Senate Fiscal Agency
P. O. Box 30036
Lansing, Michigan 48909-7536

BILL ANALYSIS

Telephone: (517) 373-5383
Fax: (517) 373-1986

Senate Bill 1061 (Substitute S-3 as offered on General Orders)
Senate Bills 1062 through 1065 (as reported without amendment)
Sponsor: Senator Ken Horn (S.B. 1061)
Senator Jack Brandenburg (S.B. 1062)
Senator Jim Stamas (S.B. 1063)
Senator Peter MacGregor (S.B. 1064)
Senator Steven Bieda (S.B. 1065)
Committee: Economic Development and International Investment

CONTENT

Senate Bill 1061 (S-3) would amend the Brownfield Redevelopment Financing Act to do the following:

-- Allow the board of a brownfield redevelopment authority to implement a transformational brownfield development plan with the approval of the Michigan Strategic Fund (MSF) and the governing body of the municipal that created the authority.
-- Require a transformational brownfield plan to be for mixed use development and be expected to generate a specified level of capital investment, based on the population of the municipality.
-- Allow a transformational brownfield plan to authorize the use of sales and use tax capture revenue, income tax capture revenue, and tax increment revenue for eligible activities described in the bill.
-- Allow a plan to consist of a single development on eligible property or a series of developments on eligible property that were part of a related program of investment, whether or not located on contiguous parcels, and allow the plan to be amended to apply to additional parcels of eligible property.
-- Allow the brownfield authority and the MSF to reimburse advances made by a municipality, a land bank fast track authority, or any other person or entity for costs of eligible activities included within a transformational brownfield plan using sales and use tax capture revenue or income tax capture revenue attributable to that plan.
-- Allow eligible activities conducted on eligible property 90 days before approval of a transformational brownfield plan to be reimbursed from sales and use tax capture revenue and income tax capture revenue under certain circumstances.
-- Provide for income tax exemptions under the Michigan Renaissance Zone Act to cease if a transformational brownfield development plan overlapped with a renaissance zone, upon the request of the owner or developer, the local government unit, the MSF, and a city, if reimbursement requirements were met.
-- Specify that an authority and governing body would be responsible for deciding whether to seek approval of a brownfield plan as a transformational brownfield plan.
-- Prescribe requirements and disqualifying conditions governing the determination of whether to approve a plan, including financial and underwriting analyses by the MSF and independent third parties, and require any positive or negative determination by the MSF to be supported by objective analyses and documented in the record of its proceedings.
-- Allow a municipality to approve not more than one transformational brownfield plan and allow the MSF to approve not more than five transformational brownfield plans in a calendar year, except under certain circumstances.

- -- Specify that the MSF would have to require the owner or developer of eligible property to certify the actual capital investment upon completion of construction and before the commencement of reimbursement for the plan or the distinct phase or project within the plan for which reimbursement would be provided.
- -- Allow the MSF to review and modify the amount of reimbursement if the actual capital investment were less than the amount included in a plan, and provide for remedial actions the MSF could take if the actual level of capital investment did not meet the applicable minimum investment required.
- -- Require the State Treasurer to deposit annually from the General Fund into the State Brownfield Redevelopment Fund an amount equal to the sales and use tax capture revenue and income tax capture revenue due to be transmitted under all transformational brownfield plans to each applicable authority.
- -- Allow the MSF to charge and collect a reasonable application fee as necessary to cover the costs associated with the review and approval of a transformational brownfield plan.

The bill also would prohibit the MSF from approving more than $50.0 million in "new annual tax capture" under all transformational brownfield plans. "New annual tax capture" would mean the amount of sales and use tax capture revenue and income tax capture revenue provided for in the first full year of a transformational brownfield plan at the time of plan approval.

<u>Senate Bill 1062</u> would amend the Income Tax Act to provide that, from collected income tax revenue, an amount equal to the income tax capture revenue attributable to transformational brownfield plans adopted under the Brownfield Redevelopment Financing Act would have to be deposited each State fiscal year into the State Brownfield Redevelopment Fund.

