SFA BILL ANALYSIS

Senate Fiscal Agency • Lansing, Michigan 48909 • (517) 373-5383

House Bill 5419 (Substitute H-2 as reported without amendment)
Sponsor: Representative Lad Stacey
House Committee: Taxation
Senate Committee: Economic Development

Date Completed: 4-6-90

RATIONALE

In 1985, the Legislature authorized the creation of an "enterprise zone" in Benton Harbor, an economically devastated city of under 15,000 people in southwestern Michigan. The concept of the enterprise zone became popular during the 1980s as an alternative method of stimulating economic development, a method that emphasized the removal of suspected barriers to development rather than programmatic intervention. The underlying argument was that reducing taxes and government regulation in a special targeted area would produce increased economic activity there. Although the Enterprise Zone Act was drafted in general terms, only Benton Harbor met the criteria for a city to participate: an unemployment rate over 25%; median family income less than 55% of the State average; an average millage rate over 30 mills; and a State equalized valuation (SEV) of under $4,000 per capita. The Act granted to qualified new or expanding businesses in the enterprise zone a 60% reduction in local property taxes, and two companion Acts granted them a credit against the single business tax, and an exemption from sales and use taxes for certain purchases. Originally, the city had two years from the date the zone was created (July 31, 1986) to certify businesses, but this deadline was extended for another two years in 1988.

The Enterprise Zone Act also created a seven-person authority to provide assistance and to conduct evaluations. The authority's membership includes representatives of the Departments of Treasury and Commerce, as well as members from outside State government. The authority's first analysis of the effects of the enterprise zone experiment was presented in October 1989. That analysis apparently recommended that the enterprise zone program in Benton Harbor be continued, but also suggested a number of changes to increase the effectiveness of the program, some of which require amending the enabling Act. It has been suggested, therefore, that the program be extended for four more years, and that the Legislature implement the authority's other recommendations; i.e., lowering the property tax rate for existing business property (which get no benefit now) to the statewide average rate, allocating all the tax revenue from enterprise zone businesses for city infrastructure improvements, and reducing the amount of investment an expanding business must make to qualify for enterprise zone benefits.

CONTENT

The bill would amend the Enterprise Zone Act to do all of the following:

-- **Extend the enterprise zone program for four more years by allowing the certification of businesses for up to eight years after the zone was approved.**
-- **Change the disbursement of revenue from the specific tax on**

property in the enterprise zone.

- **Change the method of calculating the current specific tax on enterprise zone property and apply the tax to property for which a plant rehabilitation exemption certificate had been issued and revoked.**
- **Provide for two new categories of property in the enterprise zone that would be exempt from property taxes; i.e., property for which a plant rehabilitation and industrial development tax exemption certificate had been issued and then revoked, and commercial, industrial, and utility property not otherwise exempted.**
- **Change the definition of "new facility", a category of property eligible for property tax exemption under the Act.**

The bill would apply to the 1990 tax year and succeeding tax years.

New Definition

The Act currently defines "new facility" as real or personal industrial or commercial property located in an enterprise zone, the construction, restoration, alteration, or renovation of which begins after the date on which the business applies with the local governmental unit for certification as a qualified business, but not more than 30 months after the date on which the authority approves the enterprise zone.

The bill would delete the language specifying the 30-month deadline; specify that for a qualified existing business certified after April 1, 1990, a new facility would include only the portion attributable to the restoration, alteration, or renovation; and provide that in order for improvements of existing property to qualify as a new facility the true cash value of the improvements would have to equal or exceed 50% (rather than equal 100% as currently provided) of the true cash value of the property before the improvements.

Plant Rehabilitation Property Tax Exemption

The bill provides that, at the request of the owner, property that was located in an enterprise zone at the time the zone was approved and for which there was a tax exemption certificate issued under the plant rehabilitation and industrial development Act that was revoked after April 1, 1990, would be exempt from ad valorem real and personal property taxes for the balance of the period for which the exemption certificate had been issued.

Further, the bill provides that the specific tax currently assessed on exempted new facilities and property owned by qualified new businesses in an enterprise zone also would apply to property for which a plant rehabilitation and industrial development certificate had been revoked that received a property tax exemption under the bill. The specific tax for both categories of property would be 50% of the average rate of taxation levied on other property on which ad valorem taxes are assessed. Currently, the annual specific tax is 40% of the total millage levied as ad valorem real and personal property taxes for that year multiplied by all taxing units within which the property is located. The Act also provides that revenue from the annual specific tax levied on exempted property is to be disbursed to the local unit of government, downtown development authority, and tax increment finance authority in which the property is located. The bill would delete language providing for disbursement to downtown development and tax increment finance authorities.

