



**Senate Fiscal Agency**  
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**BILL ANALYSIS**



**Telephone: (517) 373-5383**  
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Senate Bill 668 (Substitute S-2 as passed by the Senate)  
 Senate Bill 669 (Substitute S-1 as passed by the Senate)  
 Senate Bill 670 (Substitute S-1 as passed by the Senate)  
 Senate Bill 671 (as passed by the Senate)  
 Senate Bill 672 (as passed by the Senate)  
 Senate Bill 673 (Substitute S-1 as passed by the Senate)  
 Senate Bill 674 (Substitute S-1 as passed by the Senate)  
 Senate Bill 675 (Substitute S-1 as passed by the Senate)  
 Senate Bill 676 (as passed by the Senate)

Sponsor: Senator Dick Posthumus (Senate Bill 668)  
 Senator Glenn D. Steil (Senate Bill 669)  
 Senator Loren Bennett (Senate Bill 670)  
 Senator Leon Stille (Senate Bill 671)  
 Senator Don Koivisto (Senate Bill 672)  
 Senator Dave Honigman (Senate Bill 673)  
 Senator John J. H. Schwarz, M.D. (Senate Bill 674)  
 Senator Bill Schuette (Senate Bill 675)  
 Senator Henry E. Stallings, II (Senate Bill 676)

Committee: Local, Urban and State Affairs

Date Completed: 2-22-96

### **RATIONALE**

Although many parts of the State are experiencing economic growth with increases in commercial, industrial, and residential construction and business activities, some urban and rural communities in Michigan have not been able to share in this prosperity. These communities face multiple challenges to economic development, such as deteriorated infrastructures and abandoned residential and commercial sites. Some people believe that a strategy is needed to bring about commercial, industrial, and residential improvements in these areas, and that providing certain tax exemptions to businesses and individuals who wish to invest in these communities would help lure businesses and homeowners into economically depressed areas.

### **CONTENT**

**Senate Bill 668 (S-2)** would create the "Michigan Renaissance Zone Act", which would establish a renaissance zone review board to review applications from qualified local governments for designation of geographic areas as renaissance zones.

**Beginning after December 31, 1996, a resident or business within a renaissance zone would receive for up to 15 years an exemption or credit from certain taxes. Property located in a zone would be exempt from property taxes for up to 15 years, beginning with taxes levied after 1996. The State would be required to reimburse local and intermediate school districts (ISDs) as well as community colleges for revenues lost because of the tax exemption. The bill also specifies circumstances under which a person or business within a renaissance zone would not be eligible for an exemption, and would provide for reductions in the exemptions or credits during the last three years of eligibility. The Department of Michigan Jobs Commission would have to report annually to the Legislature generally on the economic effect of the bill in each renaissance zone.**

For the review board to designate an area as a renaissance zone, an application would have to meet certain criteria, including limiting the

size of a zone to 5,000 acres, requiring the submission of a development plan, and limiting the designation to 15 years. The State Administrative Board would have to review all recommendations from the renaissance zone review board and determine if the applications met certain criteria, including whether adverse economic and socioeconomic conditions existed within the proposed zone, the viability and creativity of the proposed development plan, and the availability of public and private resources. The Administrative Board could designate up to eight renaissance zones, with five located in urban areas and three in rural areas.

**Senate Bill 669 (S-1)** would amend the Income Tax Act to permit a qualified taxpayer who was a resident of a renaissance zone, for the 1997 tax year and each subsequent tax year, to deduct from adjusted gross income an amount equal to the sum of income earned or received while he or she had been a renaissance zone resident; capital gains received in the tax year; and, income the taxpayer received from winning a State on-line lottery game only if the date of the drawing for that game had been after the taxpayer became a renaissance zone resident. The deduction would be in effect for the tax year in which the taxpayer had been domiciled for 183 consecutive days in a renaissance zone.

**Senate Bills 671 through 676** would amend various acts to provide tax exemptions for individuals and property located in a renaissance zone.

A more detailed description of the bills follows.

