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SFA



BILL ANALYSIS

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House Bill 5365 (Substitute S-3 as reported)
Sponsor: Representative Michael Hanley
House Committee: Urban Policy and Economic Development
Senate Committee: Economic Development, International Trade and Regulatory Affairs

Date Completed: 11-3-98

RATIONALE

The Michigan Renaissance Zone Act provides tax exemptions, deductions, and credits for up to 15 years to encourage business and residential development in economically depressed neighborhoods. These communities face multiple challenges to economic development, such as deteriorated infrastructures and abandoned residential and commercial sites.

The Act contains several notification requirements concerning businesses that relocate. A business located in a qualified local governmental unit that relocates from outside a renaissance zone into a zone in the same local unit may not receive the tax waivers unless the governing body of that local government approves the relocation of the business. For example, a business in local unit A that relocates into a renaissance zone within local unit A may receive tax waivers only with approval from A's city council. In addition, if a business relocates more than 25 full-time equivalent jobs from one or more local units other than a local unit in which a renaissance zone is located, to a local unit within a renaissance zone, the Act requires notification of the Michigan Jobs Commission and notification and approval of the local governmental unit from which the jobs are being relocated. For example, if a business in local unit B, which does not have a renaissance zone, relocates more than 25 jobs to a renaissance zone in local unit C, the business must notify the Michigan Jobs Commission and notify and receive approval from local unit B to receive the tax waivers provided under the Act. The current Act, however, does not require the notification of or approval from local unit D, which has a renaissance zone, if a business relocates more than 25 jobs from local unit D to a renaissance zone within local unit E.

CONTENT

The bill would amend the Michigan Renaissance Zone Act to provide that, unless approval of a business relocation were obtained by the qualified local governmental unit in which a business was located, a business that relocated more than 25 full-time equivalent jobs to a renaissance zone would have to give notice of the relocation to the Michigan Jobs Commission and the local governmental unit from which the jobs were being relocated. As currently provided, the business would not be eligible for the exemptions, deductions, or credits if the local unit from which jobs were being relocated adopted a resolution objecting to the relocation. The business would become eligible for the exemptions, deductions, and credits when the local governmental unit that objected to the relocation rescinded its objection by resolution.

In addition, an individual who was a resident of a renaissance zone, a business that was located and conducted business activity within a renaissance zone, or a person that owned property located in a renaissance zone would not be eligible for an exemption, deduction, or credit allowed by the Act for the taxable year if the resident, business, or property owner were substantially delinquent (as determined by the qualified local governmental unit in which the renaissance zone was located) under the City Income Tax Act and/or the General Property Tax Act.

MCL 125.2690

BACKGROUND

Eleven renaissance zones have been designated under the Act. 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).

Businesses and individuals in these designated areas are exempt from the following local and State taxes: Michigan single business tax, Michigan personal income tax, Michigan's six-mill State education tax, local personal property tax, local real property tax, local income tax, and utility users tax. Businesses still pay unemployment insurance, Social Security taxes, worker's compensation, sewer and water fees, property taxes from local bonds or special assessments, and the State sales tax.

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

The bill would enable a local governmental unit with or without a renaissance zone to approve or disapprove the relocation of more than 25 full-time equivalent jobs to a renaissance zone in another local unit. The purpose of the tax exemptions, deductions, and credits is to encourage growth in the areas where the renaissance zones are located, but not at the expense of other Michigan communities, including other Michigan renaissance zone communities. Under the current Act, a business that relocates jobs from a local unit without a renaissance zone to a renaissance zone in another local unit may be prevented from receiving the tax waivers granted under the Act, while a business that relocates jobs from a local unit with a renaissance zone to a renaissance zone in another local unit does not risk losing the tax waivers provided under the Act.

Supporting Argument

The bill provides that a resident, business, or property owner in a renaissance zone would not be eligible for an exemption, deduction, or credit allowed by the Act if the resident, business or property owner were substantially delinquent under

the City Income Tax Act and/or the General Property Tax Act. Reportedly, some businesses have not paid the small debt retirement assessment, and therefore would be ineligible for the tax reductions.

Opposing Argument

The bill would interfere with legitimate business decisions and eliminate competition between local units with renaissance zones by allowing the local units with renaissance zones to object a business relocation of more than 25 jobs to a renaissance zone in another local unit.

Legislative Analyst: N. Nagata

FISCAL IMPACT

The bill would allow local units to object to relocations of businesses, as specified in the bill, to renaissance zones.

This would increase State and local revenue by preventing the relocated businesses from receiving renaissance zone tax reductions.

The bill also would allow local units in the renaissance zones to determine substantially delinquent city income and property tax payments. Taxpayers that are substantially delinquent would not be eligible for renaissance zone tax reductions.

Fiscal Analyst: R. Ross

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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.