



Senate Fiscal Agency
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BILL ANALYSIS



Telephone: (517) 373-5383
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Senate Bill 668 (as enrolled)
 Senate Bill 669 (as enrolled)
 Senate Bill 670 (as enrolled)
 Senate Bill 671 (as enrolled)

1996 Senate Bills 672 through 676 (as enrolled)

Sponsor: Senator Dick Posthumus (Senate Bill 668)
 Senator Glenn D. Steil (Senate Bill 669)
 Senator Loren Bennett (Senate Bill 670)
 Senator Leon Stille (Senate Bill 671)
 Senator Don Koivisto (Senate Bill 672)
 Senator Dave Honigman (Senate Bill 673)
 Senator John J. H. Schwarz, M.D. (Senate Bill 674)
 Senator Bill Schuette (Senate Bill 675)
 Senator Henry E. Stallings, II (Senate Bill 676)

Senate Committee: Local, Urban and State Affairs
 House Committee: Tax Policy

Date Completed: 12-27-96

RATIONALE

Although many parts of the State are experiencing economic growth with increases in commercial, industrial, and residential construction and business activities, some urban and rural communities in Michigan have not been able to share in this prosperity. These communities face multiple challenges to economic development, such as deteriorated infrastructures and abandoned residential and commercial sites. Some people believe that a strategy is needed to bring about commercial, industrial, and residential improvements in these areas, and that providing certain tax exemptions to businesses and individuals who wish to invest in these communities will help lure businesses and homeowners into economically depressed areas.

CONTENT

Senate Bill 668 created the “Michigan Renaissance Zone Act” to provide for the designation of renaissance zones in which businesses and residents will receive certain tax exemptions or credits, and property will be exempt from property taxes, for up to 15 years, beginning after December 31, 1996. The bill allows the designation of up to nine

PUBLIC ACT 376 of 1996

PUBLIC ACT 448 of 1996

PUBLIC ACT 469 of 1996

PUBLIC ACT 449 of

PUBLIC ACTS 451 through 455 of 1996

renaissance zones, plus additional zones in qualified local units that contain a closed military installation. The bill specifies circumstances under which a person or business within a renaissance zone is not eligible for an exemption, and requires reductions in the exemptions or credits during the last three years of eligibility. The State is required to reimburse local and intermediate school districts (ISDs) as well as community colleges and public libraries for revenues lost because of the tax exemption.

The bill establishes a renaissance zone review board to review applications from qualified local governments for designation of geographic areas as renaissance zones. Among other criteria, a zone may not exceed 5,000 acres and may not include more than six distinct geographic areas, a development plan must be submitted, and the designation may not exceed 15 years. The State Administrative Board must review all recommendations from the renaissance zone review board and determine if the applications meet certain criteria, including whether adverse economic

and socioeconomic conditions exist within the proposed zone, the viability and creativity of the proposed development plan, and the availability of public and private resources. The Administrative Board may designate up to nine renaissance zones, with up to six located in urban areas and up to four in rural areas. A list of designated renaissance zones must be submitted to the Legislature, which may reject the entire list by December 30, 1996. If a business relocates more than 25 full-time jobs from a local unit that does not have a renaissance zone, to a local unit that is within a renaissance zone, it must notify the Michigan Jobs Commission and the local unit from which the jobs are being relocated, which may object to the relocation.

Senate Bills 669 through 676, and House Bills 5190, 5191, and 5193 through 5198 amended various laws to provide, among other things, for tax exemptions for individuals and property located in a renaissance zone.

All of the Senate bills are described in detail below. An overview of the House bills also is provided. (Please note: Senate Bill 668 was signed into law as Public Act 376 of 1996, and took effect on July 17, 1996. The remaining bills have been enrolled by the Legislature but have not been signed by the Governor at this time.)

Senate Bill 668

Legislative Findings

The bill states the following findings of the Legislature: "The legislature of this state finds and declares that there exists in this state continuing need for programs to assist certain local governmental units in encouraging economic development, the consequent job creation and retention, and ancillary economic growth in this state. To achieve these purposes, it is necessary to assist and encourage the creation of renaissance zones and provide temporary relief from certain taxes within the renaissance zones."

The bill also requires that it be construed liberally to effectuate the legislative intent and the purposes of the Act and as complete and independent authority for the performance of each and every act and thing authorized by the Act, and that all powers granted by the Act be broadly interpreted to effectuate its intent and purposes and not as a limitation of powers.

Review Board

The renaissance zone review board is created, and consists of all of the following: the Director of the Department of Management and Budget, the chief executive officer of the Michigan Jobs Commission, and the State Treasurer, or their designees.

