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BILL ANALYSIS

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Senate Bill 163 (as enrolled)
Sponsor: Senator Gerald Van Woerkom
Committee: Agricultural, Forestry and Tourism

Date Completed: 4-1-03

RATIONALE

The Michigan Renaissance Zone Act authorized the State Administrative Board to designate a limited number of renaissance zones in order to stimulate development in economically depressed areas. Businesses and residents in renaissance zones receive abatements from income, business, and property taxes. Under amendments to the Act made by Public Act 259 of 2000, the Board also could designate up to 10 renaissance zones for agricultural processing facilities. The Board's authority to do so, however, expired at the end of 2002. Due to the importance of agriculture and food processing to Michigan's economy, and the hardships that face this industry, it has been suggested that additional agricultural renaissance zones should be authorized.

CONTENT

The bill would amend the Michigan Renaissance Zone Act to increase the cap on agricultural renaissance zones from 10 to 20, and to remove the December 31, 2002, deadline for their designation.

(The Act defines "agricultural processing facility" as one or more facilities or operations that transform, package, sort, or grade livestock or livestock products, agricultural commodities, or plants or plant products into goods that are used for intermediate or final consumption including goods for nonfood use, and surrounding property. Each renaissance zone designated for an agricultural processing facility must be one continuous distinct geographic area. The Administrative Board may revoke the designation of all or a portion of a renaissance zone for an agricultural processing facility if it determines that the facility fails to begin operation or ceases operation in a designated renaissance zone.)

MCL 125.2686 et al.

BACKGROUND

When the Michigan Renaissance Zone Act was enacted in 1996, it authorized the designation of nine renaissance zones, plus additional zones in qualified local units of government that contained a closed military installation. Subsequent amendments to the Act increased the number of authorized zones. According to the renaissance zone program's 2002 legislative report, a total of 34 zones have been designated. They include 10 urban zones, eight rural zones, three former military bases, four zones designated by the Michigan Strategic Fund, and nine agricultural processing renaissance zones. The following communities received agricultural zone designation: Gilmore Township, Grand Rapids, Hart, Hillman, Lake Odessa, New Era, Shelby, White Pine, and Zeeland Township.

Businesses in, and residents of, renaissance zones receive exemptions, credits, or deductions from the single business tax, State and local income taxes, the State education tax, property taxes, various specific taxes, and, in Detroit, the city utility-users tax, as provided in the respective tax laws. The maximum duration of the tax abatements is 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

According to the renaissance zone program's 2002 report to the Legislature, food processing companies have committed over 930 new jobs and $487 million in private investment within the nine designated agricultural renaissance zones over the next 15 years. Since renaissance zones are virtually tax-free, they encourage the development or expansion of facilities that might not otherwise take place. For example, according to Cherry Growers, Inc., that company is ready to launch several new products that will expand its operations, require additional capital investment, and result in additional full-time permanent employment. The industry, however, just experienced an extremely difficult year as undesirable weather patterns led to crop disasters for both cherries and applies. As a result, funds that the company had allocated for expansion are not presently available.

It stands to reason that companies wish to locate and expand facilities where they have a good chance of receiving a reasonable return on their investment. To this end, renaissance zones are a powerful tool to help stimulate private sector capital investment and job creation. The tax relief afforded by additional agricultural zone designations would go far toward assisting expansion and competition in the food processing industry.

Supporting Argument

Agriculture is a vital part of Michigan's economy, and food processing is an essential component of the agricultural industry. When food processors are lost, farmers lose access to markets and workers lose employment. Although many other industries have suffered due to the economic recession, agriculture has been in a decline for some time. According to a September 1999 report of a Senate Agricultural Preservation Task Force, the farm sector at that time was in its worst condition since the mid-1980s. The task force concluded that the fundamental cause of the industry's problems was low profits, and it made specific recommendations for State action. These included the creation of agricultural renaissance zones for food processing facilities, which Public Act 259 of 2000 subsequently authorized. The State Administrative Board had less than two years, however, to designate up to 10 zones, and only nine designations were made. The favorable tax treatment from renaissance zone status remains important to the viability of the food processing industry and, in turn, to farming overall. By allowing the designation of 20 zones in total, without a deadline, the bill would continue the efforts begun by Public Act 259.

Opposing Argument

As the bill's supporters point out, businesses in renaissance zones operate virtually tax-free. While promoting agricultural processing is laudable, the State simply cannot afford to expand existing tax abatements or create new ones. Although the potential cost of this particular bill may be relatively small, many bills making small revenue reductions begin to add up. The State's present financial situation not only is due to the overall economy but, in large part, also is due to the many tax cuts, exemptions, and credits that have been enacted in recent years and continue to be implemented. For the sake of fiscal responsibility, tax abatements should not be effective in any year unless the State identifies the revenue reductions that will result, and enacts appropriations to pay for them. Adding such a requirement to this bill would set an important precedent for other tax-cut proposals.

Opposing Argument

The bill should include language to ensure that agricultural renaissance zones did not include concentrated animal feeding operations (CAFOs). Although local units must agree to a renaissance zone designation, their ability to control farming operations was significantly curtailed by Public Act 261 of 1999. That Act prohibits local units from enacting or enforcing ordinances that conflict with the Michigan Right to Farm Act or with generally accepted agricultural management practices. Although agricultural renaissance zone designation may be geared toward food processing, not farm production, explicit language should prevent CAFOs from receiving renaissance zone tax abatements.

Legislative Analyst: Suzanne Lowe

FISCAL IMPACT

It is not possible to estimate the fiscal impact of the bill at this time because: 1) it is not known where the additional renaissance zones would be located or the size of the agricultural processing facilities that would be developed in each of these zones, and 2) there is no way to estimate how many businesses would move their existing operations into a renaissance zone in order to become eligible for the various tax exemptions granted in these zones.

A total of nine agricultural processing renaissance zones (APRZs) were approved under the original authorization. That the full 10 zones authorized were not created suggests that it may be some time before the additional 10 zones under the bill would be created.

In the near future, the fiscal impact of the bill would likely be minimal. It takes time for corporations to expand or relocate and the fiscal impact of the bill largely would depend upon the value of the investments made in the property within a zone. To date, the impact from the existing zones has been minimal, with a total of $46.6 million of investment expected in three zones over the next 15 years.

In future years, the fiscal impact would reduce revenues to both the State and local units and would increase State expenditures from the General Fund. Most local property taxes previously levied in renaissance zones are not reimbursed by the State, although the General Fund reimburses lost revenues to public libraries, intermediate and local school districts, community colleges, and the School Aid Fund. Local school districts can levy 18 mills upon nonhomestead property, and the State education tax levies 6 mills on all property. Tax levies for the other reimbursed components can vary widely, although it is not uncommon for schools to levy an additional 6 to 12 mills in areas where existing APRZs have been established. If $100 million of investments were eventually made in the new zones, the bill would increase State General Fund expenditures by at least $1.5 million per year, a portion of which would represent lost School Aid Fund revenues. Losses to single business tax and individual income tax revenues are not reimbursed and are not included in this example.

This estimate is preliminary and will be revised as new information becomes available.

Fiscal Analyst: David Zin

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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.