<u>Senate Bill 1063</u> would amend the General Sales Tax Act to require an amount equal to the sales tax portion of the sales and use tax capture revenue attributable to transformational brownfield plans to be deposited each State fiscal year into the State Brownfield Redevelopment Fund.

<u>Senate Bill 1064</u> would amend the Use Tax Act to provide that, from the money received and collected under the Act for the State share, an amount equal to the use tax portion of the sales and use tax capture revenue attributable to transformational brownfield plans would have to be deposited each State fiscal year into the State Brownfield Redevelopment Fund.

<u>Senate Bill 1065</u> would amend the Michigan Renaissance Zone Act to state that, where a portion of a renaissance zone was included within a transformational brownfield plan, upon the request of the property owner and the local government unit, and the approval of the Michigan Strategic Fund and the city levying an income tax within the zone, exemptions from the Income Tax Act and the City Income Tax Act would not apply within that portion of the renaissance zone.

Senate Bills 1062, 1063, and 1064 are tie-barred to Senate Bill 1061.

MCL 125.2652 et al. (S.B. 1061) Legislative Analyst: Drew Krogulecki
Proposed MCL 206.51e (S.B. 1062)
MCL 205.75 (S.B. 1063)
205.111 (S.B. 1064)
125.2689 (S.B. 1065)

<u>FISCAL IMPACT</u>

The bills would reduce State General Fund revenue by an unknown, but likely significant amount, and would have an unknown impact on local revenue. The General Fund would bear the cost of State sales, use, and income tax capture due to the bills. The School Aid Fund (and for sales tax increases, constitutional revenue sharing) could increase due to the incremental increases in sales, use, and income tax revenue from new economic activity but could decrease depending on the magnitude of any changes in State Education Tax revenue. The amount of the General Fund revenue reduction would depend on the characteristics of the developments; the terms of the transformational brownfield plans, including the timing of tax capture over the duration of a transformational brownfield plan (TBP); and the number of plans approved. The overall fiscal impact on the State would be positive over the long term, assuming that net benefit to the State was achieved as projected and that the development would not have occurred without the TBP. The net benefit would not necessarily accrue to the General Fund. The bills would increase the revenue and administrative costs of the Department of Treasury and the Michigan Strategic Fund. Local revenue would be affected by the terms of the transformational brownfield plans, including the degree to which a plan reimbursed a local unit for brownfield administrative expense and project advances and the possible use of tax increment revenue for additional purposes pursuant to the bills, including construction, restoration, and renovation of buildings. To the extent that sales tax revenue increased due to a TBP, constitutional revenue sharing payments would increase. These impacts are discussed further below.

Senate Bill 1061 (S-3)

Assuming that the MSF estimates (and in some cases independent estimates) of projected net benefit to the State at the time of TBP approval proved accurate and that the development would not have occurred in the absence of the TBP, the bill would have a positive impact overall on State revenue over the long term. The amount of positive benefit to the State and the timing of that benefit is not specified by the bill and is impossible to estimate. The impact on State revenue could vary over time and by fund. The General Fund would bear the cost of the capture of the income tax, sales tax, and use tax. Revenue changes could be negative in some years during the life of the TBP before the net positive benefit was achieved. The net positive benefit could accrue to the General Fund or another State fund. The amount of net positive benefit to the State would vary by project. Changes in economic conditions over the up-to-35-year life of the TBP (five years to begin the capture of revenue and up to 30 years of tax capture) could result in State revenue changes that were less favorable or even negative compared to what was forecast at the time of plan approval. The actual fiscal impact would depend on the number of TBPs approved, the characteristics of individual projects, and the effect of TBPs on economic activity in surrounding areas. The eligible activities that could be funded by captured revenue would include any construction, redevelopment, and site preparation costs. Eligible activities also would include the payment of principal and interest on bonds issued to fund activities.