The review board must review all applications submitted by qualified local governmental units and make recommendations to the State Administrative Board for approval based on criteria contained in the bill. The review board and the State Administrative Board may not consider an application submitted after September 30, 1996.

Board members will serve without compensation for their membership on the State Administrative Board and the review board, but may receive reasonable reimbursement for necessary travel and expenses. The boards are subject to the Open Meetings Act and the Freedom of Information Act.

Application

One or more qualified local governmental units (which are either a county or a city, village, or township that contains an eligible distressed area as defined in the State Housing Development Authority Act) or two adjacent qualified local governmental units may apply to the review board to designate the qualified local governmental unit or units as a renaissance zone if all of the following criteria are met:

- The geographic area of the proposed renaissance zone is located within the boundaries of the qualified local governmental unit or units that apply.
- The application includes a "development plan".
- The proposed renaissance zone is not more than 5,000 acres in size.
- The application includes the proposed duration of renaissance zone status, of up to 15 years.
- The county executive's written approval of the application is included, if the qualified local governmental unit has an elected county executive.
- The city's mayor's written approval of the application is included, if the qualified local governmental unit is a city.

In addition, the renaissance zone may not contain more than six distinct geographic areas. The minimum size of a geographic area must be as follows: at least 30 acres for a geographic area that is wholly or partly within a city with a population over 500,000; at least 10 acres for a geographic area that is located wholly or partly within a village; and, at least 20 acres for a geographic area other than in an area described previously. In addition, not more than 50% of the real property in each of these distinct geographic areas may be owned by the same person. A village may include publicly owned land within the boundaries of any distinct geographic area.

A qualified local governmental unit may not be part of more than one renaissance zone, and may not submit more than one application to the review board for designation as a renaissance zone. The bill specifies that a resolution provided by a city, village, or township stating that people and property within the zone are exempt from local taxes, will not constitute an application of a city, village, or township for a renaissance zone.

The application form for a renaissance zone designation must be as specified by the Michigan Jobs Commission. After the Commission specifies the application's form, it must file a copy of the application with each house of the Legislature. The State Administrative Board may request any information from an applicant, in addition to that contained in an application, as needed to permit the Board to discharge its responsibilities under the bill.

("Development plan" means a written plan that addresses the criteria in the bill for designation of a renaissance zone and includes all of the following:

- A map of the proposed renaissance zone that indicates the geographic boundaries, the total area, and the present use and conditions of the land and structures within those boundaries.
- Evidence of community support and commitment from residential and business interests.
- A description of the methods proposed to increase economic opportunity and expansion, facilitate infrastructure improvement, and identify job training opportunities.
- Current social, economic, and demographic characteristics of the proposed renaissance zone and anticipated improvements in

education, health, human services, public safety, and employment if the renaissance zone is created.

- Any other information required by the State Administrative Board.)

State Administrative Board

The State Administrative Board must review all recommendations submitted by the review board and determine which applications meet the bill's criteria. The Board must do all of the following: designate renaissance zones; approve or reject the duration of renaissance zone status as submitted in an application, not to exceed 15 years; and approve or reject the geographic boundaries and the total area of the renaissance zone as submitted in the application. The Administrative Board may not alter the geographic boundaries of the renaissance zone or the duration of the renaissance zone status described in the application unless the qualified local governmental unit(s) and the local governmental unit(s) in which the renaissance zone is to be located consent to the alteration.

The Administrative Board may not designate a renaissance zone before November 1, 1996, or after December 31, 1996. The designation of a renaissance zone will take effect January 1, 1997. For purposes of the taxes exempted under the bill, a designation of a renaissance zone will take effect December 31, 1996.

Criteria

The Administrative Board must consider all the following criteria in designating a renaissance zone: evidence of adverse economic and socioeconomic conditions within the proposed renaissance zone; the viability of the development plan; whether the development plan is creative and innovative in comparison to other applications; public and private commitment to and other resources available for the proposed renaissance zone; how renaissance zone designation would relate to a broader plan for the community as a whole; the level of demonstrated cooperation from surrounding communities; how the regulatory burden will be eased for businesses operating in the proposed renaissance zone; public and private commitment to improving abandoned real property; and, any other information required by the Board.

The Board may not designate an area as a renaissance zone unless, as part of the

application, the qualified local governmental unit or units provide a resolution from the governing body of the qualified local governmental unit and each city, village, or township, within which the proposed renaissance zone is to be located, that states that if the renaissance zone designation is granted, persons and property within the renaissance zone will be exempt from taxes levied by the governmental unit as provided in the bill.