### **Senate Bill 668 (S-2)**

#### **Legislative Findings**

The bill states the following findings of the Legislature: "The legislature of this state finds and declares that there exists in this state continuing need for programs to assist certain local governmental units in encouraging economic development, the consequent job creation and retention, and ancillary economic growth in this state. To achieve these purposes, it is necessary to assist and encourage the creation of renaissance zones and provide temporary relief from certain taxes within the renaissance zones."

The bill also would require that it be construed liberally to effectuate the legislative intent and the purposes of the proposed Act and as complete and independent authority for the performance of each and every act and thing authorized by the Act, and that all powers granted by the Act be broadly interpreted to effectuate its intent and purposes and not as a limitation of powers.

#### **Review Board**

The renaissance zone review board would be created, and would consist of all of the following: the Director of the Department of Management and Budget, the chief executive officer of the Michigan Jobs Commission, and the State Treasurer, or their designees.

The review board would have to review all applications submitted by qualified local governmental units and make recommendations to the State Administrative Board for approval based on criteria contained in the bill.

Review board members would have to serve without compensation, but could receive reasonable reimbursement for necessary travel and expenses. The review board would be subject to the Open Meetings Act and the Freedom of Information Act.

#### **Application**

A qualified local governmental unit (which would be either a city or a county) or two adjacent qualified local governmental units could apply to the review board to designate not more than six distinct geographic areas within the qualified local governmental unit or units as a renaissance zone. For a city, each area would have to be at least equal in size to the square miles of the city in which the renaissance zone was located divided by 250. For a county, each would have to contain at least 400 acres including property owned by the State or Federal government. All of the following criteria would have to be met:

- The geographic area of the proposed renaissance zone was located within the boundaries of the qualified local governmental unit(s) that applied.
- The application included a "development plan".
- The proposed renaissance zone was not more than 5,000 acres in size.

- The application included the proposed duration of renaissance zone status, of up to 15 years.
- The county executive's written approval of the application was included, if the qualified local governmental unit had an elected county executive.
- The city's mayor's written approval of the application was included, if the qualified local governmental unit were a city.
- The residency requirement for the people employed by a business was stated specifically, if the qualified local governmental unit placed a residency requirement for people employed by a business that was to receive certain tax benefits, as specified in the bill.

A qualified local governmental unit could not be part of more than one renaissance zone, and could not submit more than two applications to the review board for designation as a renaissance zone.

("Development plan" would mean a written plan that addressed the criteria in the bill for designation of a renaissance zone and included all of the following:

- A map of the proposed renaissance zone that indicated the geographic boundaries, the total area, and the present use and conditions of the land and structures within those boundaries.
- Evidence of community support and commitment from residential and commercial interests.
- A description of the methods proposed to increase economic opportunity and expansion, facilitate infrastructure improvement, and provide job training.
- Current social, economic, and demographic characteristics of the proposed renaissance zone and anticipated improvements in education, health, human services, public safety, and employment if the renaissance zone were created.
- Any other information required by the State Administrative Board.)

The review board could not consider an application that was submitted less than 60 days after the bill's effective date and/or submitted after October 31, 1996.

The application form for a renaissance zone designation would have to be as specified by the

Michigan Jobs Commission. The State Administrative Board could request any information from an applicant, in addition to that contained in an application, as needed to permit the Board to discharge its responsibilities under the bill.

#### State Administrative Board

The State Administrative Board would have to review all recommendations submitted by the review board and determine which applications met the bill's criteria. The Board would have to do all of the following: designate renaissance zones; approve or reject the duration of renaissance zone status as submitted in an application, not to exceed 15 years; and approve or reject the geographic boundaries and the total area of the renaissance zone as submitted in the application. The Administrative Board, however, could not alter the geographic boundaries of the renaissance zone or the duration of the renaissance zone status described in the application unless the qualified local governmental unit(s) and the local governmental unit(s) in which the renaissance zone was to be located consented to the alteration.

The Administrative Board could not designate a renaissance zone after December 31, 1996. The designation of a renaissance zone would take effect January 1, 1997.

