SFA BILL ANALYSIS

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

House Bill 4775 (Substitute S-4 as reported)
Sponsor: Representative Dominic Jacobetti
House Committee: Taxation
Senate Committee: Finance

Date Completed: 12-9-87

RATIONALE

Nationwide, the demand for iron-ore production has dropped in recent years along with the shrinkage of the steel industry, and predictions are that the iron ore industry will continue to get smaller in the future. Iron ore pellets will still be in need, however, by the steel production facilities that remain open or retool. While some mines have been forced to close in recent years, there are those who contend that once production levels stabilize, the mines that remain 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 that has been advanced 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 provisions (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.

There are those who 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 are dependent upon the mines, and that once a mine is closed it is prohibitively expensive to reopen, the State should make every effort it can to see that the mines remain financial viable and open.

CONTENT

The bill would amend Public Act 77 of 1951, which imposes a tax on low grade iron ore, to provide that a coal-fired power generation facility that met the specific criteria of the bill, would be considered low grade iron ore mining property, for 1987 only, for purposes of taxation under the Act. Under the Act, property that qualifies as low grade iron ore mining property is removed from the tax rolls under the General Property Tax Act and is taxed instead on a formula involving a percentage of a mine's annual capacity or production in gross tons. The bill would also make an appropriation of $1,651,000 from the State's General Fund to reimburse local units and school districts for reductions in property tax revenue that they would incur by having a power generating facility removed from the property tax rolls. The appropriation would not include payments to school districts made under the State School Aid Act.

Under the bill, a coal-fired power generating facility or portion of a facility would be considered low grade iron ore mining property if it 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" (not defined) by a person or corporation that owns, directly or indirectly, at least 15% of the other mining property for which the power is reserved.

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.

SENATE COMMITTEE ACTION

As passed by the House, the bill provided that as a condition of granting the power facility the property tax exemption, the Director of the Department of Commerce would have to certify the following: a) a plan that ensured the continued operation of the mining property had been submitted and implementation seemed assured; b) a new labor contract with the mining operation's employees had been negotiated and signed; and, c) the debt of the mining operation had been restructured to reduce annual debt service costs.

The Senate Finance Committee adopted a substitute for the bill to remove this provision. The substitute also contains a provision to tie-bar the bill to Senate Bill 130 (the appropriations bill for the Department of Social Services) and House Bill 4280 (the School Aid appropriations bill.)

FISCAL IMPACT

House Bill 4775 would result in increased State expenditures of $3.6 million in FY 1987-88. This appropriation would include $1.95 million of increased State School Aid payments to the Marquette School District. The remaining $1.65 million would be appropriated to the City and County of Marquette to reimburse those local units for the revenue loss from the property tax exemption.

ARGUMENTS

Supporting Argument

The bill would provide a one-time shot in the arm for the threatened iron ore mines, preserve the employment of

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around 2,000 people, and thus benefit the Marquette area in general. The bill's aim is to help keep two Michigan iron ore mines open by treating the power plant, that supplies them with power on a first use basis, as if it were subject to the specific tax on iron ore sites and not 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 mine, they would have a favorable position in the market.

Opposing Argument

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 the approximately $3.6 million needed from the State, to reimburse local units for the excused property taxes, could be better spent in other ways, or should be spent at all in light of the fact that State budgets are currently being cut. In addition, the bill contains no safeguards. If the State is going to invest money to the benefit of 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, the legislation cannot guarantee success. For the many reasons stated above, it is in the State's best interest, and particularly the interests of those in the Marquette area, to see to it that operation of the mines remain economically feasible. The representatives from the mines have testified that their plans for continuing the mines are well underway; therefore, placing restrictions on State support at this time would be unneeded.

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