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BILL ANALYSIS

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Senate Bill 376 (Substitute S-1 as reported)
Sponsor: Senator Mike Kowall
Committee: Economic Development

Date Completed: 8-18-11

RATIONALE

The plant rehabilitation and industrial development Act, commonly referred to as PA 198, allows a local unit of government to establish a plant rehabilitation district or an industrial development district on its own initiative or upon a request of the owner or owners of 75% of the State equalized valuation (SEV) of the industrial property located within a proposed district. With the approval of the State Tax Commission, the local unit may grant industrial facilities exemption certificates to new and speculative buildings and replacement facilities located in the district. A certificate essentially grants a property tax abatement for industrial property in a district, which is subject to an industrial facilities tax that is lower than standard property taxes. The Act's definition of "industrial property" refers to land improvements, structures, equipment, and fixtures used for a purpose specified in the Act. The definition also includes certain convention and trade centers. The owner of one of those centers, the Suburban Collection Showplace in Novi, evidently would like to build an attached hotel with additional conference space, and it has been suggested that the Act's definition of "industrial property" should be expanded to include such a facility.

CONTENT

The bill would amend the plant rehabilitation and industrial development Act to specify that "industrial property" would include a hotel or motel, with meeting or conference space, attached to a convention and trade center under the Act.

The Act's definition of "industrial property" includes a convention and trade center in which construction begins by December 31, 2010, and that is one of the following: over 250,000 square feet in size; over 100,000 square feet in size, if located in a county with a population of more than 750,000 and less than 1.1 million; or over 30,000 square feet in size, if located in a county with a population of more than 26,000 and less than 28,000. Under the bill, industrial property also would include a hotel or motel that has additional meeting or conference space and that is attached to a convention and trade center described in the definition.

MCL 207.552

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

Tax breaks offered under PA 198 provide a benefit to businesses that are expected to create and retain jobs in local markets. Often, the success of the business receiving a PA 198 tax abatement has led to further success for other businesses in the area, too. The Suburban Collection Showplace in Novi (formerly known as the Rock Financial Showplace and, before that, the Novi Trade & Expo Center) is a large convention and trade center that has been an anchor in western Oakland County's economic base. It hosts numerous conventions and trade shows, provides jobs for Michigan residents, and increases activity for nearby businesses such as restaurants and caterers.

According to testimony before the Senate Economic Development Committee by the owner/operator of Suburban Showplace, the center has an annual impact of more than $750 million on the southeastern Michigan economy. He would like to expand by building a hotel attached to Suburban Showplace, which would help attract more business, particularly for events that would run longer than one day. The expansion reportedly would be the largest construction project of its type in the country that is not a casino. Adding the hotel to Suburban Showplace may not be feasible, however, unless eligibility for a PA 198 tax abatement is extended to the new property. Since the convention and trade center facility already is included as industrial property under the Act, the statutory definition also should include the proposed attached hotel in order to encourage this private development and spur further economic growth in the area.

Response: In testimony before the Senate committee, a Michigan Economic Development Corporation (MEDC) official said that PA 198 tax abatements typically have been used for "plant-based jobs". When large convention and trade centers were added to the Act's definition of industrial property several years ago, the MEDC did not object because those facilities, though not traditional industrial plants, should attract further development such as hotels to the area. To date, however, the Act has not otherwise been extended to facilities that provide service sector and retail jobs, but has focused on what the MEDC official termed "economic base" employment. The MEDC contends that convention and trade centers fit the economic base criteria but adjacent hotels do not. The official suggested that an economic development incentive for construction and operation of a hotel could be accommodated more appropriately through another statute, such as the Commercial Rehabilitation Act.

Opposing Argument

Governor Snyder has suggested reducing costs to the State that are incurred through tax credits and abatements. Rather than increasing spending through tax policy, the Governor has proposed that businesses wishing to secure economic development benefits seek funding instead through the annual appropriation process. Indeed, in the 1990s, a convention center development project in Grand Rapids received a direct appropriation from the State.

Response: Suburban Showplace is not seeking a hand-out from taxpayers and does not want a direct State appropriation. The private business wants to pay all of its taxes, with the temporary adjustment proposed by the bill. Suburban Showplace's owner merely seeks an incentive for private investment in a development project that will benefit the area's economy.

Legislative Analyst: Patrick Affholter

FISCAL IMPACT

The bill would reduce local unit revenue, and increase required expenditures from the School Aid Fund, by an unknown amount. The bill also could reduce revenue to the School Aid Fund by an unknown amount under certain circumstances. The actual impact of the bill would depend on the specific characteristics of the property affected by the bill. The magnitude of the changes could be significant, but based on recent history and that the bill likely would affect few properties or a single property, the likely impact would be minimal.

Under the statute, exemption certificates must be approved by the local unit in which the property is located and, once approved, they reduce the non-State Education Tax property taxes by 50%. The State receives revenue from both the State Education Tax and the portion of property tax revenue attributable to mills levied for school operating purposes on nonhomestead property. The latter revenue source reflects a tax rate of 9 mills, because without the exemption certificate the school district would receive 18 mills. As a result, the bill would increase revenue received by the State, assuming the investments will not occur absent the bill. However, the bill would reduce property tax revenue received by local units, including revenue from what otherwise will be 18 mills levied on nonhomestead property for school operating purposes. Reductions in local school district revenue would increase School Aid Fund expenditures in order to maintain per-pupil funding guarantees, and the magnitude of the change would be approximately 50% more than any increase in revenue from the State Education Tax.

Fiscal Analyst: David Zin

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