# Legislative Analysis

**SMART ZONES**

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**House Bill 4226 (reported from committee as H-1)**
**Sponsor: Rep. Daniela R. Garcia**
**Committee: Commerce and Trade**
**Complete to 5-18-15**

***BRIEF SUMMARY:*** The bill would allow for the designation of an additional six satellite SmartZones through a competitive process conducted by the Michigan Economic Development Corporation (MEDC).

***FISCAL IMPACT:*** By essentially increasing the number of certified technology parks, the bill would increase state expenditures to the extent the state must reimburse local and intermediate school districts and the State School Aid Fund for lost revenue captured by the technology parks. Other kinds of local government units are not reimbursed for lost revenue. A precise fiscal impact cannot be determined because the number of areas and the taxable value growth within those areas is not known.

***DETAILED DESCRIPTION AND BACKGROUND:***

The Local Development Financing Act allows for the creation of certified technology parks, or SmartZones, which are a kind of high-technology tax increment finance project, whereby the zones can capture the growth in property taxes ("tax increments") in a geographical area, with the revenue to be used for a variety of purposes, including infrastructure construction, property purchases, marketing and promotion, and creating high-technology support facilities, among other things. There are 15 such zones in the state. For technology parks created since 2002, the state must reimburse school districts and the State School Aid Fund for lost tax revenue. There is no reimbursement for revenue lost to other taxing units, such as counties, community colleges, and libraries.

The MEDC has described Michigan SmartZones as collaborations between universities, industry, research organizations, government, and other community institutions intended to stimulate the growth of technology-based businesses and jobs by aiding in the creation of recognized clusters of new and emerging businesses, those primarily focused on commercializing ideas, patents, and other opportunities surrounding corporate, university or private research institute R&D efforts. The MEDC website has a SmartZone fact sheet and a map of the existing zones at:
http://www.michiganbusiness.org/cm/files/fact-sheets/mismartzonefactsheet.pdf

Although no more full SmartZone designations were available, Public Act 104 of 2008 amended the Local Development Financing Act to allow a municipality with a local development finance authority in which a SmartZone has been designated to enter into an agreement with another LDFA that does not contain a technology park in order to designate a distinct geographic area within the second authority as a technology park.

Generally speaking, this allowed an LDFA without a designated Smart Zone to have a Smart Zone by piggybacking on a SmartZone in another community. The intent apparently was that the new Smart Zone territories would not count toward the total number of zones permitted under the statute, but that each "satellite zone" would instead count as part of the "home" Smart Zone.

One advantage for the existing, or "home," SmartZone that sponsored such a "satellite" zone was that it could then seek a 15-year extension of its ability to capture state and local school taxes. (The satellite could also capture these taxes for 15 years.)

Under Public Act 104, the State Treasurer could not approve the capture of the State Education Tax and of local and intermediate school operating taxes <u>for more than three such distinct geographic areas</u>. These new zones have since been designated on a first come-first served basis; no slots remain for new candidates.

**House Bill 4226** would (1) <u>increase from three to nine</u> the number of the distinct geographic areas ("satellites") for which the State Treasurer could approve tax capture; and (2) set a deadline of September 1, 2016, by which applications are to be approved by the Michigan Economic Development Corporation (MEDC). This allows for the designation of an additional six satellite zones. There is no requirement that all of the six additional designations be made.

Under the bill, the MEDC would designate the distinct geographic areas (the satellite SmartZones) through a competitive application process, with an initial application period and a final application period. The initial application period would begin on the effective date of the bill and end on October 1, 2015. All applications submitted during that period would be approved or denied by November 1. The MEDC could approve up to three applications during this initial period.

The final application period would begin on January 1, 2016, and end on July 1, 2016. All applications submitted during this period would have to be approved or denied by September 1. The MEDC could approve the remaining designations during this period but, as mentioned earlier, would not have to designate all nine.

The MEDC would have to publish the application process and competitive criteria for evaluation on its website.

Under PA 104 of 2008, an authority making the designation of a technology park in another LDFA (the "home" SmartZone) must consider (1) the advantages of the unique characteristics and specialties offered by the public and private resources available in the distinct geographic area, (2) the benefits to regional cooperation and collaboration, and (3) whether designating the additional distinct geographic area adds value to the mission of the designated certified technology park. These criteria would apply to the six additional satellite zones.

***BRIEF DISCUSSION:***

Those advocating for the bill pointed to the success the Grand Rapids SmartZone has had in promoting entrepreneurship and growth in the high technology sector in West Michigan, and in particular in developing the "Medical Mile" area in the city, where there has been significant investment and job growth in health care, research, and technology, as well as manufacturing. This bill would allow for a 15-year extension of that zone's ability to continue to capture tax revenue to support these efforts, while, at the same time, allow for the "sponsorship" of a similar zone in Holland and Ottawa County. Representatives from the Holland area said they finished fourth in the race for the three, first come-first served, satellite zones made available in 2008, and creating additional satellite zones would allow them the opportunity to create a SmartZone connected to Michigan State University's Bioeconomy Institute in Holland Township.

The traditional argument against such legislation, expressed by some committee members during the discussion of this bill, is that it singles out some communities for favored treatment rather than allowing all local governments the opportunity to make use of the same economic development tools. Also, in the case of these particular tax increment finance authorities, local units whose tax revenue is to be captured have no opportunity to opt out.

***POSITIONS:***

Providing written testimony to the House Committee on Commerce and Trade in support of the bill were the Grand Rapids Area Chamber of Commerce, the Michigan West Coast Chamber of Commerce, and Michigan State University's College of Human Medicine. Their testimony advocated for the creation of a Holland Satellite SmartZone and the continuation of the Grand Rapids SmartZone.

Others indicating support for the bill included representatives of Lakeshore Advantage and Holland SmartZone, the City of Grand Rapids, the Michigan Municipal League, the Grand Rapids Public Schools, and Ottawa County. (5-5-15 & 5-12-15)

The MEDC indicated on 5-5-15 that it is neutral on the bill.
The Michigan Association of Counties testified that it is neutral on the bill. 5-5-15

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■ This analysis was prepared by nonpartisan House Fiscal Agency staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.