House Legislative Analysis Section

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IRON ORE MINING POWER PLANT

House Bill 4775 as enrolled
Second Analysis (12-22-87)

Sponsor: Rep. Dominic Jacobetti
House Committee: Taxation
Senate Committee: Finance

THE APPARENT PROBLEM:

Nationwide, the demand for iron-ore production has dropped in recent years along with the decline in the steel industry, and predictions are that the iron ore industry will continue to shrink in the future. Iron ore pellets will still be needed, however, by the steel plants that survive. Some iron industry observers say that while many mines have closed in recent years, the mines that can remain open will be in a competitively advantageous position.

In order to keep two mines in the Marquette area economically viable, representatives from Cleveland Cliffs have been working with representatives from the Department of Commerce and Department of Treasury to deal with the mines' financial difficulties. One proposal involves removing from the property tax rolls, for 1987 only, the power plant (the Presque Isle generating station in Marquette) that provides power on a first use basis to the mines and placing the facility instead under the low grade iron ore tax (Public Act 77 of 1951). This proposal, which may become part of a package of mine-related measures yet to be completed, would provide valuable savings to the mines.

Some people argue that the power facility targeted by the bill should be subject to the low grade iron ore tax anyway, instead of property taxes, since Public Act 77 defines low grade iron ore property to include "...buildings, facilities, equipment, tools, and supplies used in connection with the mining...of the low grade iron ore." There are others who feel that, regardless of the status of the property, since about 2,000 jobs depend upon the mines, and since closed mines are prohibitively expensive to reopen, the state should make every effort to help the mines succeed.

THE CONTENT OF THE BILL:

The bill would amend the low grade iron ore specific tax act to include within the definition of "low grade iron ore mining property," for the 1987 tax year only, any coal-fired power generating facility or a portion of the facility that met the following conditions:

- Has a manufacturer's rated capacity of 400 megawatts or less and produced power that for 1987 is reserved for use by other low grade iron ore property before it is used for other purposes.
- Is owned, directly or indirectly on tax day of the 1987 tax year by a person or corporation owning, directly or indirectly, at least 15 percent of the other mining property for which the power is reserved.

As mining property, the facility would not be subject to the General Property Tax Act but would be subject instead to a specific tax on a mine's annual capacity or ore production. The facility owner would have 30 days after the bill's effective date to certify the portion of the facility reserved for first use by the mining operation for 1987.

The bill would also make an appropriation of $1,651,000 from the general fund to reimburse local units and school districts for property taxes lost, not including school aid payments, due to the removal of the power facility from property tax rolls.

The bill is tie-barred to Senate Bill 130 (the appropriations bill for the Department of Social Services) and House Bill 4280 (the school aid appropriations bill).

MCL 211.621 et al.

FISCAL IMPLICATIONS:

The bill would cost the state $3.6 million in fiscal year 1987-88, according to the Senate Fiscal Agency. This includes an extra $1.95 million in school aid to the Marquette School District. The remaining $1.65 million would be appropriated to the city and county of Marquette to reimburse them for revenue lost due to the property tax exemption. (12-9-87)

ARGUMENTS:

For:

The bill would provide a one-time shot in the arm for the threatened iron ore mines, help save about 2,000 jobs, and thus benefit the economy of the Marquette area. The bill's aim is to help keep two Michigan iron ore mines open by treating the power plant that supplies them with power as if it were property subject to the specific tax on iron ore sites rather than the property tax. While it may seem incongruous to grant substantial state support to an industry that is shrinking from its previously robust production levels, there are those who argue that the modernized and retooled mines that remain open to supply the steel industry with iron ore will have a great advantage over those that have closed. The steel industry will buy iron ore pellets form a source that can provide quality pellets at the lowest price, and can maintain a steady, reliable supply. Because of their proximity to Lake Superior, the Michigan mines have a geographic advantage over many mines in other states. If the Michigan mines can remain open and avoid the prohibitive expenses involved in the reopening of a closed mine, they would have a favorable position in the market.

Against:

The bill represents, for all practical purposes, a grant to the companies that own and manage the mines. While it may be an entirely worthy cause for the state to support the continued financial viability of the mines, it must be asked whether this is the best use for the approximately $3.6 million needed to reimburse local units for the excused property taxes in light of the state's own budget cuts.

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Furthermore, the bill contains no safeguards. If the state is going to invest money to benefit these mines, there should be some assurances that the mines can continue to operate. As it stands, the bill would place no conditions on the money regarding how or when a plan to continue the operation of the mine would be implemented. The state has a responsibility to the taxpayers to oversee this expenditure closely.

Response: Unfortunately, regardless of any conditions the bill might impose to ensure that the mines remain open, this legislation cannot guarantee success. It is in the state's best interest, and particularly the interests of those in the Marquette area, that the mines be economically viable. Representatives from the mines have testified that their plans for continuing mine operations are well underway, so placing restrictions on state support at this time is unnecessary.