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

BILL ANALYSIS

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

Senate Bill 242 (Substitute S-1 as reported)
Senate Bills 243 and 244 (as reported without amendment)
Sponsor: Senator Jim Stamas (S.B. 242)
Senator Wayne Schmidt (S.B. 243)
Senator Steven Bieda (S.B. 244)
Committee: Economic Development and International Investment

CONTENT

Senate Bill 242 (S-1) would add Chapter 8D to the Michigan Strategic Fund Act to do the following:

-- Require the Michigan Strategic Fund (MSF) to create and operate the Good Jobs for Michigan Program, to authorize the transfer of dedicated portions of withholding tax capture revenue to authorized businesses that provided certified new jobs in the State.
-- Create the "Good Jobs for Michigan Fund" and require money in the Fund to be used for distributions to authorized businesses and MSF administrative expenses.
-- Allow an eligible business to apply to the MSF to enter into a written agreement that authorized the payment of withholding tax capture revenue to the business.
-- Prescribe criteria for an agreement between an eligible business and the MSF, including a minimum number of certified new jobs the business would create and maintain at a facility in the State.
-- Provide that an eligible business would be an authorized business, and the payment of withholding tax capture revenue would be binding on the State, when an agreement was executed.
-- Provide that the maximum duration of withholding capture tax revenue would be five or 10 years, and the maximum amount would be 50% or 100%, depending on the average annual wage of the certified new jobs.
-- Require the MSF to determine the duration and amount of the withholding tax capture revenue by comparing the average annual wage paid by an eligible business with the prosperity region average wage.
-- Require the State Treasurer to calculate the amount of withholding tax capture revenue collected as a result of certified new jobs and the percentage of that amount to be deposited into the Good Jobs for Michigan Fund for payments.
-- Prohibit the MSF and the Department of Treasury from executing more than 15 new written agreements each year for authorized businesses, and from committing more than $250.0 million in total withholding tax capture revenue.
-- Require the MSF to issue a certificate to an authorized business each year.
-- Specify that if an authorized business failed to satisfy and maintain the minimum number of certified new jobs, or any other condition required under Chapter 8D or the written agreement, the authorized business would forfeit its payment for that calendar year.

The bill also would amend Section 9 of the Act to require the MSF's annual report to the Legislature to include certain information pertaining to written agreements executed under the Good Jobs for Michigan Program.

"Eligible business" would mean a business that proposes to create a minimum of 500 certified new jobs in the State with an average annual wage that is equal to or greater than the prosperity region average wage or, if the business proposes to pay an average annual wage that is equal to 125% or more of the prosperity region average wage, 250 certified new jobs. The term would not include retail establishments, professional sports stadiums, casinos, or that portion of an eligible business used exclusively for retail sales.

"Certified new job" would mean a full-time job created by an authorized business at a facility in the State that is in excess of the number of full-time jobs that authorized business maintained in the State before the expansion or location, as determined by the Fund.

"Prosperity region" would mean each of the 10 prosperity regions identified by the Department of Technology, Management, and Budget on the bill's effective date.

<u>Senate Bill 243</u> would amend the Income Tax Act to do the following:

-- Require an amount of income tax revenue equal to the portion of withholding tax capture revenue attributable to certified new jobs to be deposited into the Good Jobs for Michigan Fund for payment to an authorized business participating in the Good Jobs for Michigan Program.
-- Require the employer to delineate in its tax return or report the portion of taxes withheld and paid to the State that were attributable to certified new jobs.

<u>Senate Bill 244</u> would amend the revenue Act to allow a person to disclose the information required for a report under Section 9 of the Michigan Strategic Fund Act for programs with new written agreements entered into after the bill's effective date, for programs operated under the MSF Act.

MCL 125.2009 et al. (S.B. 242)
206.711 et al. (S.B. 243)
205.28 (S.B. 244)

Legislative Analyst: Jeff Mann

<u>FISCAL IMPACT</u>

<u>Revenue Impact</u>

Relative to current law, the bills would reduce revenue to the State General Fund by an unknown amount that would depend on the number of agreements that the Michigan Strategic Fund entered into, the specific terms of those agreements, and the location of the activities covered by the agreements. However, the net impact of the bills on the General Fund is indeterminate and would depend on the tax capture rates approved under any agreements. While the bills would require the MSF to determine that an agreement would result in an "overall positive fiscal impact to the state", the bills would not require agreements to exhibit a net positive impact on the General Fund; thus, any net positive impact could include increased revenue to funds other than the General Fund. Without considering any overall net positive impact on State revenue, the bills would not limit the reduction in General Fund revenue in any given year but would provide a $250.0 million limit on the total reduction over the life of all agreements entered into under the bills.

