



Senate Fiscal Agency
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BILL ANALYSIS



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Senate Bill 757 (Substitute S-3 as passed by the Senate)
Sponsor: Senator Jason E. Allen
Committee: Commerce and Tourism

Date Completed: 9-24-07

RATIONALE

The plant rehabilitation and industrial development Act, commonly referred to as PA 198, allows local units of government, with the approval of the State Tax Commission, to grant industrial facilities exemption certificates to new and speculative buildings and replacement facilities located in a plant rehabilitation or industrial development district. A certificate essentially grants a property tax abatement to an industrial facility, which is subject to an industrial facilities tax that is lower than standard property taxes. Under the Act, a local governmental unit may not approve an application and the State Tax Commission may not grant an exemption certificate unless the district was established before restoration, replacement, or construction began, and the restoration, replacement, or construction did not begin earlier than six months before application for the exemption certificate was filed. The Act includes exceptions to these requirements, however, and it has been suggested that exceptions be added to accommodate projects in the City of Mt. Pleasant and in Monroe County.

In addition, a microbrewery in Webberville evidently is in the process of purchasing a facility that previously benefited from a PA 198 exemption certificate. That certificate, which was supposed to be valid through December 30, 2010, was revoked in December 2006. Some people believe that the certificate should be reinstated and transferred to the new owner of the facility.

CONTENT

The bill would amend the plant rehabilitation and industrial

development Act to do all of the following:

- **Allow an exemption certificate to be approved for a facility located in an existing industrial development district owned by a person who filed or amended an application for a certificate for real property in April 2006 if the application had been approved by the local unit's legislative body in September 2006 but not submitted to the State Tax Commission until November 2006.**
- **Allow an exemption certificate to be approved for a new facility in an existing industrial development district whose owner filed or amended an application for an exemption certificate for personal property in June 2006, if the application were approved in August 2006 and submitted to the State Tax Commission in 2007.**
- **Provide for the reinstatement and transfer of an industrial facilities exemption certificate that was awarded on December 8, 1998, but revoked on December 30, 2006, if the facility were purchased by November 1, 2007.**

Approval of Exemption Certificates

Under the Act, except for an application for a speculative building, the legislative body of a local governmental unit may not approve an application and the State Tax Commission may not grant an industrial facilities exemption certificate unless the applicant complies with various requirements, which include the following:

- The proposed facility must be located within a plant rehabilitation district or industrial development district that was duly established in an eligible local governmental unit upon a request filed, or by the local unit's own initiative taken, before the restoration, replacement, or construction of the facility commenced.
- The restoration, replacement, or construction of the facility must not have commenced earlier than six months before the application for the industrial facilities exemption certificate was filed.

Additionally, except as otherwise provided, a request for the establishment of a proposed plant rehabilitation or industrial development district may be filed only in connection with a proposed replacement facility or new facility whose construction, acquisition, alteration, or installation has not commenced at the time the request is filed. The legislative body of a local governmental unit may not establish a plant rehabilitation or an industrial development district if it finds that the request for the district was filed after the commencement of construction, alteration, or installation of, or an acquisition related to, the proposed replacement facility or new facility.

Under the bill, these criteria would not apply to a facility located in an existing industrial development district owned by a person who filed or amended an application for an industrial facilities exemption certificate for real property in April 2006, if the application were approved by the legislative body of the local governmental unit in September 2006 but not submitted to the State Tax Commission until November 2006.

The criteria also would not apply to a new facility located in an existing industrial development district owned by a person who filed or amended an application for an exemption certificate for personal property in June 2006, if the application were approved by the local unit's legislative body in August 2006 but not submitted to the State Tax Commission until 2007. The effective date of this certificate would be December 31, 2006.

Transfer of Exemption Certificate

The bill specifies that, notwithstanding any other provision of the Act, if the State Tax Commission issued an industrial facilities exemption certificate for a new facility on December 8, 1998, but revoked the

certificate effective December 30, 2006, and that new facility were purchased by a buyer on or before November 1, 2007, the Commission would have to issue for that property an industrial facilities exemption certificate that would begin December 31, 1998, and end December 30, 2010. The Commission would have to transfer that exemption certificate to the buyer of the facility. The new facility would have to be taxed under the Act as if it had been granted an industrial facilities exemption certificate effective on December 31, 1998.

