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 175 (as introduced 2-9-05)
Sponsor: Senator Cameron S. Brown
Committee: Economic Development, Small Business and Regulatory Affairs

Date Completed: 5-3-05

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 qualify a facility 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 determines 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.

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. The effect of a certificate depends upon certain characteristics of the property. Regardless of the mechanics of the certificate, the effect on revenue is the same. If the activity were to occur absent the certificate, the certificate reduces tax revenue; on the other hand, if the activity would not occur 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 for which certificates would be issued. 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.

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

Fiscal Analyst: David Zin