Within a 12-month period immediately preceding and immediately following designation of a renaissance zone or submission of an application for consideration as a renaissance zone, an individual who is a resident of a renaissance zone or an area being considered for designation as a renaissance zone, a business that is located and conducts business activity within a renaissance zone or an area being considered for designation as a renaissance zone, or an officer of such a business, must report to the chief executive officer of the local governmental unit in which the renaissance zone is designated or the local governmental unit that has applied for renaissance zone designation any transaction with or gift to any official or employee of that local governmental unit. ("Gift" means that term as defined in the lobbyist registration Act.)

Zone Designation

Except as otherwise provided, the Administrative Board may not designate more than nine renaissance zones within the State. Not more than six of the renaissance zones may be located in urban areas and not more than four may be located in rural areas. The bill specifies that for purposes of determining whether a renaissance zone is located in an urban or rural area, if any part of a renaissance zone is located within an urban area, the entire renaissance zone will be considered to be located in an urban area. ("Urban area" means an urbanized area as determined by the economics and statistics administration, United States Bureau of the Census according to the 1990 census. "Rural area" means an area that lies outside of the boundaries of an urban area.)

The Board may designate additional renaissance zones within the State in one or more qualified local governmental units if that qualified unit or units contain a military installation that was operated by the U.S. Department of Defense and closed after 1990.

A list of the renaissance zones designated by the Board must be submitted to the Legislature, which, by concurrent resolution adopted by a majority vote of those elected to and serving in each house, on a record roll call vote, may reject the entire list no later than December 30, 1996.

Tax Credits

Except as otherwise provided in the bill for ineligible individuals or businesses, a person who is a resident of a renaissance zone or a business that is located and conducts business activity within a renaissance zone will receive for up to 15 years an exemption, deduction, or credit as provided under the following Acts: the Single Business Tax Act, the Income Tax Act, the City Income Tax Act, and the City Utility Users Tax Act. Except as otherwise provided in the bill for ineligible individuals or businesses, property located in a renaissance zone will be exempt from the collection of taxes under all of the following: the General Property Tax Act, the Plant Rehabilitation and Industrial Development Districts Act, the Commercial Redevelopment Act, the Enterprise Zone Act, Public 189 of 1953 (which provides for the taxation of lessees or users of tax-exempt property), the Technology Park Development Act, Section 51105 of the Natural Resources and Environmental Protection Act (which provides for an annual specific tax on commercial forests), and the Neighborhood Enterprise Zone Act.

During the last three years that the taxpayer is eligible for an exemption, deduction, or credit, the exemption, deduction, or credit must be reduced by the following percentages:

- 25% for the tax year that is two years before the final year of designation as a renaissance zone.
- 50% for the tax year immediately preceding the final year of designation.
- 75% for the tax year that is the final year of designation.

Reimbursement

The State is required to reimburse intermediate school districts each year for all tax revenue lost as the result of the bill's exemption of property based on the property's taxable value at the time the renaissance zone is designated, from taxes levied by an ISD under the School Code as

follows: property taxes levied for operating purposes (MCL 380.625a); millage levied for the operation of an area vocational-technical education program (MCL 380.681); and property taxes levied for special education purposes (MCL 380.1724a).

The State is required to reimburse local school districts each year for all tax revenue lost as the result of the exemption of property under the bill from the levy by a school district of up to 18 mills for school operating purposes (MCL 380.1211), based on the property's taxable value in that year. The State also is required to reimburse each year a community college district and a public library for all tax revenue lost as a result of the exemption of property under the bill, based on the property's taxable value in that year, from taxes levied or collected under the General Property Tax Act.

Intermediate school districts, community college districts, and public libraries eligible for reimbursement under these provisions must report to and on a date determined by the Department of Treasury all lost revenue for which reimbursement under the bill is claimed. A local school district eligible for reimbursement must report each year on a date determined by the Treasury Department all lost revenue for which reimbursement is claimed.

The State is required to reimburse the School Aid Fund for all revenues lost as the result of the establishment of renaissance zones. Foundation allowances calculated under the State School Aid Act may not be reduced as a result of lost revenues arising from the bill.

Ineligibility

An individual who is a resident of a renaissance zone, a business that is located and conducts business activity within a renaissance zone, or a person who owns property located in a renaissance zone, is not eligible for the exemption, deduction, or credit listed in the bill for that taxable year if the individual, business, or person is delinquent under one or more of the following: the Single Business Tax Act; the Income Tax Act; the City Income Tax Act; the Plant Rehabilitation and Industrial Development Districts Act; the Commercial Redevelopment Act; the Enterprise Zone Act; Public Act 189 of 1953; the Technology Park Development Act; Part 511 (commercial forests) of the Natural Resources and Environmental Protection Act; the Neighborhood Enterprise Zone Act; the City Utility Users Tax Act;

or, taxes, fees, and special assessments collected under the General Property Tax Act. In addition, for residential rental property in a renaissance zone, the property is ineligible if it is not in compliance with all applicable State and local zoning, building, and housing laws, ordinances, or codes and the property owner has not filed an affidavit before December 31 in the immediately preceding tax year with the local tax collecting unit in which the property is located as required under the General Property Tax Act.