Commercial, Industrial, and Utility Property Tax Exemption

The bill would establish another new category of enterprise zone property that would be exempt from property taxes; i.e., commercial, industrial, or utility property that was located in an enterprise zone at the time the zone was approved, and that was not exempt from property taxes by virtue of being a new facility owned by a qualified existing business; property, located in a zone, owned by a qualified new business; or property located in a zone for which a plant rehabilitation and industrial development certificate was revoked and the exemption was extended. The new exemption would apply, however, only to commercial, industrial, or utility property located in a local governmental unit that did all of the following:

- Developed a comprehensive development plan that addressed the needs of the local governmental unit and included a strategy for achieving the goals of the local government unit and its residents and businesses. The development plan would have to contain a spending plan, approved by a resolution of the authority, for the additional money received as a result of the bill. The bill states that money included in the spending plan also would be subject to the annual appropriation process of the local governmental unit as required by law.
- Created and compensated the position of an enterprise zone assistant to oversee development of the spending plan and aid in other economic development efforts.
- Used not less than 10% of the money distributed under the spending plan to create a revolving loan fund for small businesses that have difficulty obtaining financing in existing markets.

The annual specific tax on this property would be determined by multiplying the total millage levied as ad valorem real and personal property taxes for that year by all taxing units within which the property was located by the SEV of that property, excluding the exemptions granted under the Act. The tax would be payable to the same officer or officers as taxes imposed under the General Property Tax Act with one-half of the tax levied on July 1 and one-half levied on December 1. The officer or officers would be required to disburse the tax payments received each year to the same local governmental unit, school districts, county, and authorities at the same times and in the same proportions as required by law for the disbursement of property taxes, except that:

- The amount that otherwise would be disbursed to a local school district for school operating purposes would have to be paid instead to the local governmental unit in which the property was located.
- The local governmental unit in which the property was located would have to be paid a portion of the tax that otherwise would not be paid to the local governmental unit equal to the proportion of property taxes levied on commercial and industrial property in the year before the exemption first applied, which proportion was captured under a tax increment financing plan.

A local governmental unit that received money under these provisions could enter into an agreement with any of the following:

- A downtown development authority or tax increment finance authority to share a portion of the money received by the local governmental unit in not more than the same proportion that the authority would have received if the tax levied could have been captured under a tax increment financing plan.
- A taxing unit that received revenue under these provisions to share a portion of the money received by the local governmental unit not to exceed the taxing unit's net reduction in revenue pursuant to the exemption proposed for commercial, industrial, or utility property by the bill.

The owner of property subject to the tax could claim a credit against the tax levied on December 1 for the sum of all the following, provided the sum was not more than the amount by which the tax levied for the year exceeded the amount determined by multiplying the average rate of taxation levied upon other property upon which ad valorem taxes are assessed by the SEV of that property, excluding the exemptions granted by the Act:

- The amount spent in the year to restore, alter, renovate, or improve real property located in the enterprise zone.
- 15% of wages paid during the year to residents of the enterprise zone who were hired by the owner after the effective date of the bill.
- 25% of wages paid during the year to residents of the enterprise zone who were not employed for at least six months prior to being hired by the owner after the effective date of the bill.
- Cash and in-kind contributions made by that owner during the year to and accepted by a local taxing unit located in the enterprise zone

MCL 125.2103 et al.

FISCAL IMPACT

The Michigan Enterprise Zone Authority reports that the bill would increase State school aid payments by $1.3 million.

ARGUMENTS

Supporting Argument

The bill would implement recommendations made by the Michigan Enterprise Zone Authority for improving the operation of the Benton Harbor enterprise zone. According to the authority, the enterprise zone is gaining momentum. City officials say that in the last two years tremendous strides have been made, including streamlining city government and investing in the city's infrastructure. Some 20 firms certified by the authority and operating in the city will have invested over $14 million in the city by the end of 1990, creating over 140 new jobs. Half of those jobs will go to Benton Harbor residents. Annual property taxes paid to the city will increase by about $235,000 by 1990. This bill would make the operation of the zone more effective by offering tax reduction incentives to existing businesses that invest in their property, create new jobs, or help improve the city's infrastructure; mandating the adoption of a comprehensive economic development plan for the city; establishing a revolving loan fund to help small business with financing problems; generating substantial new revenue for the city by dedicating to the city taxes that would otherwise go to the school district (with the State making up lost school revenue); and encouraging new and existing businesses to invest in Benton Harbor by reducing the amount of investment necessary for a business to receive enterprise zone benefits.

Opposing Argument

Several objections have been raised to specific provisions in this bill. There is opposition to the requirement that the city hire a special person to oversee the enterprise zone on the ground that local officials should be allowed to make that kind of management decisions without interference by the State. There also is opposition to the city's operating a revolving loan fund for small businesses, since the extension of credit should be a private sector function or, at least, should not to be a function performed by a local unit of government. Finally, some people believe that there should be residential property tax relief available in an enterprise zone as well as relief for commercial and industrial enterprises.

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