The Administrative Board would be subject to the Open Meetings Act and the Freedom of Information Act.

#### Criteria

The Administrative Board would have to consider all the following criteria in designating a renaissance zone: evidence of adverse economic and socioeconomic conditions within the proposed renaissance zone; the viability of the development plan; whether the development plan was creative and innovative in comparison to other applications; public and private commitment to and other resources available for the proposed renaissance zone; how renaissance zone designation would relate to a broader plan for the community as a whole; demonstrated cooperation from surrounding communities; and, any other information required by the Board.

The Board could not designate an area as a renaissance zone unless, as part of the application, the qualified local governmental unit(s) provided a resolution from the governing body of

the qualified local governmental unit and each city, village, or township, within which the proposed renaissance zone was to be located, that stated that if the renaissance zone designation were granted, persons and property within the renaissance zone would be exempt from taxes levied by the governmental unit as provided in the bill.

#### Zone Designation

The Administrative Board could not designate more than eight renaissance zones within the State. Not more than five of the renaissance zones could be located in urban areas and not more than three could be located in rural areas. The bill specifies that for purposes of determining whether a renaissance zone was located in an urban or rural area, if any part of a renaissance zone were located within an urban area, the entire renaissance zone would be considered to be located in an urban area. ("Urban area" would mean an urbanized area as determined by the economics and statistics administration, United States Bureau of the Census according to the 1990 census. "Rural area" would mean an area that lay outside of the boundaries of an urban area.)

#### Tax Credits

Except as otherwise provided in the bill, a person who was a resident of a renaissance zone or a business that was located and operated within a renaissance zone would receive for up to 15 years an exemption or credit as proposed under the following Acts: the Single Business Tax Act; the Income Tax Act; the City Income Tax Act; the plant rehabilitation and industrial development Act; the Commercial Redevelopment Act; the Enterprise Zone Act; Public 189 of 1953, which provides for the taxation of lessees or users of tax-exempt property; the Technology Park Development Act; the Natural Resources and Environmental Protection Act, which provides for an annual specific tax on commercial forests; the Neighborhood Enterprise Zone Act; and, the City Utility Users Tax Act.

Except as otherwise provided in the bill for ineligible individuals or businesses, property located in a renaissance zone would be exempt from the collection of taxes under the General Property Tax Act beginning with taxes levied after 1996, for up to 15 years.

During the last three years that the taxpayer was eligible for an exemption or credit, the exemption or credit would have to be reduced by the following percentages:

- 25% for the tax year that was two years before the final year of designation as a renaissance zone.
- 50% for the tax year immediately preceding the final year of designation.
- 75% for the tax year that was the final year of designation.

The bill specifies that except as otherwise provided, the exemption or credit provided for in the bill would take effect for tax years beginning after December 31, 1996.

#### Reimbursement

The State would be required to reimburse local and intermediate school districts each year for all tax revenue lost as the result of the bill's exemption of property from taxes levied under School Code as follows: the levy of property taxes by an ISD for operating purposes (MCL 380.625a); the levy by a school district of up to 18 mills for school operating purposes (MCL 380.1211); the levy by an ISD of millage for the operation of an area vocational-technical education program (MCL 380.681); and the levy by an ISD of property taxes for special education purposes (MCL 380.1724a).

The State also would be required to reimburse each year a community college district for all tax revenue lost as a result of the exemption of property under the bill from taxes levied or collected under the General Property Tax Act.

Local and intermediate school districts as well as community college districts eligible for reimbursement under these provisions would be required to report annually to the Department of Treasury all revenue lost for which reimbursement under the bill was claimed.

The State would be required to reimburse the School Aid Fund for all revenues lost as the result of the establishment of renaissance zones. Foundation allowances calculated under the School Aid Act could not be reduced as a result of lost revenues arising from the bill.