A resident of a renaissance zone will be eligible for an exemption, deduction, or credit under the bill until the Department of Treasury determines that the aggregate State and local tax revenue forgone as a result of all exemptions, deductions, or credits granted under the bill to that resident reaches \$10 million.

Business Relocation

A business located in a qualified local governmental unit that relocates from outside a renaissance zone into a zone in the same qualified local governmental unit may not receive the exemptions, deductions, or credits described in the bill unless the governing board of that local government approves the relocation of the business.

If a business relocates more than 25 full-time equivalent jobs from one or more local governmental units other than a local unit in which a renaissance zone is located to a local governmental unit within a renaissance zone, the business must give notice of the relocation to the Michigan Jobs Commission and the local governmental unit from which the jobs are being relocated. The business will not be eligible for the exemptions, deductions, or credits listed in the bill if the local governmental unit from which the jobs are being relocated adopts a resolution objecting to the relocation of the jobs within 60 days after the notification by the business. The business will become eligible for the exemptions, deductions, and credits when the local governmental unit that objected to the relocation rescinds its objections by resolution. A local governmental unit that objects to the relocation of jobs must file a copy of all resolutions of objection and recession with the Department of Treasury, Michigan Jobs Commission, or county or local governmental unit that created the renaissance zone into which the jobs are transferred, and the local governmental unit into which the jobs are transferred.

Report to Legislature

The Michigan Jobs Commission and a State research university each must report annually to the Legislature on the economic effects of the bill in each renaissance zone. The reports must include, but are not limited to, all of the following for each renaissance zone: the number of new jobs created; percentage change in aggregate taxable value and State equalized value; average wage of new jobs created; and, percentage change of adjusted gross income of residents.

Senate Bill 669

The bill amended the Income Tax Act to permit a "qualified taxpayer", to the extent and for the duration provided in the Michigan Renaissance Zone Act, for the 1997 tax year and each tax year thereafter, to deduct, to the extent included in adjusted gross income, an amount equal to the sum of all of the following:

- Income earned or received during the period of time that the qualified taxpayer was a resident of a renaissance zone, except as provided below.
- Interest and dividends received in the tax year during the period that the qualified taxpayer was a resident of a renaissance zone.
- Capital gains received in the tax year prorated based on the percentage of time that the asset was held by the qualified taxpayer while her or she was a resident of the renaissance zone.
- Income received by the taxpayer from winning an on-line lottery game sponsored by the State only if the drawing for that game was held after the taxpayer became a resident of a renaissance zone, and income received by the taxpayer from winning an instant lottery game sponsored by the State only if the taxpayer was a resident of a renaissance zone on the validation date of the lottery ticket for that game.

Income used to calculate a deduction under any other section of the Income Tax Act may not be used to calculate a deduction under the bill. Any portion of taxable income derived from illegal activity conducted anywhere may not be used to calculate a deduction under the bill. A taxpayer's net operating loss deduction must be calculated without regard to the deductions allowed under the bill.

To be eligible for a deduction under the bill, a taxpayer must file an annual return under the Act. A qualified taxpayer also must file a withholding form prescribed by the Department of Treasury with his or her employer within 10 days after the date the taxpayer completes the bill's requirements for residency.

If a qualified taxpayer completes the bill's residency requirements before the end of the tax year in which the taxpayer first resided in the renaissance zone, the taxpayer may claim the deduction allowed under the bill for that tax year. If the taxpayer completes the residency requirements in a tax year subsequent to the tax year in which the taxpayer first resided in the renaissance zone, the tax year for which the taxpayer may claim the deduction is specified in the bill. If a taxpayer who was a qualified taxpayer during the tax year changes status and is not a qualified taxpayer, or vice versa, income subject to the income tax must be determined separately for income in each status.

If the Department finds that a taxpayer has claimed a deduction under the bill to which he or she is not entitled, the taxpayer will be subject to the interest and penalty provisions under the revenue Act.

("Qualified taxpayer" means a taxpayer who is a resident of a renaissance zone and has a gross income not exceeding \$1 million for any tax year for which the taxpayer claims a deduction under the bill. "Resident" means an individual domiciled in an area that is designated a renaissance zone for 183 consecutive days. A taxpayer may begin calculating the 183-day period during the 183 days immediately preceding the designation of the area as a renaissance zone. "Resident" includes the estate of an individual who was a resident of a renaissance zone at the time of death. After a taxpayer has completed the 183-day requirement, he or she will be considered to have been a resident of that renaissance zone beginning from the first day used to determine if the 183-day requirement has been met.)

