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BILL



ANALYSIS

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Senate Bill 618 (Substitute S-1 as passed by the Senate)  
Sponsor: Senator Dave Hildenbrand  
Committee: Michigan Competitiveness

Date Completed: 12-3-15

### **CONTENT**

**The bill would amend the General Property Tax Act to provide for a 10-year exemption for eligible internet data center property, if the local tax collecting unit and the county approved the exemption for a new data center or did not reject the exemption for an existing data center.**

Specifically, beginning December 31, 2015, through December 31, 2025, eligible data center property would be exempt from the collection of taxes under the Act. The exemption could be claimed only by a person, including a colocated business, that owned the eligible internet data center property and that owned, leased, or otherwise occupied all or part of the internet data center in which the property was located.

For an internet data center in which the eligible property was located that was in operation before January 1, 2016, the exemption would apply only if the governing bodies of the local tax collecting unit and the county where the data center was located did not adopt resolutions rejecting the exemption before April 1, 2016.

For an internet data center in which the eligible property was located that began operation after December 31, 2015, the exemption would apply only if the governing bodies of the local tax collecting unit and the county where the data center was located adopted resolutions approving a request for the exemption by March 31 of the first year in which the property would be subject to the collection of taxes under the Act absent those resolutions.

The bill would define "eligible internet data center property" as property that is industrial personal property or commercial personal property and is directly used to operate, maintain, or manage the business of an internet data center or a colocated business.

"Internet data center" would mean a facility that: 1) physically houses networked computer servers assembled for the purpose of centralizing the storage, processing, management, or dissemination of data owned or controlled by the customers of the data center; 2) is specifically designed and constructed to provide a high-security environment for the location of servers and similar equipment; and 3) is owned or operated by an entity whose primary business, or whose parent company's primary business, is that of an internet data center, and that generates 75% or more of its revenue from the operations and business of an internet data center.

"Colocated business" would mean a person that enters into a contract with the owner or operator of an internet data center to physically use or occupy all or part of the data center for one or more years for the purpose described in the definition of "internet data center".

Proposed MCL 211.9p

Legislative Analyst: Suzanne Lowe

## **FISCAL IMPACT**

From FY 2015-16 through FY 2025-26, the bill would reduce State School Aid Fund revenue and local property tax revenue, and increase School Aid Fund expenditures by an unknown, although potentially significant, amount that would depend on the number of taxpayers that would be affected (both by meeting the eligibility definitions and receiving the necessary approval from the relevant local units of government), their specific characteristics (including the taxable value of any exempt property and the relevant millage rate), and the interpretation of certain terms in the bill. Based on a variety of assumptions and relevant average statewide values, the revenue loss could total at least \$13.9 million per year but would be greater if the bill resulted in additional business activity taking place in Michigan. Of that total, approximately \$2.0 million would represent reduced State Education Tax revenue to the School Aid Fund and \$9.3 million of lost local property tax revenue. Another \$2.6 million would reflect reduced school operating revenue, which would presumably be offset by increased School Aid Fund expenditures in order to maintain per-pupil funding allowances. To the extent local units of government opted out of the exemption, the impact on local units of government would be less.

The bill would apply to existing taxpayers, of which at least 43 firms would be expected to qualify, although the sector that includes data centers encompasses approximately 331 firms. Another 1,253 smaller nonemployer businesses would potentially qualify under the bill, although there is insufficient information regarding these firms to include them in the fiscal impact and many may already qualify under the small parcel exemption adopted as part of Michigan's personal property tax reforms.

To the extent that the bill would attract additional firms to the State, the revenue loss under the bill would be greater. One firm identified in the media as considering expansion into Michigan could increase the revenue loss under the bill by a significant amount depending on the specific characteristics of the firm. Several media reports have indicated that the expansion could total \$5.0 billion, but would take approximately a decade to complete. However, any revenue loss would depend on whether the investment would occur absent the bill. To the extent the investment would not occur without the bill, the revenue loss would represent the revenue foregone as a result of the bill's exemption. If this expansion involved \$100.0 million of investment each year during the 10-year construction period, 75% of which would be personal property affected by the bill, the additional revenue loss under the bill would increase from approximately \$1.6 million in the first year, to more than \$20.2 million at the end of the construction period, assuming all levels of government approved the exemption. If the eventual project actually were to total \$5.0 billion (and were complete before December 31, 2025), with 75% of the investment being personal property exempt from property taxes under the bill, the additional revenue loss would total \$78.3 million per year, including \$11.6 million in State Education Tax revenue, \$54.3 million in local property tax revenue, and \$12.4 million in school operating revenue that would be replaced by increased School Aid Fund expenditures.

The fiscal impact assumes that firms generally categorized under the North American Industrial Classification System (NAICS) code 51820 (data processing, hosting and related services) would qualify under the bill.

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.