## Ineligibility

An individual who was a resident of a renaissance zone or a business that was located and operated within a renaissance zone or a person who owned property located in a renaissance zone would not be eligible for the exemption or credit listed in the bill for that taxable year if the individual, business, or person were delinquent, as determined by the Administrative Board, in one or more of the following: the Single Business Tax Act; the Income Tax Act; the City Income Tax Act; the plant rehabilitation and industrial development Act; the Commercial Redevelopment Act; the Enterprise Zone Act; Public Act 189 of 1953; the Technology Park Development Act; the Natural Resources and Environmental Protection Act; the Neighborhood Enterprise Zone Act; the City Utility Users Tax Act; or, the General Property Tax Act. In addition, an owner of residential real property in a renaissance zone, would be ineligible if the property were not in compliance with all applicable State and local zoning, building, and housing laws, ordinances, or codes as determined by the Board. A business located in a qualified local government unit that relocated from outside a renaissance zone into a zone could not receive the tax benefits or exemptions described in the bill unless the governing board of that local government approved the relocation of the business.

### **Senate Bills 669 (S-1)**

The bill would amend the Income Tax Act to permit a "qualified taxpayer", for the 1997 tax year and each tax year thereafter, to deduct, to the extent included in adjusted gross income, an amount equal to the sum of all of the following:

- Income earned or received during the period of time that the qualified taxpayer was a resident of a renaissance zone, except as provided below.
- Interest and dividends received in the tax year during the period that the qualified taxpayer was a resident of a renaissance zone. This deduction would have to be calculated before a deduction for interest and dividends for senior citizens allowed under the Act was calculated.
- Capital gains received in the tax year. This deduction would have to be prorated based on the percentage of time that the asset was held by the qualified taxpayer while her or she was a resident of the renaissance zone, and would have to be calculated before a

deduction for capital gains for senior citizens allowed under the Act was calculated.

- Income received by the taxpayer from winning an on-line lottery game sponsored by the State only if the drawing for that game had been held after the taxpayer became a resident of a renaissance zone, and income received by the taxpayer from winning an instant lottery game sponsored by the State only if the taxpayer had been a resident of a renaissance zone on the validation date of the lottery ticket for that game.

The deduction would be in effect for the tax year in which the qualified taxpayer completed the residency requirements under the bill. To be eligible for this deduction, a taxpayer would have to file an annual return under the Act and file with the revenue division of the Treasury Department a withholding form prescribed by the Department within 10 days after the date the taxpayer became domiciled in a renaissance zone.

If the Department found that a taxpayer had claimed a deduction under the bill to which he or she was not entitled, the taxpayer would be subject to the interest and penalty provisions under the Act.

("Qualified taxpayer" would mean a taxpayer who was a resident of a renaissance zone. "Resident" would mean an individual domiciled for 183 consecutive days in a renaissance zone. If an individual who had been a resident during the tax year became a nonresident or vice versa, taxable income would have to be determined separately for income in each status. "Resident" would include the estate of an individual who had been a resident of a renaissance zone at the time of death. After a taxpayer had completed the 183-day requirement, he or she would be considered to be a resident of a renaissance zone beginning from the first day used to determine if the 183-day requirement had been met.)

The Act requires an employee to furnish his or her employer information required for the employer to make an accurate withholding. An employee would have to file with his or her employer revised information within 10 days after the taxpayer became domiciled in a renaissance zone. When a taxpayer became domiciled in a renaissance zone, the revised information would be in effect retroactively to the first day the taxpayer was domiciled in the zone.

Under the Act, “taxable income” means, for a person other than a corporation, estate, or trust, adjusted gross income as defined in the Internal Revenue Code, subject to adjustments enumerated in the Act. The bill would add adjustments resulting from the application of the bill’s provisions concerning qualified taxpayers who were residents of renaissance zones.

The bill also would repeal and recodify provisions on the amount of deductions allowed for single and joint returns (MCL 206.30a) and provisions on the adjustment of personal exemptions allowed under the Act (MCL 206.30b).

### **Senate Bill 670 (S-1)**

#### **Renaissance Zone Exemption**

The bill would amend the General Property Tax Act to provide that for taxes levied after 1996, except as otherwise provided and limited in the bill for residential rental property, real property in a renaissance zone, and personal property located in a renaissance zone for at least 50% of the tax year would be exempt from taxes collected under the Act to the extent and for the duration provided pursuant to the proposed Michigan Renaissance Zone Act.