The Income Tax Act requires an employee to furnish his or her employer information required for the employer to make an accurate withholding. The bill also requires an employee to file revised information with his or her employer within 10 days after the employee completes the bill's residency requirements, and when the employee changes status from a resident of a renaissance zone to a

nonresident of a renaissance zone. Within 10 days after receiving revised information from an employee who completes the residency requirements, the employer must forward a copy of that information to the Department.

Senate Bill 670

Renaissance Zone Exemption

The bill added Section 7ff to the General Property Tax Act (to which several of the other bills refer) to provide that for taxes levied after 1996, except as otherwise provided and as limited in the bill for residential rental property, real property in a renaissance zone and personal property located in a renaissance zone on tax day for at least 50% of the immediately preceding tax year are exempt from taxes collected under the Act to the extent and for the duration provided pursuant to the Michigan Renaissance Zone Act.

Under Section 7ff(2), real and personal property in a renaissance zone is not exempt from collection of the following:

- A special assessment levied by the local tax collecting unit in which the property is located.
- Ad valorem property taxes specifically levied for the payment of principal and interest of obligations approved by the electors or obligations pledging the unlimited taxing power of the local unit.
- A tax levied under provisions of the School Code that permit the levy of a regional enhancement property tax for local school district operations (MCL 380.705); permit a school district to levy up to three additional mills for enhancing operating revenue (MCL 380.1211c); and, permit a school district to levy up to five mills for up to 20 years to create a sinking fund to be used to purchase sites for, and construct or repair, school buildings (MCL 380.1212).

Real property in a renaissance zone on which a casino is operated and personal property of a casino located in a renaissance zone are not exempt from the collection of taxes under the General Property Tax Act. ("Casino" means a casino regulated by the State under the Michigan Gaming Control and Revenue Act, and all property associated or affiliated with the operation of a casino, including a parking lot, hotel, motel, or retail store.)

The bill specifies that for residential rental property in a renaissance zone, the exemption is available only if that property is in substantial compliance with all applicable State and local zoning, building, and housing laws, ordinances, or codes, and the property owner files an affidavit before December 31 in the immediately preceding tax year with the treasurer of the local taxing unit in which the property is located stating that the property is in substantial compliance with all applicable State and local zoning, building, and housing laws, ordinances, or codes. ("Residential rental property" means that portion of real property not occupied by an owner of the property that is classified as residential real property under the General Property Tax Act, is a multiple-unit dwelling, or is a dwelling unit in a multiple purpose structure, used for residential purposes, and all personal property located in that real property.)

The property owner's written statement must identify all personal property located in a renaissance zone on the tax day and indicate whether that property was located in the renaissance zone for 50% of the immediately preceding tax year.

Nonprofit Charitable Institutions

Currently, real estate or personal property owned and occupied by nonprofit charitable institutions is exempt from the collection of taxes under the Act. The bill also provides that property owned by a nonprofit charitable institution that is leased, loaned, or otherwise made available to another nonprofit charitable institution, a nonprofit hospital, or a nonprofit educational institution, occupied by that entity solely for the purposes for which it was organized and that would be exempt from taxes collected under the Act if the property were occupied by the lessor nonprofit charitable institution solely for the purposes for which it was organized, is exempt from the collection of taxes under the Act.

Senate Bill 671

The bill amended the Neighborhood Enterprise Zone Act to provide that a new facility or a rehabilitated facility located in a renaissance zone under the Michigan Renaissance Zone Act is exempt from the neighborhood enterprise zone tax to the extent and for the duration provided pursuant to that Act. The exemption does not apply, however, to that portion of the neighborhood enterprise zone tax attributable to a special

assessment or a tax described in Section 7ff(2) of the General Property Tax Act. The neighborhood enterprise zone tax calculated under this provision must be disbursed proportionately to the local taxing unit or units that levied the special assessment or the tax described in Section 7ff(2).

Senate Bill 672

The bill amended the Natural Resources and Environmental Protection Act to provide that commercial forest land located in a renaissance zone under the Michigan Renaissance Zone Act is exempt from the annual specific tax to the extent and for the duration provided pursuant to that Act.

Senate Bills 673 and 674

Senate Bills 673 and 674 amended the Local Development Financing Act and the Tax Increment Finance Authority Act, respectively, to revise the amount that must be appropriated to local development authorities to replace tax increment revenue lost as a result of the reduction of taxes levied on property for school operating purposes. Under the bills, this calculation includes property that is exempt from taxation under the Michigan Renaissance Zone Act, based on the property's taxable value at the time the zone is designated.