The specific withholding capture under an agreement would depend on the average wage in the area covered by the agreement, as well as the wage for any certified new job. Statewide, private sector wages averaged $24.09 per hour in 2016, although that average varied from $18.57 per hour in Muskegon to $27.77 per hour in Ann Arbor. In the State's two largest metropolitan areas, the hourly wage averaged $26.10 in the Detroit-Warren-Dearborn area and $23.24 per hour in the Grand Rapids area. Using the statewide average, and assuming working 2,080 hours per year with an effective 3.25% withholding rate after accounting for personal exemptions, the minimum annual withholding subject to the bills would total $1,628 per employee. For firms required to provide at least 500 certified new jobs, the minimum withholding subject to the bills would total approximately $407,120 per year (or $2.0 million over the maximum five-year life of the agreement); while for firms required to provide at least 250 certified new jobs, the minimum withholding subject to the bills would total approximately $508,900 per year (or $5.1 million over the maximum 10-year life of the agreement). Assuming 15 new agreements per year, the impact of the bills would increase over time until the $250.0 million cap had been reached (suggesting the maximum of number of agreements would be 122).

To the extent that the certified new jobs represented actual new employment that would not have occurred absent the bills (and Senate Bill 242 (S-1) would require that taxpayers entering into an agreement to state such a condition, and does not appear to allow agreements for "jobs retention"), the bills would likely result in a net positive fiscal impact on the State, especially in cases where the captured portion of withholding could not exceed 50% of the withholding from jobs covered by the agreements. However, the bills would result in a change in the way revenue would be split between funds. Under current law, a new job paying $55,000 (approximately 10% more than the statewide average wage) and subject to an effective 3.25% rate (after exemptions) will increase General Fund revenue by $1,362 and School Aid Fund revenue by $425. Under the bills, a new job covered by an agreement would generate $894 at the 50% capture rate, or $1,788 at the 100% capture rate, in revenue for the Good Jobs for Michigan Fund, to be paid to the taxpayer. However, revenue to the Good Jobs for Michigan Fund would be disbursed after distributions to the School Aid Fund and the Michigan Transportation Fund. As a result, the net impact would be a $425 gain to the School Aid Fund, but either a $468 gain or a $425 loss to the General Fund, depending on whether the wages were subject to capture at a 50% or 100% rate. Excluding most other secondary effects, presumably a portion of the $55,000 in income would be spent on items taxable under the sales tax. If 35% of the income were spent on items subject to the sales tax, it would increase sales tax revenue by $1,155, of which $847 would be directed to the School Aid Fund, $115 to constitutional revenue sharing to local units of government, and the remaining $193 to the General Fund. Accounting for such an increase in sales tax revenue, and combined with the impact on individual income tax revenue, the bills would increase School Aid Fund revenue by $1,272 but the impact on the General Fund would either be a $661 increase or a $232 loss, again depending on the capture rate (although the combined net increase in State revenue of would range from $1,040 to $1,933). In comparison, under current law, the General Fund would increase by $1,555 and the School Aid Fund would increase by $1,272 (a net increase of $2,827). This example serves to illustrate that the expected fiscal impact of the bills on the General Fund could be negative, even if the overall fiscal impact on the State were positive and the jobs were new jobs that would not exist absent the bills.

Senate Bill 242 (S-1) would place several requirements on proposals covered by the agreements, but some of these requirements lack definitions or details. For example, plans for an expansion would have to be "economically sound", but that term is not defined in the bill. Similarly, the bill would require the use of an industry-recognized regional economic model cost-benefit analysis, but does not indicate who would be responsible for conducting the analysis (the taxpayer, the Michigan Strategic Fund, the Department of Treasury, a disinterested third party, etc.). Also, although a variety of additional assumptions are often required in order for such models to produce accurate results, the bill does not indicate what factors and assumptions should be included in the analysis.

Finally, while the bill would earmark revenue to the Good Jobs for Michigan Fund, any payments from the Fund to businesses participating in agreements would appear to be subject to appropriation.

Administration

The bills would result in the need for additional appropriations for the Department of Treasury and the Department of Talent and Economic Development. The Department of Treasury would incur additional administrative expenses due to administering the Good Jobs for Michigan Fund. Under the current methodology that Treasury uses to calculate administrative costs, the Department would spend at most $125,000 to administer the Fund, assuming it received the full $250.0 million in withholding tax capture revenue. The Department also would have similar one-time costs associated with creating the Fund, which would be minimal. Since the Department would not be guaranteed any of the 5% of the Fund allowed for administration, the Department of Treasury would need to bill the Department of Talent and Economic Development an administrative fee or cover those costs within current appropriations.

The Department of Talent and Economic Development, which houses the Michigan Strategic Fund, also would incur additional expense in order to develop and administer the application, approval, and compliance process. Senate Bill 242 (S-1) would allow up 5% of the proposed Fund to be used for the MSF's administrative costs; this allocation would equate to $12.5 million if the full $250.0 million were received. This would likely be more than sufficient to cover the administrative costs of the Department of Talent and Economic Development.

Date Completed: 3-24-17

Fiscal Analyst: Cory Savino
David Zin