The fiscal impact of the bill would depend on any new State revenue from TBPs that would not have occurred in their absence, and any revenue loss due to displacement of economic activity that moved into the TBPs. If 100% of the activity in a TBP were new activity that occurred due to the TBP and there were no displacement of economic activity, either through relocations or changes in consumption patterns, then the tax capture would only represent foregone revenue. At this point, it is impossible to forecast how much displacement of revenue and/or economic activity might occur, and therefore it is not possible to identify how much of any capture could represent an actual revenue loss rather than foregone revenue. Unless a TBP attracted a significant number of residents and/or business from out-of-State, it would be reasonable to assume a significant portion of the captured revenue would represent an actual revenue loss.

Under the bill, the capture of State sales, use, and income tax revenue would be limited by several requirements: a statewide limit of $50.0 million that would apply only to the first year of tax capture on all TBPs, and limitations that would apply to the approval of each TBP. There would be no absolute limit, however, on the total amount of State sales tax, use tax, and income tax revenue that could be captured in any year after the first year of tax capture. The total of tax revenue captured over the life of a project would likely be significant. The

General Fund would bear the cost of State sales, use, and income tax capture during the term of a TBP.

The expansion of the eligible uses of tax increment revenue from property taxes would increase the capture of local millage, when compared to the capture allowed for existing brownfield plans. For a TBP that included the capture of school operating millage, revenue to the School Aid Fund would decline because the six-mill State Education Tax would be replaced with a three-mill payment to the State Brownfield Redevelopment Fund. The capture of local school operating millage would increase costs to the School Aid Fund.

Determination of Tax Capture

The amount of tax capture in the first full year of tax capture for all TBPs would be limited to $50.0 million. The first full year of tax capture, however, would not necessarily be the largest capture amount provided for in a TBP. It is typically assumed that tax capture increases over the life of a project as the property grows in value. Thus, applying a statewide limit on the first year of capture would not cap the amount of State sales, use, and income tax revenue that would be foregone in any later year.

The bill also contains many criteria that would limit the amount of tax capture in an individual TBP. Some of these criteria constitute guidelines on the amount of tax capture approval, but implementation would depend to some extent on their interpretation by State and local officials and in some cases on interpretation by an independent third-party reviewer and consultation with the State Treasurer. Depending on the interpretation and implementation of terms such as "reasonable" amount of tax capture and "the amount determined to be necessary for the project to be economically viable", the captured State revenue could be substantial.

The tax capture would be subject to the following requirements:

- MSF and Local Determination of Reasonable Capture Amounts. The governing body of the authorizing municipality and the MSF would be required to determine that the costs of eligible activities in the TBP and the amount of sales, use, and income tax capture were reasonable.
- Net Benefit Test: The MSF would not be authorized to approve a TBP unless there was a positive net benefit to the State, including consideration of possible displacement of economic activity and development in surrounding areas. A TBP that proposed to capture more than $1.5 million in the first full year of tax capture under the plan would be required to have an independent third party fiscal and economic impact analysis.
- Independent Third-Party Review and Consultation with the State Treasurer. For a proposed TBP that would capture more than $1.5 million in the first full year of tax capture, prior to plan approval, the MSF would be required to consult with the State Treasurer and have an independent third-party review that would address whether the capture amounts were reasonable and the net benefit to the State.
- Economic Viability Test: The MSF could not approve sales and use tax capture and income tax capture beyond that necessary for the project to be economically viable. Economic viability would be determined according to standard underwriting criteria established by the MSF. The capture of 25% or less of the income tax increment revenue would be considered under the bill to meet both the net benefit test and the economic viability test.
- Limit on Income Tax Capture. The bill would limit the capture of income tax to 50% of the income tax capture revenue (except for optional changes due to a renaissance zone), but would not otherwise limit the share of property, sales, or use tax revenue that could be captured.
- Eligible Costs. A TBP would not be authorized to capture revenue in the year after the year in which the total amount of the captured revenue equaled the eligible costs allowed to be funded under the TBP. The eligible activities would include demolition,

construction, restoration, alteration, renovation, improvement of buildings, site improvements, and infrastructure improvements that directly benefitted the site, plus principal and interest costs.