Senate Bill 675

The bill amended the downtown development authority Act to revise the definition of "initial assessed value", which generally refers to the assessed value, as equalized, of all the taxable property within the boundaries of the development area at the time the ordinance establishing the tax increment financing plan is approved. The bill specifies that for a development area designated before 1997 in which a renaissance zone has subsequently been designated, the initial assessed value of the development area otherwise determined under this definition must be reduced by the amount by which the current assessed value of the area was reduced in 1997 due to the exemption of property under Section 7ff of the General Property Tax Act. The initial assessed value may not be less than zero in any case.

The bill also revised the amount that must be appropriated to downtown development authorities to replace tax increment revenue an authority would have received from school operating property taxes. Under the bill, this amount excludes taxes exempt under Section 7ff of the General Property Tax Act.

Senate Bill 676

The bill amended the City Utility Users Tax Act to provide that for tax years beginning after December 31, 1996, a person or corporation is exempt from the tax imposed under the uniform city utility users tax ordinance to the extent and for the duration provided pursuant to the Michigan Renaissance Zone Act.

House Bill 5190

The bill amended the Single Business Tax (SBT) Act to allow a credit against the SBT to the extent and for the duration provided in the Michigan Renaissance Zone Act, equal to the tax liability attributable to business activity conducted within a renaissance zone in a tax year beginning after 1996. The credit is to continue through the tax year in which the renaissance zone designation expires. The credit may not exceed the taxpayer's liability for the tax year. Any portion of a taxpayer's tax liability that is attributable to illegal activity conducted in the zone, or to business activity associated with a casino, may not be used to calculate a credit under the bill.

A taxpayer that claims a credit under the bill may not employ, pay a speaker fee to, or provide any consideration to anyone employed by the State, the State Administrative Board, or the Renaissance Zone Review Board, whose employment relates in any way to the authorization or enforcement of the new SBT credit for any year in which the taxpayer claims a credit and for the three years after the last year that a credit is claimed.

"Tax liability attributable to business activity conducted within a renaissance zone" means the taxpayer's tax liability multiplied by a fraction whose numerator is the ratio of the average value of the taxpayer's property located in a designated renaissance zone to the average value of all of the taxpayer's property in this State plus the ratio of the taxpayer's payroll for services performed in a designated zone to all of the taxpayer's payroll in this State, and whose denominator is two.

House Bill 5191

The bill amended the City Income Tax Act to provide that if a city or any part of a city that imposes a city income tax is within the boundaries of a renaissance zone, the city must amend its city income tax ordinance to include language specified in the bill. Under this language, to the

extent and for the duration provided in the Michigan Renaissance Zone Act, a qualified taxpayer may deduct an amount from gross income in determining city income tax. The calculation of the amount depends on whether the taxpayer is 1) an individual resident of the city who is domiciled in an area that is designated a renaissance zone for 183 consecutive days; 2) a taxpayer that is a corporation and is located and conducts business activity in a renaissance zone in the city; or 3) a person who is located in and conducts business activity as an unincorporated business, profession, or other activity in a renaissance zone and is not a qualified taxpayer under either of the preceding provisions. The deduction is to continue through the tax year in which the renaissance zone designation expires.

For a nonindividual taxpayer, any portion of the income subject to tax derived from illegal activity conducted in a renaissance zone, or attributable to business activity associated with a casino, may not be used to calculate a deduction under the bill. For an individual taxpayer, any portion of income derived from illegal activity conducted anywhere may not be used to calculate the deduction.

Employers may not withhold any tax from a qualified taxpayer who is an individual. An employee must file a form with his or her employer stating whether or not the employee claims status as a qualified taxpayer. If the employee claims qualified taxpayer status, the employer must forward a copy of the form to the city.

House Bill 5193

The bill amended Public Act 2 of 1921, which governs the State Administrative Board, to provide that the Board has the powers granted, and must perform the duties imposed, under the Michigan Renaissance Zone Act.

House Bills 5194-5197

House Bills 5194, 5195, 5196, and 5197 amended the Enterprise Zone Act, the Technology Park Development Act, the Plant Rehabilitation and Industrial Development Districts Act, and the Commercial Redevelopment Act, respectively, to provide that property or a facility that is located in a renaissance zone is exempt from the specific taxes levied under the Act to the extent and for the duration provided by the Michigan Renaissance Zone Act, except for that portion of the specific tax attributable to a special assessment or a tax described in Section 7ff(2) of the General Property Tax Act. The specific tax calculated under this provision must be disbursed proportionately to the

local taxing unit or units that levied the special assessment or tax described in Section 7ff(2).

