCAL IMPACT

The bill likely will have a minimal impact on State and local revenue. The bill does not change the number of renaissance zones allocated to renewable energy facilities, but expands the types of activities that qualify a firm as a renewable energy facility. The bill also allows the size of a renaissance recovery zone to be expanded. As a result, the bill may increase the level of activity within affected zones. The impact will depend on a number of factors, including where the additional activity is located and the economic and tax characteristics of the facilities that are developed.

The bill will reduce revenue to both the State and local units and increase State expenditures from the General Fund. Most local property taxes abated in renaissance zones are not reimbursed by the State, reducing local unit revenue. However, the State's General Fund reimburses lost revenue to public libraries, intermediate school districts, local school districts, community colleges, and the School Aid Fund. Local school districts are able to levy 18 mills upon nonhomestead property, and the State education tax levies 6 mills on all property. Tax levies for the other reimbursed components can vary widely, although it is not uncommon for schools to levy an additional 6 to 12 mills in more rural areas, where these facilities may be more likely to be established. If $100 million of investments were eventually made in the zones as a result of the bill, it would increase General Fund expenditures by at least $1.5 million per year, a portion of which would represent lost School Aid Fund revenue. Revenue losses, such as under the business taxes and individual income tax, are not reimbursed and are not included in this example; nor are local unit revenue losses that will not be reimbursed.

Fiscal Analyst: David Zin