- Timing of Eligible Costs. Use of captured sales and use and income tax revenue would be limited to expenses incurred after the approval of a TBP, plus eligible expenses incurred within 90 days prior to plan approval.
- Review of Actual Capital Investment. At the conclusion of construction and before payments of any reimbursements to an owner or developer, the owner or development would be required to certify the actual amount of capital investment made for eligible activities under the TBP. The MSF would be required to review the underwriting analysis and modify the amount of reimbursement to be consistent with the funds needed to make the project viable according to the underwriting analysis. This review could result in either an increase or a decrease in State tax capture. For a project with actual capital investment that was not at least 90% of that required by the bill based on the population of the project location, the MSF would be authorized to take remedial actions based on the type of project. For a TBP consisting of a single development, the MSF would be authorized to reduce reimbursement under the plan. For a TBP that included phases or multiple projects and where some phase or phases were not undertaken, the MSF could rescind approval of State sales, use, and income tax capture for additional phases or projects, or, if there were an MSF determination that the owner or development acted in bad faith, the MSF would be authorized to reduce the amount of reimbursement for a completed phase.
- TBP Amendments. The bill would require approval of an amendment to a TBP by the municipality and the MSF and require each amendment to be consistent with approval requirements for TBPs.
- Administrative Costs. The bill would permit use of captured revenue for administrative costs of the authority or municipality.

Depending on the underwriting criteria that were developed and the assumptions made in the net benefit analysis, and allowing for a wide variation in what might over time be considered reasonable or necessary, the total approved captured State sales, use, and income tax revenue over the life of a project could be significant. While the "economically viable" standard would presumably limit the amount of the capture, the bill would not set any specific limits. Although the language would permit a capture that could approach the total eligible costs (which presumably would ensure that the project was viable), it would appear to be reasonable to assume that a project would not be approved under such circumstances. However, even if a capture of 15%, 25%, or 50% were approved, the foregone revenue would be substantial. For example, a 15% capture on a $500.0 million project would total $75.0 million. If one project were approved in each of the five investment categories, and subject to a 15% capture, the foregone revenue would total $112.5 million. Similarly, a 25% capture would total $187.5 million.

Under the bill, the State would have access to captured revenue and application fee revenue to cover at least part of the administrative and implementation costs of the TBP program.

The estimated impact of the bill is discussed further by topic.

Determining Net Benefit to the State. The bill would make local and Michigan Strategic Fund approval of a TBP contingent on an economic and fiscal impact analysis finding that the overall impact of the TBP would be positive to the State. The analysis would consider whether the amount of captured State revenue was reasonable and whether the overall fiscal impact on the State was positive. To make this determination, the MSF would be required to carry out a financial and underwriting analysis of the proposed developments. The MSF fiscal analysis would need to consider the potential displacement of tax revenue from other areas of the State and the impact of the development on economic development in the area surrounding the TBP. For projects that proposed to capture more than $1.5 million of sales, use, and income tax revenue in the first full year of tax capture, an independent third-party review and consultation with the State Treasurer also would be required prior to approval of the TBP. The MSF would be required to develop standard underwriting criteria to assess economic viability. The rate of return assumed as part of the underwriting criteria used to determine economic viability of a project would affect the amount of capture allowed for the project and the ultimate net fiscal benefit to the State. The amount of captured State tax revenue could not exceed the amount needed for the project to be economically viable, except for the individual income tax, for which it appears that 25% of the individual income tax revenue from residents of the TBP area could be captured whether or not it was required under the economic viability test.

Automatic Income Tax Capture. The bill would permit the capture of 25% of income tax attributable to a TBP, whether or not it was determined to be necessary by the underwriting analysis. This would tend to delay and reduce the positive net benefit to the State from the TBP.