House Bill 5198

The bill amended Public Act 189 of 1953 (which provides for the taxation of for-profit lessees and users of tax-exempt real property) to create a tax exemption for real property located in a renaissance zone under the Michigan Renaissance Zone Act to the extent and for the duration provided in that Act, except for a special assessment or a tax described in Section 7ff(2) of the General Property Tax Act.

MCL 125.2681-125.2696 (S.B. 668)
206.31 & 206.365 (S.B. 669)
211.7o & 211.7ff (S.B. 670)
207.779 (S.B. 671)
324.51105 (S.B. 672)
125.2161a (S.B. 673)
125.1812a (S.B. 674)
125.1651 & 125.1663b (S.B. 675)
141.1155 (S.B. 676)

BACKGROUND

On December 16, 1996, Governor Engler announced the recommendation of 11 renaissance zones, from a total of 20 applicants. On December 18, 1996, the State Administrative Board unanimously accepted the Governor's recommendations as presented.

The designated zones include six urban areas, three rural areas, and two former military installations. The urban areas are: 1) Benton Harbor/St. Joseph/Benton Township (120 acres, 10 years); 2) Detroit (1,345 acres, 12 years); 3) Flint (836 acres, 15 years); 4) Grand Rapids (536 acres, 15 years); 5) Lansing (110 acres, 12 years); and 6) Saginaw (743 acres, 12 years).

The designated rural areas are: 1) Gogebic/Ontonagon/Houghton Counties (2,917 acres, 15 years); 2) Manistee County (556 acres, 15 years); and 3) Montcalm/Gratiot Counties (1,870 acres, 15 years). The military installations are Warren Tank (153 acres, 15 years), and Wurtsmith Air Force Base (2,202 acres, 15 years).

ARGUMENTS

(Please note: The arguments contained in this analysis originate from sources outside the Senate Fiscal Agency. The Senate Fiscal Agency neither supports nor opposes legislation.)

Supporting Argument

Although a number of State taxes have been cut, the State's economy is thriving, and the unemployment rate is down, some urban and rural areas across Michigan have not been able to participate in the State's economic resurgence. Consequently, these communities are seeking innovative approaches to encourage business and residential development in economically depressed neighborhoods. Senate Bill 668 provides for the establishment across the State of up to nine renaissance zones in which businesses and residents will be exempt for up to 15 years from most property and income taxes. Thus, the costs of establishing businesses, building homes, and encouraging people to live and work in these areas will be less because of these exemptions. The package of bills may help to infuse economic vitality into these depressed areas by promoting the creation of businesses, jobs, and neighborhoods. In addition, the renaissance zone concept will give local governments a free hand to design a program of economic development that may be tailored to meet their communities' needs.

Response: Other State programs, such as the Michigan Economic Growth Authority and various tax abatements, already are available to promote economic development in communities across Michigan. It is not clear why the State should create another governmental program to promote economic development instead of expanding on the efforts of current programs. Furthermore, the revitalization of urban areas should be addressed in a comprehensive strategy that would deal with decaying infrastructures, mass transportation, crime, and jobs, as well as tax incentives, to encourage economic development in an entire urban area. For example, the tax breaks for business could be linked to guarantees of job creation resulting from development in a renaissance zone. Moreover, Senate Bill 668 provides for the establishment of renaissance zones in rural, as well as urban, areas. Residential developers already are constructing housing developments in rural areas encircling the State's major urban areas. It is not certain that the new tax exemptions will be enough of an incentive to convince developers to build in an urban area when they can construct housing developments in more desirable rural areas and still receive a tax break. Besides, some people are concerned that the proliferation of developments already occurring in rural areas threatens the State's agricultural industry.

Supporting Argument

Under Senate Bill 668, the State is required to reimburse local and intermediate school districts, as well as community colleges, for revenues lost

because of the bill's tax exemptions. In addition, the State must reimburse the School Aid Fund for all revenue lost as a result of the establishment of renaissance zones. Foundation allowances calculated under the School Aid Act may not be reduced as a result of lost revenues arising from the Renaissance Zone Act. Thus, school districts in which a renaissance zone is located will be protected from a revenue loss because of the new tax exemptions.

Response: Although the bill requires that school districts in renaissance zones be reimbursed for lost revenues, some people believe that specific language creating a mechanism for reimbursement also should be included in the State School Aid Act.

