Senate Fiscal Agency
P. O. Box 30036
Lansing, Michigan 48909-7536

BILL ANALYSIS

Telephone: (517) 373-5383
Fax: (517) 373-1986
TDD: (517) 373-0543

Senate Bill 1483 (as enacted)
Sponsor: Senator Jason E. Allen
Senate Committee: Commerce and Tourism
House Committee: Judiciary

PUBLIC ACT 495 of 2008

Date Completed: 1-26-09

RATIONALE

In order to help Michigan's tool and die companies survive in the face of global competition, Public Act 266 of 2003 amended the Michigan Renaissance Zone Act to allow the designation of up to 20 tool and die renaissance recovery zones, and Public Act 276 of 2005 increased the maximum number of these zones to 25. Originally, the designation applied only to property owned by a tool and die company, but Public Act 202 of 2004 extended it to leased property. Thus, property owned or leased by a qualified tool and die business with fewer than 75 employees could be designated as a recovery zone. The designation exempts the company from various taxes--including business taxes, property taxes, and local income tax--for up to 15 years.

The Michigan Strategic Fund (MSF) board designated 25 tool and die renaissance recovery zones. Evidently, this has helped to stabilize the industry, and some people believed that the limit on the number of zones should be increased. It also was suggested that the MSF should be authorized to make an exception to the 75-employee limit for a company that entered into an agreement with the MSF board and the local unit or units in which the qualified tool and die business was located.

CONTENT

The bill amended the Michigan Renaissance Zone Act to do both of the following:

-- Increase from 25 to 35 the maximum number of tool and die renaissance recovery zones that the MSF board may designate.
-- Allow a recovery zone to include a qualified tool and die business with 75 or more full-time employees.

The bill took effect on January 13, 2009.

Tool and Die Recovery Zones

The Act previously allowed the MSF board to designate up to 25 tool and die renaissance recovery zones within Michigan in one or more cities, villages, or townships, if the local unit or a combination of them consented to the creation of a recovery zone within its boundaries. The bill allows the MSF board to designate up to 35 tool and die renaissance recovery zones.

The Act also allows the MSF board to combine existing recovery zones that consist solely of tool and die businesses that are parties to the same qualified collaborative agreement. Where two or more recovery zones have been combined, the board previously could continue to designate additional recovery zones, provided that not more than 25 tool and die recovery zones existed at one time. The bill allows the board to continue to designate additional recovery zones as long as not more than 35 exist at one time.

("Qualified collaborative agreement" means an agreement that demonstrates synergistic opportunities, including all of the following:

-- Sales and marketing efforts.
-- Development of standardized processes.
-- Development of tooling standards.
-- Standardized project management methods.
-- Improved ability for specialized or small niche shops to develop expertise and compete successfully on larger programs.)

Number of Employees

Previously, under the definition of "qualified tool and die business", a business had to have fewer than 75 full-time employees. Under the bill, that requirement applies except as otherwise provided by the MSF board.

Beginning on the bill's effective date, a recovery zone may include a qualified tool and die business that has 75 or more full-time employees, if that business enters into a written agreement with the MSF board and the local unit or units in which it is located.

MCL 125.2688d & 125.2689

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

Tool and die renaissance recovery zones have been successful in stabilizing the tool and die industry in Michigan. While the tooling industry struggles to remain competitive in a global market, recovery zones have provided opportunities for retention of industrial jobs in Michigan that pay well. Competing with operations in China and other rapidly developing nations will continue to be a challenge for Michigan tool and die businesses, and expanding the State's tool and die renaissance recovery zone program will help them to meet that challenge. Recovery zones, which are not geographic in nature but are based on collaborative agreements between tool and die shops, have been more successful than traditional renaissance zones because they are not limited to one potentially unattractive development location but are designed to meet needs where they exist. The 25 collaborative agreements previously allowed under the Act had all been designated and, if the program is to continue to benefit Michigan small businesses, the MSF needed the authorization to establish more recovery zones.

Supporting Argument

While the Act previously limited qualified tool and die businesses to operations with fewer than 75 full-time employees, it might be beneficial in some cases to allow the MSF to make exceptions to this standard. For instance, some small operations that already qualified might be in a position to grow. Cutting off their eligibility when they employ 75 workers would discourage growth. Similarly, a company that employed 75 or more workers might have been motivated to downsize in order to become eligible for inclusion in a recovery zone collaborative agreement. In other cases, a large operation might work collaboratively with smaller businesses that are eligible for recovery zone tax breaks, but the larger company was not a qualified tool and die business under the Act and, as such, was not eligible for the benefits of renaissance recovery zone status. Indeed, an official with one tool and die business that employs more than 75 full-time workers testified that his company had to lay off employees for the first time in its 27 years of operation and some of those workers were hired by smaller firms that are qualified tool and die businesses under the Act. By allowing the MSF board to provide qualified status to businesses with 75 or more employees, the bill will help to encourage collaboration between large and small tool and die operations, which will further stabilize the industry's presence and success in Michigan.

Opposing Argument

Economic development programs offering tax breaks to businesses often work to the detriment of counties. For instance, a county may create zones under the Act, but must get consent from a city. Conversely, a city may create a zone but does not need the county's consent even though the county may lose tax revenue as a result of the zone. Some counties reportedly are suffering financially from the loss of revenue in renaissance zones.

Response: Without tool and die recovery zones, and other renaissance zones, more businesses would close or leave the State. This would result in even greater fiscal hardships for counties and other local units. Michigan needs to face the economic challenges posed by other states and nations and balance the detriment of foregone revenue due to the creation of renaissance zones with the losses that would occur if companies went out of business or relocated outside of Michigan.

Legislative Analyst: Patrick Affholter

FISCAL IMPACT

The bill will reduce State and local revenue, as well as increase expenditures from the School Aid Fund. Businesses located in the zones are exempt from State and local property taxes, State and local income taxes, local utility taxes, and the Michigan Business Tax (MBT). By increasing the number of zones, as well as the size of the firms that may be included within a zone, the bill will reduce the revenue from these taxes. The actual amount of any reductions will depend upon the specific characteristics of the properties and businesses affected. Any reduction in local school district revenue from mills levied for operating purposes or mills levied by community colleges will be offset by increased expenditures from the School Aid Fund in order to maintain per-pupil funding guarantees.

Assuming that tool and die firms, on average, are the same as other firms within the nonelectrical machinery sector, if every tool and die firm in Michigan were included within a zone under the changes made by this bill, it is estimated that MBT revenue would be reduced by approximately $1.2 million in tax year 2008, and all of this loss in revenue would affect the General Fund. In addition, School Aid Fund revenue from the State education property tax would be reduced an estimated $1.3 million and School Aid Fund expenditures would increase an estimated $4.0 million due to a reduction in the local school 18-mill property tax. Local government property taxes also would be reduced an estimated $9.0 million. There is no way to know at this time how many tool and die firms will be included in a zone. These estimates reflect the estimated fiscal impact of this bill if all tool and die businesses were included in a zone, and therefore are estimates of the maximum potential loss in tax revenue.

Fiscal Analyst: David Zin

A0708\s1483ea