MCL 207.552 & 207.559

BACKGROUND

Under the Act, in a local unit that has established a plant rehabilitation or an 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. A certificate may be issued for a combined total of 12 years for any one facility. 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 value of the facility before 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

The CME Corporation in Mt. Pleasant manufactures component motor parts for various automobile companies. According to testimony before the Senate Commerce and Tourism Committee by a CME official on a similar bill (Senate Bill 345), the company applied to the city in June 2006 for a PA 198 personal property tax exemption for equipment needed for a new process to produce starter motors for some Honda

vehicles. The company official and the mayor of Mt. Pleasant both testified that the city approved the application in August 2006, but the city apparently misfiled the paperwork and the locally approved application was not forwarded to the State Tax Commission as required by PA 198. Consequently, an industrial facilities exemption certificate has not been granted to CME.

In addition, Rolled Alloys, a worldwide specialty metals supplier with Midwest Region offices in Monroe County, filed an amended application for a PA 198 exemption certificate for real property in April 2006 for a facility located in an existing industrial development district. The local unit approved the application in September 2006 but did not submit it to the State Tax Commission until November 2006.

The bill would authorize PA 198 exemption certificates to be issued for both the CME Corporation and Rolled Alloys, allowing the companies to proceed as scheduled without having to begin the application process again.

Response: Section 6 of PA 198 requires the clerk of a local unit to forward an approved application to the State Tax Commission within 60 days of approval or before October 31 of that year, whichever is first, in order to receive an exemption certificate effective for the following year. The bill does not address this requirement for either the CME project in Mt. Pleasant or the Rolled Alloys project in Monroe County.

Supporting Argument

In 2003, the Michigan Brewing Company (MBC), a microbrewery located in Webberville, apparently began buying on a land contract a building that had a PA 198 exemption certificate. The exemption certificate for that facility was revoked in December 2006, reportedly due to confusion over the transaction on the part of both MBC and the Village of Webberville. The bill would reinstate the exemption certificate and allow its transfer to MBC, if the purchase of the facility were completed by November 1, 2007, thereby allowing MBC to benefit fully from the purchase.

Opposing Argument

The Act makes several exceptions to procedural requirements regarding when a restoration, replacement, or construction project may begin relative to the establishment of a district and the filing of

an application for an exemption certificate. Each of those exceptions is for a particular project in which, for various reasons, the procedural timetables were not met. In each case, an amendment was enacted specifically to allow an exemption certificate to be issued despite noncompliance with the statutory time frames. The bill should specify that those PA 198 requirements would not apply to a facility located in an industrial development district that otherwise met the Act's criteria, if the facility received written approval from the Michigan Economic Growth Authority and the State Tax Commission (as proposed by Senate Bill 218 (S-1), which was reported from the Senate Committee on Economic Development and Regulatory Reform in May 2007). This would establish an administrative avenue to deal on a case-by-case basis with projects that involve a procedural oversight, and would avoid the need to amend the Act each time a similar situation arises in the future.

Legislative Analyst: Patrick Affholter

FISCAL IMPACT

The bill would reduce State and local unit revenue and increase School Aid Fund expenditures by an unknown amount. The impact on State revenue would depend on whether 0, 3, or 6 mills of the State education tax would be abated under the new provisions. Any reduction in local school district operating revenue would be offset by increased expenditures from the School Aid Fund in order to maintain per-pupil funding guarantees.

The magnitude of the impact also would depend upon the characteristics of the properties affected. If any certificates were to be issued for a new facility, the revenue impact would represent an increase in revenue that would not be realized when the construction was completed. To the extent that development would occur absent the bill, the bill would prevent revenue increases that otherwise would be received by entities with affected mills, such as community colleges and library authorities, as well as revenue to the local unit.

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.