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BILL ANALYSIS

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Senate Bill 175 (as reported without amendment)
Sponsor: Senator Cameron S. Brown
Committee: Economic Development, Small Business and Regulatory Reform

Date Completed: 5-11-05

RATIONALE

Officials from communities located along Michigan's southern border claim that they have been unable to attract warehousing operations to their communities because they cannot offer warehouses the same property tax abatements currently being offered by communities in Ohio and Indiana. Apparently, a company recently decided not to locate a major warehouse and distribution facility in St. Joseph County because the county could not offer a property tax abatement to a warehousing operation under the plant rehabilitation and industrial development districts Act. Evidently, the business then located the warehouse in northern Indiana, where it was granted a 50% property tax abatement. To address this situation, some people believe that local governments should be allowed to offer the same property tax abatements to warehousing operations and other qualified commercial activities as they are permitted to offer to other types of industrial property under the Act.

CONTENT

The bill would amend the plant rehabilitation and industrial development districts Act to permit local units of government to extend property tax abatements to property used for "qualified commercial activity", which would have to meet criteria regarding its use, size, and wages.

Under the Act, local units of government may establish plant rehabilitation districts and industrial development districts to provide new, renovated, or expanded industrial property (facilities) with property tax abatements for up to 12 years. To be eligible for the tax abatements, the industrial property must be used for certain activities, which include the manufacturing and processing of goods and materials, high technology activity, and agricultural processing. The bill would amend the definition of "industrial property" to include the operation of qualified commercial activity among the activities that make a facility eligible for the tax abatement.

Under the bill, "qualified commercial activity" would mean commercial property that met all of the following:

-- It is used for warehousing, distribution, or logistic purposes or a communication service center.
-- It occupies a building or structure that is larger than 150,000 square feet.
-- It pays an average weekly wage to its employees equal to or exceeding the average weekly wage paid to residents of the county in which the facility is located as determined by the local governmental unit.

"Commercial property" would mean that term as defined in Section 2 of the Obsolete Property Rehabilitation Act, i.e., land improvements classified by law for general ad valorem tax purposes as real property including real property assessable as personal property pursuant to Sections 8(d) and 14(6) of the General Property Tax Act.

MCL 207.552

BACKGROUND

Under the Act (which is commonly called PA 198), in a local unit that has established a plant rehabilitation and industrial development district, the owner or lessee of industrial property in the district may apply to the local unit for an industrial facilities exemption certificate. Upon approval by the local unit's legislative body, the application is forwarded to the State Tax Commission, which issues an industrial facilities exemption certificate if it determine that the facility conforms with the Act. The certificate exempts the facility (but not the land or inventory) from real and personal property taxes, and makes it subject to a specific industrial facilities tax. For a new facility, the specific tax is 50% of what the property tax otherwise would be, plus the State education tax. For a replacement facility, the specific tax essentially is the amount that property taxes would be based on the use of the facility before the renovation.

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

Traditionally, warehousing jobs have been low-wage positions with poor benefits. Today's warehousing and distribution operations, however, often provide their employees with both good pay and benefits, and many local governments in Michigan, Ohio, and Indiana have been competing against each other to recruit these businesses. Reportedly, Performance Foods was considering locating a warehouse and distribution center in St. Joseph County, where it would have paid an average weekly wage that was higher than the county average. Eventually, Performance Foods decided to locate in northern Indiana where it received a 10-year, 50% tax abatement that St. Joseph County could not mach. By amending the plant rehabilitation and industrial development districts Act to extend property tax abatements to warehousing operations and other commercial activities that pay wages that are at or above the county average, the State could compete for those warehousing operations that are currently going to Ohio and Indiana.

In addition to providing employee wages and benefits, the warehousing and distribution facilities themselves usually represent significant capital investments on the part of the businesses building the facilities, and these investments also provide benefits to the local economy.

Opposing Argument

The bill would allow the government to subsidize so-called "big-box" stores, such as Wal-Mart, that traditionally build their warehouses where they are needed, regardless of whether they receive tax breaks from the community. In their zeal to attract warehousing jobs, some local governments will bid against each other to give these large retailers tax abatements for locating in their communities, despite the fact that the locating of such warehouses is usually dictated by logistical issues and not local tax rates. The bill would encourage communities to continue offering unneeded tax incentives to these large retailers.

Response: The Michigan communities concerned that they are losing warehouses to Ohio and Indiana are located within a few miles of the border. While location does play a key role in the siting of warehouses and distribution centers, businesses have shown themselves to be more than willing to move a few miles south into Ohio and Indiana if it results in substantial tax savings.

Opposing Argument

Traditionally, warehousing and distribution facilities have followed manufacturing plants and, without factories, there is no reason for them to locate in a particular community. Offering tax breaks to warehousing and distribution centers would not substantially increase the number of those facilities in the State unless something were done about the underlying problem, which is the State's difficulty attracting and retaining manufacturing operations.

Opposing Argument

Communities would grant tax abatements to warehouses and distribution centers based on local political considerations without regard to the impact of the abatements on the School Aid Fund, which would have to reimburse school districts for the loss of tax revenue.

Legislative Analyst: J.P. Finet

FISCAL IMPACT

The bill would reduce State and local revenue and would increase expenditures from the School Aid Fund by an indeterminate amount. The bill would expand the types of activities and taxpayers that may qualify for an industrial or commercial facilities exemption certificate. A certificate reduces tax revenue if the activity would have occurred absent the certificate; if the activity would not have occurred without the certificate, taxing authorities simply forego and/or delay receipt of tax revenue that otherwise would not be received.

The amount of the revenue reduction would depend upon the number of taxpayers that would seek certificates under the bill as well as the characteristics of the property. To the extent that a local unit awarded certificates to taxpayers under the terms of the bill instead of to other taxpayers, the bill could have a smaller cost or even a positive fiscal impact. School Aid Fund expenditures would be affected to the extent that the tax reductions granted under the certificates reduced own-source revenue received by local school districts. To maintain guaranteed per-pupil funding amounts, School Aid Fund expenditures would need to increase to offset any loss of local revenue.

Fiscal Analyst: David Zin

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