Real and personal property in a renaissance zone would not be exempt from the following:

- A special assessment levied by the local tax collecting unit in which the property was located.
- Except as provided in the bill for exempt real property, a tax levied to pay principal and interest due on an obligation of a local taxing unit such as bonds, refunding bonds, notes, certificates of indebtedness, contracts or assessments for the payment of bonds, and other similar instruments issued or incurred by the local taxing unit that met one or more of the following requirements: evidenced a general obligation of that local taxing unit, pledged the full faith and credit of that local taxing unit, and/or was payable primarily or secondarily from taxes and/or special assessments.
- A tax levied under provisions of the School Code that permit the levy of a regional enhancement property tax for local school district operations (MCL 380.705); permit a school district to levy up to three additional

mills for enhancing operating revenue (MCL 380.1211c); and, permit a school district to levy up to five mills for up to 20 years to create a sinking fund to be used to purchase sites for, and construction or repair of, school buildings (MCL 380.1212).

The bill specifies that for residential rental property in a renaissance zone, this exemption would be available only if that property were in substantial compliance with all applicable State and local zoning, building, and housing laws, ordinances, or codes. A property owner claiming an exemption for residential property in a renaissance zone would have to file an affidavit before December 31 in each tax year with the local taxing unit in which the property was located stating that the property complied with all applicable State and local zoning, building, and housing laws, ordinances, or codes. (“Residential rental property” would mean real property classified as residential real property under the Act, a multiple-unit dwelling, or a dwelling unit in a multiple purpose structure, used for residential purposes and not occupied by an owner of that property.)

Real property in a renaissance zone would be exempt from taxes captured to pay principal and interest due on bonds or notes issued under the Tax Increment Finance Authority Act, the downtown development authority Act, or the Local Development Financing Act.

The bill specifies that the taxable value of property that was previously exempt under the bill would be the taxable value that property would have had under the General Property Tax Act if it had not been exempt.

#### **Nonprofit Charitable Institutions**

Currently, real estate or personal property owned and occupied by nonprofit charitable institutions is exempt from the collection of taxes under the Act. The bill also provides that property owned by a nonprofit charitable institution that was leased, loaned, or otherwise made available to another nonprofit charitable institution, a nonprofit hospital, or a nonprofit educational institution occupied by that entity solely for the purposes for which it was organized and that would be exempt from taxes collected under the Act if the property were occupied by the lessor nonprofit charitable institution solely for the purposes for which it was organized, would be exempt from the collection of taxes under the Act.

The governing body of a local property tax collecting unit with a population over 175,000 and the county board of commissioners in a county with a population over 1.5 million by resolution could waive all or part of any delinquent taxes, interest, late penalty charge, or property tax administration fee due to that local unit or county from property owned by a nonprofit charitable institution exempt from the collection of taxes under the Act.

### **Senate Bills 671 through 676**

Senate Bill 671 would amend the Neighborhood Enterprise Zone Act to provide that a new facility or a rehabilitated facility located in a renaissance zone under the proposed Michigan Renaissance Zone Act would be exempt from the neighborhood enterprise zone tax to the extent and for the duration provided pursuant to the proposed Act.

Senate Bill 672 would amend the Natural Resources and Environmental Protection Act to provide that commercial forest land located in a renaissance zone under the proposed Michigan Renaissance Zone Act would be exempt from the annual specific tax to the extent and for the duration provided pursuant to that Act.

Senate Bills 673 (S-1), 674 (S-1), and 675 (S-1) would amend the Local Development Financing Act, the Tax Increment Finance Authority Act, and the downtown development authority Act, respectively, to require that the Legislature appropriate to local development authorities the amount of tax increment revenues that an authority would have received for the fiscal year if property taxes had been levied on property in an authority's jurisdiction that was exempt from taxation pursuant to the proposed Michigan Renaissance Zone Act based on the property's taxable value at the time the zone was designated.