Sales and Use Tax Capture. The bill would limit the sales and use tax capture to the amount paid by businesses located within the TBP and provide for a mechanism to determine that amount. For businesses with a single establishment, this language would not create any difficulty. However, the language is not clear as to how a business with multiple locations, with only some of the locations within the TBP, would be included. The intent of the bill appears to be to include taxes paid by establishments located within the TBP, not total taxes paid by all establishments of a business with at least one establishment located in the TBP.

Limit on Number of TBPs Approved Annually**.** The bill would limit the number of TBPs that could be approved by a municipality to one per year. The MSF would be limited to approving not more than five TBPs per year, with the exception of municipalities that would qualify for waiver language that would permit the MSF to approve an additional five TBPs pursuant to a waiver and remove the limit on the number approved by a municipality. The waiver conditions would allow additional TBPs in a municipality determined by the Michigan State Housing Development Authority (MSHDA) to be eligible for blight elimination funds under the Federal Housing Finance Agency Innovation Fund for the Hardest Hit Housing Markets, in a municipality that had a State of Emergency under the Michigan Emergency Management Act issued for drinking water contamination (Flint), and for eligible property that is a historic resource for which the MSF has determined that development would not take place without a TBP. For a waiver related to blight elimination eligibility, the bill further specifies that the funding would be limited to specific blight elimination areas listed in the application. The municipalities listed in Table 1 have blight elimination areas that would be eligible for a waiver.

Table 1

Municipalities Eligible for Blight Eliminate Funding
Under the Housing Finance Innovation Fund for the Harder Hit Housing Markets

Adrian	Ironwood	Lansing
Calhoun County	Hamtramck	Melvindale
Ecorse	Highland Park	Muskegon County
Detroit	Inkster	Muskegon Heights
Flint	Ishpeming	Pontiac
Genesee County	Jackson	Port Huron
Grand Rapids	Kalamazoo	River Rouge
		Saginaw

Source: Michigan State Housing Development Authority and Michigan Strategic Fund

Waiver of Minimum Investment Requirements. A TBP approved subject to a waiver also would be exempt from the minimum investment requirements in the bill.

Actual Captured Revenue Compared to Plan Estimates. The bill does not address the impact on tax capture if actual captured revenue were more or less than projected and how the actual results would relate to limits in the bill. For example, if capture of income tax were allowed at $2.0 million out of a total of $10.0 million (which would place the project below the 25% threshold for application of the economic viability test), and captured revenue actually totaled only $5.0 million, then the $2.0 million planned tax capture would exceed the 25% limit during the year.

Income Tax Capture. The bill is ambiguous as to whether the income tax revenue capture and initial income tax value would be before or after credits, such as the homestead property tax credit and earned income tax credit, or if the revenue subject to capture would include all income tax collections for the taxpayer, including withholding, annual, and estimated payments. Some ambiguity remains in the language for determining the income tax capture amount.

Initial Sales and Use Tax Value. Most sales taxpayers are required to submit returns and make tax payments each month. Setting the base year as the year in which a TBP was approved would mean that the data for sales and use tax payments from businesses located within the plan would not be available for months that had already passed. If the Department of Treasury determined these values, they could be different from what was assumed in the TBP.

Definition of "Overall Positive Fiscal Impact". There is uncertainty as to whether overall positive fiscal impact would be measured solely by positive impact on State revenue, or whether other considerations such as local revenue changes or other non-tax State impacts would be taken into account. Similarly, the time frame over which the fiscal impact would have to be positive is unclear. For example, the analysis required by the bill would appear to allow inclusion of years after the capture was completed, effectively nullifying the language from having any practical effect; the analysis could include, for example, revenue over a time period of 50 or 75 years (or longer), until the fiscal impact was positive.

