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BILL



ANALYSIS

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Senate Bill 146 (Substitute S-1 as reported)  
Sponsor: Senator Cameron S. Brown  
Committee: Economic Development and Regulatory Reform

Date Completed: 3-31-08

### **RATIONALE**

Some communities in Michigan have been unable to attract warehouses and other businesses because they cannot offer property tax abatements currently being offered by communities in other states. Because of this, Michigan can lose opportunities to attract high capital investment companies that pay good wages.

Reportedly, Lenawee County recently lost to another state a \$200 million, 400,000 square foot facility that would have employed approximately 400 workers at \$17 per hour plus benefits. When choosing to locate elsewhere, the company evidently cited the lack of a tax abatement in Michigan as a key reason. Several years ago, a company decided not to build 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 Act (commonly called PA 198). Evidently, the business then located the warehouse in northern Indiana, where it was granted a 50% property tax abatement.

In order to make this State competitive in attracting new business, some people believe that the Act should allow local governments to exempt certain types of commercial facilities from property taxes.

### **CONTENT**

**The bill would amend the plant rehabilitation and industrial development Act to redefine "qualified commercial activity" (which may qualify**

**property for a tax exemption under an industrial facilities exemption certificate). The bill also would require a local unit to give 15, rather than 14, days' notice of the termination of a district.**

#### Qualified Commercial Activity

Under the Act, a local governmental unit, by resolution of its legislative body, may establish a plant rehabilitation or industrial development district that consists of one or more parcels or tracts of land or a portion of a parcel or tract of land. After a district has been established, the owner or lessee of a facility may file an application for an industrial facilities exemption certificate with the clerk of the local unit. A facility for which an industrial facilities exemption certificate is in effect, but not the land on which the facility is located or its inventory, is exempt from ad valorem real and personal property taxes.

The definition of "facility" includes a replacement facility and a new facility. "Replacement facility" generally means industrial property that is to be acquired, constructed, altered, or installed to replace or restore obsolete industrial property, and "new facility" means new industrial property other than a replacement facility to be built in a plant rehabilitation or industrial development district.

The definition of "industrial property" includes structures and equipment whose primary purpose is the operation of qualified commercial activity.

Currently, "qualified commercial activity" means commercial property that meets all of the following:

- An application for an exemption certificate approved by the local governmental unit was filed for approval by the State Tax Commission by April 30, 2006.
- At least 90% of the property, excluding the surrounding green space, is used for warehousing, distribution, and logistics purposes that provide food for institutional, restaurant, hospital, or hotel customers.
- The property is located within a village and is within 15 miles of a Michigan border.
- It occupies one or more buildings or structures that together exceed 300,000 square feet in size.

The bill would define "qualified commercial activity", instead, as commercial property that meets both of the following:

- Is used for warehousing, distribution, or logistic purposes, or for a communication service center.
- Occupies a building or structure that is larger than 100,000 square feet.

#### Notice of District Termination

Currently, before acting on a proposed resolution terminating a plant rehabilitation or industrial development district, a local unit of government must give at least 14 days' written notice by certified mail to the owners of all real property within the district, and must hold a public hearing on the termination of the district.

Under the bill, the local unit of government would have to give at least 15 days' written notice.

MCL 207.552 & 207.554

#### **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**

In part because of certain tax abatements and other incentives, Indiana is winning the battle for warehousing and distribution

centers and the good jobs that they bring. Reportedly, Performance Foods considered 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 match. Recently, Lenawee County also lost the opportunity to attract a new facility that would have cost about \$200 million to build and equip and could have employed 400 residents.

In addition providing jobs, warehousing and distribution facilities usually represent significant capital investments on the part of the businesses building the facilities. The facilities that would be attracted to the State, under the bill, would not be low-end, low-wage warehouses with small work forces, but would be large businesses with many well paying jobs, the kind Michigan needs.

**Response:** There is no information on prevailing wages for the types of jobs targeted by the bill, and there is no way to know in advance that the jobs potentially created under the bill would have good pay and benefits.

##### **Opposing Argument**

The bill is too broad and would apply to every county in the State, not just those on the borders, where competition with other states is especially strong. The bill also would apply to businesses besides warehouses, including commercial property used for distribution or logistics purposes and communication service centers. The focus of the bill should be narrower to reflect the goal of giving border counties a competitive edge in attracting warehouses.

**Response:** Limiting the scope of the bill essentially would limit potential investment and job creation in the State. Every county in Michigan could benefit from the opportunity to authorize tax abatements and encourage new business growth.

Legislative Analyst: Craig Laurie

##### **FISCAL IMPACT**

The bill would reduce local unit revenue, increase School Aid Fund expenditures, and depending upon how many State education tax mills were included under a certificate,

reduce State School Aid Fund revenue. The fiscal impact would depend upon the number of additional properties affected, as well as their specific characteristics. In general, the bill would reduce property taxes upon a facility by approximately 1% of the value of the facility. Under the average statewide rate on commercial property, the bill would reduce the property taxes on affected facilities by at least \$12,000 per facility. The allocation of the fiscal impact across local units and the School Aid Fund would depend upon local property tax rates.

Fiscal Analyst: David Zin

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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.