House
Legislative
Analysis
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STRATEGIC FUND: PROPERTY TAX EXEMPTION

Senate Bill 227 (with House committee amendments)
First Analysis (11-23-87)

Sponsor: Sen. Dick Posthumus
Senate Committee: Finance
First House Committee: Economic Development and Energy
Second House Committee: Taxation

THE APPARENT PROBLEM:

The Michigan Economic Development Authority (MEDA) Act of 1982 established a research center fund to create special nonprofit research and development enterprises to be known as "centers of excellence." The Michigan Strategic Fund Act, which replaced the MEDA Act, was designed in part to provide financial assistance to research and development enterprises, specifically those whose principal functions are the discovery of new substances and the refinement of known substances, processes, products, theories, and ideas. Businesses that primarily accumulate or analyze commercial, financial, or mercantile data are excluded from receiving aid. The act specifies that technologies aided should serve as a foundation for future job growth or retention in the state, and to establish Michigan as a center of excellence in high technology. The Department of Commerce says that the "centers of excellence" were intended to be tax-exempt as long as they remained nonprofit entities carrying out the kind of research and development encouraged by the Strategic Fund Act. Underlying this view is the exemption in the General Property Tax Act for a variety of nonprofits, including scientific institutions. There is, however, no statutory definition of a "scientific institution," and in 1985 the city of Ann Arbor placed on its property tax rolls one of the state-funded "centers of excellence," the Industrial Technology Institute (ITI). In a case applying to the 1985 and 1986 tax years, the Tax Tribunal said ITI is tax exempt (although early in the process a tribunal hearing referee said ITI was not exempt because the legislature's intent was in doubt). The ruling is being appealed and meanwhile ITI and Ann Arbor are arguing over 1987 taxes. One way to settle the issue is for the legislature to make it clear in the Strategic Fund Act that it intended nonprofit research and development enterprises to be tax exempt.

THE CONTENT OF THE BILL:

The bill would amend the Michigan Strategic Fund Act to exempt from property taxes property owned and used or occupied by a nonprofit research and development enterprise that receives, or has received, financial aid of $1 million or more under the act or under the Michigan Economic Development Authority Act (which was repealed by the Michigan Strategic Fund Act). The property tax exemption would apply only while the property was used or occupied by a nonprofit research and development enterprise whose sole purpose was "performing research and development in present and emerging technology" and applying that technology to business and industry. The enterprise would also have to retain its nonprofit status under section 501 (c) (3) of the Internal Revenue Code.

MCL 125.2074

HOUSE COMMITTEE ACTION:

The House Taxation Committee added two technical amendments to take into account the fact that the tax exemption applies to personal property as well as real property.

FISCAL IMPLICATIONS:

According to testimony before the House Taxation Committee, at issue is ITI's 1987 property tax bill from Ann Arbor of about $700,000. The state is a major source of ITI's funding.

ARGUMENTS:

For:

The legislature should make it clear that research and development enterprises founded and funded under the MEDA Act or its successor, the Michigan Strategic Fund Act, are exempt from property taxes. One of the major goals of the MEDA Act was to promote the growth and diversification of the state's economy. One means of accomplishing that is to encourage the creation of nonprofit research and development enterprises so that industries working in emerging technologies and new products will locate and thrive in Michigan. For the state to remain one of the leading producers of durable goods and retain the associated jobs and commerce, it is essential that the scientific, educational, and industrial communities work together. The bill specifies that the property of these research and development enterprises would remain tax exempt to eliminate doubt in the minds of local assessors and to avoid spending state aid to "centers of excellence" on local taxes instead of the intended purposes. This is what two administrations have thought was the case from the beginning.

Response: If clarification is what is desired, why not wait for the courts to decide the issue? Further, it does not seem a good argument that nonprofits should be tax exempt because they get their money from state government rather than working to raise funds elsewhere.

Against:

The fact is that when a property tax exemption is granted at the state level, a particular community is negatively affected. A tax-exempt facility obviously must be located in some specific community, and the taxpayers of that community must pay for the public services provided to the tax-exempt facility. This is a hardship to the local community, whose residents must bear a higher tax burden to subsidize a facility whose benefits flow to all residents of the state. This situation is particularly acute in Ann Arbor,

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where reportedly 53 percent of all property in the city is tax exempt. At the very least there should be a requirement that tax-exempt facilities of certain kinds make payments in lieu of taxes to the communities in which they are located. There is precedent for this: the state is supposed to reimburse local units to cover fire protection for state-owned facilities. Where the state overrides local objections in granting tax exemptions, arrangements also should be made to compensate local units.

Response: Surely, Ann Arbor benefits from ITI's presence more than it is harmed. Doesn't the existence of the research enterprise create jobs and attract other related enterprises? Many communities would gladly accept the promise of future prosperity from such a tax-exempt facility.

POSITIONS:

The Department of Commerce supports the bill. (5-12-87)