Priority of Distribution of Captured Tax Revenue. There is a question as to the order in which captured revenue would be disbursed. If actual captured revenue were less than projected, it is not clear whether payments under the TBP would be prorated or prioritized. It also is unclear whether a brownfield authority with bonds outstanding for a project would have the first draw on actual captured tax revenue to pay debt service. While the current statute on brownfields requires any bonds to represent a first lien on revenue (not just tax-increment revenue), it is unclear whether these provisions would apply to TBPs and/or any captured sales, use, or income tax revenue.

State Administrative Costs

Department of Treasury. The bill would have an indeterminate, but extensive, administrative cost to the Department of Treasury, and also would increase revenue to the Department. Currently, the Department does not track the geographic origin of sales and use tax revenue. Implementing the sales and use tax capture and payments required by the bill would require the development of the capability to identify the source of sales and use tax revenue by location. This capability would be an issue for all businesses that collect sales and use taxes in multiple locations that include at least one establishment in a TBP. The Department would need to develop a method for calculating sales and use tax revenue from each TBP individually. Though the initial one-time information technology costs to develop the system are unknown, they would be extensive. After the initial, one-time costs, the Department also would have increased ongoing administrative costs under the bill. Ongoing costs would include the deposit of an amount of the General Fund revenue equal to the captured tax revenue due to be transmitted under the TBPs into the State Brownfield Redevelopment Fund; accounting for those funds by each TBP, brownfield authority, or owner or developer; and making required payments within 30 days of deposit of the revenue into the Brownfield Redevelopment Fund. The Department also would need to meet current reporting requirements. The ongoing costs would be significant and involve both additional information technology (IT) services and personnel (FTEs). The bill would provide for the Department of Treasury to charge administrative costs to the TBPs, and thus mitigate the increased costs to the Department. It is unclear at this time how much the Department would need to charge to cover these costs and if the charges could be sufficient for the initial, one-time IT costs to develop the system.

Department of Talent and Economic Development. The bill would result in additional costs and revenue to the Michigan Strategic Fund, within the Department of Talent and Economic Development. These costs would be associated with additional responsibilities under the bill, including the approval, approval with modifications, or rejection of a TBP within 90 days of approval by the governing body of the authorizing municipality. The Michigan Strategic Fund also would be responsible for distributing captured revenue to an authority or owner or developer of eligible property. These changes likely would require additional FTEs and some IT services. The bill would allow the Department to charge TBPs for additional administrative costs. At this time, it is unknown how much the administrative charges would need to be to cover the additional administrative costs.

Local Fiscal Impact

The bill would have a generally positive impact on local revenue over the long term assuming that the projects would not occur without the establishment of a TBP. Each TBP would be considered a brownfield plan with the ability to use tax increment financing and capture property tax revenue. The period before local governments saw increased property tax revenue from development under a TBP would vary based on the characteristics of the plan, particularly the duration of any tax capture period, and the number and value of developments locally. The bill would expand the uses of tax increment financing to include any construction, restoration, alteration, demolition of buildings or improvement of buildings or sites that could increase the magnitude of any tax increment financing and associated capture. Expanding the eligible uses of tax increment revenue would increase the magnitude of the property tax capture, with the potential to increase the capture of local school operating millage and thereby increase costs to the School Aid Fund.

A brownfield authority or municipality with an approved transformational brownfield plan could receive increased revenue, if the terms of the TBP allowed for a portion of the captured sales, use, and income tax revenue to be used for administrative and operating expenses associated with the TBP, including the repayment of the cost of developing the original TBP or the reimbursement of a municipality for advances made for a TBP project, which could include interest. Reimbursement of advances, possibly with interest, also would be allowed to a land bank fast track authority. Advances also could be repaid with interest to any other person or entity for costs of eligible activities within a TBP. This would reduce funds available for new projects. An increase in sales tax revenue due to the TBP would result in an increase in constitutional revenue sharing payments to cities, villages, and townships.

Senate Bills 1062, 1063, and 1064

The bills would reduce General Fund revenue by an unknown and potentially significant amount. Factors that would affect the exact amount of any revenue reduction are discussed below.

