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BILL ANALYSIS

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Senate Bill 40 (as reported without amendment)
Sponsor: Senator Dale W. Zorn
Committee: Economic Development and International Investment

Date Completed: 2-9-17

RATIONALE

Chapter 8A (21st Century Investment Programs and Activities) of the Michigan Strategic Fund Act requires the Michigan Strategic Fund (MSF) to create and operate the Michigan Business Development Program to provide grants, loans, and other economic assistance to qualified businesses that make qualified investments or provide qualified new jobs in the State. The section that contains these provisions, Section 88r, also defines "qualified new job" for this purpose. The definition does not include a job performed by an individual who works within the State but lives across a Michigan border in another state (such as Indiana or Ohio). Reportedly, several businesses wished to expand into a southern Michigan county bordering another state but were unable to qualify their companies and the new jobs for economic assistance under the Program. Some believe that this policy places Michigan at a competitive disadvantage, as firms are not given financial assistance to locate along the Michigan-side of a state border, while other states apparently offer more options for economic assistance than Michigan does. It has been suggested that amendments to the Act should address this concern.

CONTENT

The bill would amend Chapter 8A of the Michigan Strategic Fund Act to include in the definition of "qualified new job" a job performed by an individual who is not a resident of the State but is employed by a business that is located in a county in the State that borders another state or country and who works at a project located in the State.

Section 88r, in Chapter 8A, requires the Michigan Business Development Program to provide for all of the following:

-- Grants, loans, and other economic assistance to assist qualified businesses in making qualified investments and providing new jobs in the State, with preference given to qualified businesses that need additional assistance for deal-closing and for second stage company gap financing.
-- A detailed application, approval, and compliance process published and available on the MSF's website that meets specific criteria outlined under Section 88r, including requirements regarding a written agreement between the MSF and a qualified business.

In any fiscal year, a qualified business may not receive more than $10.0 million for a project funded under Section 88r.

"Qualified business" means a business that is located in or operates in, or will locate or operate in, the State as determined by the MSF. A qualified business may include more than one business. "Qualified investment" means investment in the State related to a project subject to a written agreement.

"Qualified new job" means a job performed by an individual who is a resident of the State whose Michigan income taxes are withheld by an employer, or an employee leasing company or professional employer organization on behalf of the employer, that exceeds the number of jobs maintained by the qualified business in the State prior to the expansion or location, as determined and verified by the MSF. The bill would include a job performed by an individual who is not a resident of Michigan but is employed by a business that is located in a border county and works at a project located in the State as described in a written agreement, in excess of the number of jobs maintained by the qualified business in Michigan before the expansion or location.

MCL 125.2088r

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

There are many businesses located in Michigan border counties that employ people from other states; for example, 4,400 people are reported to drive into Berrien County to work from outside the State. The State, however, is not able to provide businesses with adequate economic assistance to generate more development in those border counties. Specifically, Michigan is at a competitive disadvantage compared to bordering states that have aggressive economic development options for businesses that are interested in operating or expanding. Indiana, for example, attempts to lure businesses located on the Michigan-side of the border to move to Indiana in exchange for free buildings, tax credits, or other incentives. Moreover, businesses operating on the other side of the Michigan border are able to "steal" employees working in Michigan and further reduce the State's already depleted workforce (for instance, luring workers in Monroe County to work in Toledo, Ohio). This compounds the issue, as businesses seek locations with an ample workforce to support their operations, which the State lacks in border counties such as Lenawee County and St. Joseph County. Those counties have unemployment rates of 3.6% and 3.4%, respectively, according to the U.S. Bureau of Labor Statistics (December 2016).

It is important that Michigan entice businesses to locate or expand throughout the State, including in border counties. A business investment or relocation creates a reliable tax base and generates additional financial contributions to the local community (such as the employment of local electricians and builders). Furthermore, any workers from out-of-State presumably would spend money on Michigan products and services while they worked in the State. Additional businesses on the Michigan border also would have the potential to motivate employees living out-of-State to move to Michigan.

Employees should be qualified by where they work instead of where they live. Companies do not care about borders; they will locate where they can be profitable. Michigan's economic development policies should be aligned with modern business operations and needs. The bill would level the competition between State counties that border other states and Canada by ensuring that those counties had a tool to attract additional business, industry, and employment; and would assist in the development of border counties throughout the State.

Opposing Argument

A previous version of this legislation included a provision that would have required an employee working in Michigan but living out-of-State to work at the Michigan business location at least 50% of the time each year in order for his or her position to be considered a "qualified new job". Under the bill, however, hypothetically a person could work briefly at a business location and be considered to fill a "qualified new job". Under this circumstance, it is difficult to see how any economic assistance provided to the business would benefit the State.

Response: Business development is about jobs and facility expansion, which can be accomplished whether a person works at a Michigan business location 1% or 50% of the time. The 50% requirement appeared to be arbitrary and would complicate negotiations with companies seeking economic assistance.

Legislative Analyst: Drew Krogulecki

FISCAL IMPACT

The bill would have a minimal impact on the Department of Talent and Economic Development, but would not result in an overall increase in the total spending on economic development-related programs. The Department, which houses the Michigan Strategic Fund, would experience some additional costs to modify the system for calculating a "qualified new job". These costs would be minimal and likely within current appropriation. It is likely that 21st Century Investment Programs that use a "qualified new job" definition in calculating the incentive would have increases in the individual awards/grants to individual recipients/projects. However, since these programs cap the amount that can be awarded in total or in a single year, this bill would not result in additional costs beyond the caps placed on these programs or total appropriations.

The bill would have no fiscal impact on local government.

Fiscal Analyst: Cory Savino

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