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SFA BILL ANALYSIS

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Senate Bills 1271 and 1272 (as passed by the Senate)
Sponsor: Senator Leon Stille
Committee: Finance

Date Completed: 6-29-00

RATIONALE

Michigan turkey farmers grow in excess of 4 million turkeys each year for consumption, according to industry representatives. Until recently, the vast majority of these birds were slaughtered and processed at Bil Mar Foods (a part of the Sara Lee Corporation) in Zeeland. This facility was the only one of its kind in the State in 1998, when Bil Mar stopped slaughtering and processing turkeys (converting its plant into a cooked product facility only) and ended its contracts with Michigan turkey growers. Faced with the choice of shipping their entire annual production of turkeys to out-of-State facilities, 15 of the major turkey growers formed the Michigan Turkey Producers Co-op, Inc., made the decision to develop their own turkey processing facility, and purchased a vacant former food processing plant in Wyoming, Michigan. The cooperative's plant began receiving birds for processing early last March, after obtaining USDA approval. Some people believe that the State should provide some assistance in order to help the turkey industry remain viable in Michigan.

CONTENT

Senate Bill 1271 would amend the Income Tax Act to provide that the State income taxes of the employees of a "qualified employer" would have to be deposited in the Agricultural Processing Facility Fund (proposed by Senate Bill 1272), to be appropriated and used solely for the purposes of the Fund. Senate Bill 1272 would create the "Agricultural Processing Facility Act" to establish the Fund within the Department of Treasury, and require that the money in the Fund be used for grants to develop certain agricultural processing facilities that created or retained jobs and promoted economic growth. The bills are tie-barred to each other.

Senate Bill 1271

The bill provides that for tax years beginning after December 31, 1999, a deposit would have to be made to the Agricultural Processing Facility Fund in an amount equal to the "effective tax rate" multiplied by the payroll of the employees of each "qualified employer". The Department of Treasury would have to determine the effective tax rate each year using the average salary of an employee, based on a formula specified in the bill. A qualified employer would have to report all necessary information required by the Department to compute the deposit to the Fund. ("Qualified employer" would mean that term as defined in Senate Bill 1272.)

The bill provides that an appropriation made pursuant to the bill would have to be made from the taxes collected under the bill.

Senate Bill 1272

The bill provides that a "qualified employer" would be the operator of a "qualified facility", that is, an agricultural processing facility that was a co-op that processed agricultural products in Michigan and had received an industrial facilities exemption certificate (under the Plant Rehabilitation and Industrial Development Districts Act) from the local government in which the facility was located.

The bill would require the State Treasurer to credit to the Agricultural Processing Facility Fund money paid to the Fund from dedicated income tax collections (as provided in Senate Bill 1271); funds from any other source provided by law; and interest earned on deposits in the Fund. The Department would have to use the Fund to make grants to develop qualified facilities in this State. The bill would require the Legislature to appropriate each year from the Fund to the Department an amount sufficient to make the grants. The Department could not grant to a facility more than the amount captured in the immediately preceding year under Senate Bill 1271.

The bill contains the following statement: "The legislature of this state finds and declares that there exists in this state continuing need for programs to assist in encouraging agricultural processing facilities development and consequent job retention and creation and ancillary economic growth within this state."

Proposed MCL 206.484 (S.B. 1271)

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 decision by Bil Mar in 1998 to stop its turkey slaughtering and processing activities in its Zeeland plant threatened Michigan turkey farmers with catastrophe because Bil Mar was the only turkey processing facility in the State. While some could ship their turkeys to processing facilities out of the State, this clearly was not an economically viable long-term option. Fifteen of the major turkey growers who had previously grown turkeys for Bil Mar decided to form a cooperative and start their own turkey processing plant. With the farmers' own money, loans, and help from local units of government, the cooperative was able to purchase a facility in Wyoming, convert it, and started processing turkeys earlier this year.

Turkey growers represent an important element in the State's agricultural industry. The members of the cooperative comprised approximately 40 farms with over 15,000 acres of land, and employ over 200 farm workers. The cooperative projects that it will process over 4 million birds (100 million pounds) per year; have yearly sales of $70 million; and employ approximately 320 people at the Wyoming facility at a total annual salary over $8 million. By capturing the income taxes of the employees of the facility, and placing the revenue in a fund for grants to develop facilities, the bills would assist the turkey growers in maintaining a vital role in their industry, and thus would sustain and improve the economic activity generated by the growers. In turn, the success of the Wyoming plant would encourage the further development of agricultural processing facilities and further economic activity.

Supporting Argument

The bills are similar to two other programs created in the early 1990s. Public Acts 275-279 of 1992 allowed the capture of the State income taxes of employees at a proposed Department of Defense facility in Saginaw. Public Acts 121, 122, 125, and 126 of 1993 allowed the capture of the income taxes of employees at a Federal data facility in Battle Creek. Under both programs money collected from income taxes was dedicated to the development of the facilities and related public improvements, in order to create and retain jobs and promote economic growth.

Response: The bills could set a precedent that the State's taxpayers would later regret. While the 1992 legislation allowed the capture of State income taxes of employees at a proposed Federal facility in Saginaw, no taxes ever were captured because the Federal government did not award the facility to Saginaw. Regarding the Federal facility in Battle Creek, though the legislation allowed the capture of the city income taxes of the employees at the facility, a proposal to allow the capture of the employees' State income taxes was vetoed by the Governor. (The Governor's veto message stated that the issue needed further study.) Thus, it appears that no State income taxes have been captured from specific employees for use to develop specific facilities. Further, the 1992 and 1993 Acts applied to employees of the Federal government, and to the development of a facility to house them. This is entirely different from the matter addressed by the bills, which would use State income taxes to develop the facility of a private employer. In addition, by capturing the income taxes of the employees of a specific private employer in a specific location, the bills could prompt other communities to request that the income taxes of individuals employed within specified boundaries be returned for various projects.

Opposing Argument

The bills would provide a singular benefit for one business in one place in the State. While Senate Bill 1272 states that money in the proposed fund could be used only for grants to develop "qualified facilities", the fact remains that only the facility in Wyoming would qualify to receive a grant. The bills, thus, would promote a narrow tax policy that could encourage other types of food processors to request similar advantages.

Legislative Analyst: G. Towne

FISCAL IMPACT

At this time, only one agricultural processing facility that meets the definition of "qualified facility" has been identified. Based on data from this facility, an estimated $213,000 in income tax revenue would be deposited into the Agricultural Processing Facility Fund in FY 2000-01.

Fiscal Analyst: J. Wortley

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