Senate Bill 676 would amend the City Utility Users Tax Act to provide that for tax years beginning after December 31, 1996, a person or corporation would be exempt from the uniform city utility users tax ordinance to the extent and for the duration provided pursuant to the Michigan Renaissance Zone Act.

### **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**

Although a number of State taxes have been cut, the State's economy is thriving, and the unemployment rate is down, some urban and rural areas across Michigan have not been able to participate in the State's economic resurgence. Consequently, these communities are seeking innovative approaches to encourage business and residential development in economically depressed neighborhoods. The bills would provide for the establishment across the State of up to eight renaissance zones in which businesses and residents would be exempt for up to 15 years from certain property and income taxes. Thus, the costs of establishing businesses, building homes, and encouraging people to live and work in these areas would be less because of these exemptions. The bills could help to infuse economic vitality into these depressed areas by promoting the creation of businesses, jobs, and neighborhoods. In addition, the renaissance zone concept would give local governments a free hand to design a program of economic development that could be tailored to meet their communities' needs.

**Response:** Other State programs, such as the Michigan Economic Growth Authority and various tax abatements, already are available to promote economic development in communities across Michigan. It is not clear why the State should create another governmental program to promote economic development instead of expanding on the efforts of current programs. Furthermore, the revitalization of urban areas should be addressed in a comprehensive strategy that would address decaying infrastructures, mass transportation, crime, and jobs, as well as tax incentives, to encourage economic development in an entire urban area. For example, the tax breaks for business could be linked to guarantees of job creation resulting from development in a renaissance zone. Furthermore, Senate Bill 668 (S-2) would provide for the establishment of renaissance zones in rural, as well as urban areas. Residential developers already are constructing housing developments in rural areas encircling the State's major urban areas. It is not certain that the proposed tax exemptions would be enough of an incentive to convince developers to build in an urban area when they could construct housing developments in more desirable rural areas and still receive a tax break, if the rural area were designated a renaissance zone. Besides, some people are concerned about the proliferation of developments already occurring in rural areas of the State, which threatens the State's agricultural industry.

### **Supporting Argument**

Under Senate Bill 668 (S-2), the State would be required to reimburse local and intermediate school districts, as well as community colleges, for revenues lost because the tax exemptions proposed under the bills. In addition, the State would be required to reimburse the School Aid Fund for all revenue lost as a result of the establishment of renaissance zones. Foundation allowances calculated under the School Aid Act could not be reduced as a result of lost revenues arising from the proposed Renaissance Zone Act. Thus, school districts in which a renaissance zone was located would be protected from a revenue loss because of the proposed tax exemptions.

**Response:** Although the bill would require that school districts in renaissance zones be reimbursed for lost revenues, some people believe that specific language proposing a mechanism for reimbursement also should be included in the State School Aid Act.

### **Opposing Argument**

Since the bills would not reimburse lost revenues to local governments affected by the tax exemptions, the localities in which a renaissance zone was located could experience a significant negative impact on their general fund budgets due to the proposed tax breaks. These governments still would have to provide public services to these areas without being able to collect taxes to pay for them. While the renaissance zone concept is designed to be an incentive to economic development in hard-pressed communities, it could serve as a disincentive since some communities could not afford to participate. Furthermore, the loss of these tax revenues could become a self-limiting aspect of the plan if localities designated areas with the smallest tax base so as not to have a significant impact on tax revenues. In addition, people living and businesses operating in areas neighboring a renaissance zone, which also could be economically depressed, still would have to pay taxes for public services that were being used not only in their neighborhoods, but in the renaissance zone as well. Thus, these neighboring areas as well as the remainder of an urban area would be subsidizing the cost of providing public services to business and residential developers who located in a renaissance zone. Specialized tax breaks, such as tax exemptions provided under the proposed Renaissance Zone Act, tend to pick winners and losers by pitting communities and businesses against one another. Rather than lowering taxes for particular individuals,

communities, or businesses, the State should lower taxes for everyone.