Opposing Argument

Since Senate Bill 668 does not reimburse lost revenues to local governments affected by the tax exemptions, the localities in which a renaissance zone is located may experience a significant negative impact on their general fund budgets due to the new tax breaks. These governments still will have to provide public services to these areas without being able to collect taxes to pay for them. While the renaissance zone concept is designed to be an incentive to economic development in hard-pressed communities, it may serve as a disincentive since some communities cannot afford to participate. Furthermore, the loss of these tax revenues may become a self-limiting aspect of the plan if localities designate areas with the smallest tax base in order to avoid a significant impact on tax revenues. In addition, people living and businesses operating in areas neighboring a renaissance zone, which also may be economically depressed, still will have to pay taxes for public services that are being used not only in their neighborhoods, but in the renaissance zone as well. Thus, these neighboring areas as well as the remainder of an urban area will be subsidizing the cost of providing public services to business and residential developers who locate in a renaissance zone. Specialized tax breaks, such as tax exemptions provided under the Renaissance Zone Act, tend to pick winners and losers by pitting communities and businesses against one another. Rather than lowering taxes for particular individuals, communities, or businesses, the State should lower taxes for everyone.

Response: The legislation is aimed at areas of communities where the tax base is minimal or is rapidly declining. If the plan spurs new economic development, it will result in more tax revenue for local governments when the tax breaks end in 15 years. Thus, local governments participating in the renaissance zone plan will enjoy in the future many

years of increased tax revenues generated in areas of their communities where there has been little prospect of future growth without an incentive, such as the renaissance zone concept. Besides, if a once-decaying area becomes economically viable, the economic benefits will spin off to other businesses in the urban area.

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FISCAL IMPACT

Senate Bills 668 to 676 will have a fiscal impact on State and local governments; however, it is not possible to provide a meaningful estimate of the impact. In order to calculate the fiscal impact of these bills, estimates would have to be made on such important factors as 1) where the renaissance zones will be located, 2) the number of businesses that will participate and the value of their operations, and 3) how much of the business activity that takes place in a renaissance zone represents new activity that would not have occurred anywhere in Michigan without the creation of renaissance zones. There is not enough information available to make these estimates.

State and Local Government Impact

State Government. This package of bills will reduce State revenue from what it otherwise would be in two major budget areas: General Fund/General Purpose (GF/GP) revenue and the School Aid Fund (SAF). Gross income tax collections are distributed as follows: 23% to the SAF and the remainder to GF/GP revenue. Therefore, the new reduction in the income tax will reduce revenue in both of these budget areas. The new reduction in the single business tax will reduce GF/GP revenue. The exemptions for the State education property tax, industrial and commercial facility taxes, and the commercial forest tax, all will have a negative impact on the SAF. In addition, the State will be required to reimburse K-12 public schools and community colleges for any property tax reductions they sustain due to the property tax exemptions in the renaissance zones.

Local Governments. Local government tax revenue will be reduced due to the exemptions for local government property taxes, city income taxes, city utility users tax (Detroit only), industrial and commercial facility taxes, enterprise zone taxes, and technology park taxes.

These direct tax reductions to State and local governments will be offset, at least in part, by new revenue generated by new business activity created outside of the renaissance zones. These new revenues will occur to the extent that business activity in the renaissance zones creates new business activity outside of the renaissance zones.

Taxpayer Impact

While the overall fiscal impact cannot be identified, examples can illustrate the tax reduction that these bills will provide taxpayers located in a renaissance zone. Two such examples are as follows: 1) A family of four with income of \$30,000 and a home valued at \$70,000, would realize a reduction in the State income tax and State and local property taxes of \$1,965; and 2) a family of two with income of \$20,000 and a home valued at \$50,000 would realize a reduction in the State income tax and State and local property taxes of \$1,435.

Local School Districts

Senate Bill 668 will have a fiscal impact on local school districts with property located in a renaissance zone. The local revenue on millage necessary for such a district to receive its foundation allowance will be reduced by the bill for property in the district included in a renaissance zone. The bill requires local districts to report the amount of lost tax revenue to the Department of Treasury and requires the State to reimburse that amount. While the bill includes intent language regarding reimbursement of these school districts, no appropriation is made for reimbursement payments. Without a specific appropriation for reimbursement payments or a change in the State School Aid Act regarding the taxable value to use in the calculation of State payments under the foundation allowance appropriation, affected districts will not be able to receive their entire foundation allowance. With the designation of renaissance zones scheduled for January 1, 1997, school district reimbursement for local school districts will need to begin in FY 1997-98.

Intermediate School Districts (ISDs) and Community Colleges

The bill will have a fiscal impact on ISDs and community colleges with property in a renaissance zone. Intermediate school districts will lose tax revenue on property included in the zone on their general operating millage, special education operating millage, and vocational education operating millage. Similarly, community colleges

with property in the zone will lose revenue on their operating millage. While the bill requires the State to reimburse ISDs and community colleges for these lost revenues, it does not make an appropriation for that purpose. The appropriation and reimbursement mechanism will need to be established for FY 1997-98.

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This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.