Under the bills, captured revenue would be deposited into the State Brownfield Redevelopment Fund and distributed to either: 1) a brownfield authority, which could use the revenue to finance public improvements, environmental remediation activities and/or, as a result of Senate Bill 1061 (S-3), construction, renovation, or improvement of buildings owned by an owner or developer; or 2) the owner or developer of eligible property. Like tax credits distributed to a taxpayer to subsidize an activity, which are not subject to appropriation, the bills would apparently authorize direct expenditure payments to an owner or developer of eligible property without an appropriation. Furthermore, the captured revenue and distributed payments would not be subject to any absolute maximum level of State tax capture per year. As discussed above, Senate Bill 1061 (S-3) would apply limits on eligible activities under individual plans and the total capture in the first year of all plans. This would not, however, provide an effective limit on the State's exposure to sales, use, and income tax capture.

Senate Bill 1062 would reduce individual income tax revenue to the General Fund by an unknown and potentially significant amount. The exact amount would depend on both the economic activity affected by the bill's provisions and the yet-to-be-determined methodology the Department of Treasury developed to calculate income tax capture revenue, as well as the interpretation of terms left undefined in the bill and in Senate Bill 1061 (S-3).

While Senate Bill 1061 (S-3) would define "income tax capture revenues", when the capture amount is specified to be equal to the amount for one tax year, it is unclear whether the language means that a single tax year would be subject to capture, or whether it refers to the full tax year of capture for each tax year. The definition also is unclear as to whether the income tax revenue under the calculation would be income tax liability before or after credits, particularly the homestead property tax credit. Assuming that a full tax year was captured each year, given that the individual income tax liability after credits for tax year 2013 averaged $1,500, the bill would reduce General Fund revenue by approximately $1,500 for each resident domiciled within eligible property. As a result, if 10,000 additional returns were from domiciles within eligible property, the bill would reduce General Fund revenue by $15.0 million. To the extent that incomes of existing residents affected by the bill increased as a result of the transformational brownfield plans, or a broader base such as income tax liability before credits were used, the loss of General Fund revenue would be greater. Similarly, if 30,000 additional returns were affected, the reduction in General Fund revenue under Senate Bill 1062 would total at least $45.0 million.

Senate Bills 1063 and 1064 would reduce sales and use tax revenue to the General Fund by an unknown and potentially significant amount. The exact amount would depend on the economic activity affected by the bills' provisions and the yet-to-be-determined methodology the Department of Treasury developed to calculate sales and use tax capture revenues, as well as the interpretation of terms left undefined in the bills and in Senate Bill 1061 (S-1).

The bills apparently would allow the capture sales and use taxes paid or collected by businesses within eligible property. If 20% of the "expected" levels of capital investment were subject to sales and use taxes, then the revenue loss just from an initial capital investment could total between $300,000 and $6.0 million. If one eligible property from each eligibility level were created, the total reduction in General Fund revenue from the initial investment would equal $9.0 million. To the extent that a higher percentage of the investment was subject to sale and use taxes, or more eligible properties were created, the reduction in General Fund revenue would be greater. Similarly, to the extent that the bills attracted retail activity to eligible property, the reduction in General Fund activity would be greater. School Aid Fund revenue and local unit revenue associated with constitutional revenue sharing would increase by an unknown amount to the extent that any sales tax capture occurred.

Senate Bill 1065

The bill would allow the levy of State and city income tax in a renaissance zone that was in part within a TBP with MSF and local approval. Affected taxpayers within the renaissance zone would no longer be exempt from State and city income tax. Instead, they would pay the State and city income tax that would be captured for distribution under the terms of the TBP to the authority, owner, or developer. This income tax revenue would be foregone by the State and city levying a city income tax, which otherwise would receive increased revenue if the exemption under the renaissance zone were terminated.

Date Completed: 11-29-16

Fiscal Analyst: Elizabeth Pratt
Cory Savino
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.