**Response:** The proposal is aimed at areas of communities where the tax base is minimal or is rapidly declining. If the plan spurred new economic development, it would result in more tax revenue for local governments when the tax breaks ended in 15 years. Thus, local governments participating in the renaissance zone plan would enjoy in the future many years of increased tax revenues generated in areas of their communities where there had been little prospect of future growth without an incentive, such as the renaissance zone concept. Besides, if a once-decaying area became economically viable, the economic benefits would spin off to other businesses in the urban area.

Legislative Analyst: L. Arasim

### **FISCAL IMPACT**

Senate Bills 668 (S-2) to 676 would have a fiscal impact on State and local governments; however, it is not possible to provide a meaningful estimate of the impact. In order to calculate the fiscal impact of these bills, estimates would have to be made on such important factors as 1) where the renaissance zones would be located, 2) the number of businesses that would participate and the value of their operations, and 3) how much of the business activity that took place in a renaissance zone would represent new activity that would not have occurred anywhere in Michigan without the creation of renaissance zones. There is not enough information available to make these estimates.

### **State and Local Government Impact**

**State Government.** This package of bills would reduce State revenue from what it otherwise would be in three major budget areas: General Fund/General Purpose (GF/GP) revenue, School Aid Fund (SAF), and revenue sharing. Gross income tax collections are distributed as follows: 14.4% (23% beginning in FY 1996-97) to the SAF, 7.3% to revenue sharing, and the remainder to GF/GP revenue. Therefore, the proposed reduction in the income tax would reduce revenue in each of these budget areas. The proposed reduction in the single business tax would reduce GF/GP revenue and revenue sharing. The proposed exemptions for the State education property tax, industrial and commercial facility taxes, and the commercial forest tax, would all



have a negative impact on the SAF. In addition, the State would be required to reimburse K-12 public schools and community colleges for any property tax reductions they would sustain due to the proposed property tax exemptions in the renaissance zones.

Local Governments. Local government tax revenue would be reduced due to the proposed exemptions for local government property taxes, city income taxes, city utility users tax (Detroit only), industrial and commercial facility taxes, enterprise zone taxes, and technology park taxes.

These direct tax reductions to State and local governments would be offset, at least in part, by new revenue generated by new business activity created outside of the renaissance zones. These new revenues would occur to the extent that business activity in the renaissance zones created new business activity outside of the renaissance zones.

#### **Taxpayer Impact**

While the overall fiscal impact cannot be identified, examples can illustrate the potential tax reduction that these bills would provide taxpayers located in a renaissance zone. Two such examples are as follows: 1) A family of four with income of \$30,000 and a home valued at \$70,000, would realize a reduction in the State income tax and State and local property taxes of \$1,965; and 2) a family of two with income of \$20,000 and a home valued at \$50,000 would realize a reduction in the State income tax and State and local property taxes of \$1,435.

#### **Local School Districts**

Senate Bill 668 (S-2) would have a fiscal impact on local school districts with property located in a renaissance zone. The local revenue on millage necessary for such a district to receive its foundation allowance would be reduced by the bill for property in the district included in a renaissance zone. The bill would require local districts to report the amount of lost tax revenue to the Department of Treasury and would require the State to reimburse that amount. While the bill includes intent language regarding reimbursement of these school districts, no appropriation is made for reimbursement payments. Without a specific appropriation for reimbursement payments or a change in the State School Aid Act regarding the taxable value to use in the calculation of State payments under the foundation allowance

appropriation, affected districts would not be able to receive their entire foundation allowance. With the designation of renaissance zones scheduled for January 1, 1997, school district reimbursement for local school districts would need to begin in FY 1997-98.

#### **Intermediate School Districts (ISDs) and Community Colleges**

The bill would have a fiscal impact on ISDs and community colleges with property in a renaissance zone. Intermediate school districts would lose tax revenue on property included in the zone on their general operating millage, special education operating millage, and vocational education operating millage. Similarly, community colleges with property in the zone would lose revenue on their operating millage. While the bill would require the State to reimburse ISDs and community colleges for these lost revenues, it does not make an appropriation for that purpose. The appropriation and reimbursement mechanism would need to be established for FY 1997-98.

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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.