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BILL ANALYSIS

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Senate Bill 971 (Substitute S-3)
Sponsor: Senator Hansen Clarke
Committee: Commerce and Tourism

Date Completed: 6-10-08

CONTENT

The bill would amend the Michigan Renaissance Zone Act to do all of the following:

- **Allow the Michigan Strategic Fund (MSF) board to designate up to 20 retail redevelopment zones for qualified retail businesses by October 1, 2010.**
- **Require that retail redevelopment zones be located in "qualified downtown revitalization districts" under the Neighborhood Enterprise Zone Act.**
- **Require at least six retail redevelopment zones to be located in downtown districts under the downtown development authority (DDA) Act in cities or villages with a population of 25,000 or less.**
- **Require at least five retail redevelopment zones to be located in cities with a population of 200,000 or more.**
- **Specify factors the MSF board would have to consider in designating a retail redevelopment zone.**
- **Require each city or village that had a retail redevelopment zone to report annually to the MSF board.**
- **Limit the tax breaks available under the Act to property located in a retail redevelopment zone owned or leased by a qualified retail business and business activity in a zone by such a business.**

"Qualified retail business" would mean one or more businesses that primarily sell goods to customers at retail, including restaurants. The term, however, would not include any of the following:

- A striptease club or pornographic movie theater whose business is the commercial sale, dissemination, or distribution of sexually explicit material, shows, or other exhibitions.
- An adult bookstore or adult video store in which 25% or more of its stock-in-trade, books, magazines, and films for sale, exhibition, or viewing on-premises are sexually explicit material.
- A facility or operation that is a licensee and has a topless activity permit under the Michigan Liquor Control Code.
- A facility or operation that derives more than 75% of its sales from the sale of spirits for consumption off premises under the Michigan Liquor Control Code.
- A facility or operation that derives more than 75% of its sales from the sale of tobacco products as defined under the Tobacco Products Tax Act.

(Under Senate Bill 976 (S-1), which would amend the Neighborhood Enterprise Zone Act, "qualified downtown revitalization district" would mean an area located within the boundaries of one or more of the following:

-- A downtown district, as defined in the DDA Act.
-- A principal shopping district or a business improvement district as defined in the principal shopping district Act.
-- An area of the local unit zoned and primarily used for business, as determined by the local governmental unit.)

Specifically, Senate Bill 971 (S-3) would allow the MSF board to designate, by October 1, 2010, up to 20 retail redevelopment zones within Michigan in one or more cities or villages, if the city or village or combination of cities or villages consented to the creation of a retail redevelopment zone within its boundaries.

A retail redevelopment zone would have to be located in a qualified downtown revitalization district. The MSF board would have to designate at least six retail redevelopment zones in downtown districts under the DDA Act that were located in cities or villages with a population of 25,000 or less. The board would have to designate at least five retail redevelopment zones in areas located in cities with a population of 200,000 or more.

Each retail redevelopment zone would have to be one contiguous distinct geographic area and contain not more than 20 separate parcels of property.

The MSF board would have to consider all of the following when designating a retail redevelopment zone for a qualified retail business:

-- The economic impact on the community in which the zone was located.
-- Whether the goals of a retail redevelopment zone could be accomplished by locating qualified retail businesses in an existing renaissance zone designated under the Act.
-- The occupancy rates of the downtown district in the proposed retail redevelopment zone.
-- The presence of blighted or functionally obsolete buildings in the proposed retail redevelopment zone.
-- The likelihood that development within the zone would encourage cluster formation and bring complementary businesses to the community.
-- The likelihood that the proposed retail redevelopment zone would bring new and diverse retail businesses to the community.
-- The pool of entrepreneurs that likely would benefit from creation of the retail redevelopment zone.
-- The existence of a retail incubator or other community infrastructure to assist retail entrepreneurs in the proposed zone.

The city or village, with the assistance of the DDA, would have to report annually to the MSF on all of the following:

-- The amount of capital investment made in the retail redevelopment zone.
-- The number of individuals employed in qualified retail business in the retail redevelopment zone in the beginning and end of the reporting period.
-- Any other conditions or requirements reasonably required by the MSF.

Only property that was located in a retail redevelopment zone that was owned or leased by a qualified retail business and business activity conducted in a retail redevelopment zone by a qualified retail business would be eligible for the tax exemptions, deductions, or credits available under the Act.

MCL 125.2683 et al. Legislative Analyst: Patrick Affholter

FISCAL IMPACT

The bill would reduce revenue to both the State and local units by an unknown amount, and would increase State expenditures from the General Fund by an unknown amount. The magnitude of any changes would depend upon the specific characteristics of the property affected by the bill, how many of the allowed 20 zones the board of the Strategic Fund actually were designated, and when the designations occurred.

Most local property taxes abated in renaissance zones are not reimbursed by the State, reducing local unit revenue. However, the State's General Fund reimburses lost revenue to public libraries, intermediate school districts, local school districts, community colleges, and the School Aid Fund. Local school districts are able to levy 18 mills upon nonhomestead property, and the State education tax levies 6 mills on all property. Tax levies for the other reimbursed components can vary widely, although it is not uncommon for schools to levy an additional 6 to 12 mills in some areas. If $100 million of investments eventually were made in the zones as a result of the bill, the bill would increase State General Fund expenditures by at least $1.5 million per year, a portion of which would represent lost School Aid Fund revenue. Revenue losses, such as under the business taxes and individual income tax, are not reimbursed and are not included in this example; nor are local unit revenue losses that would not be reimbursed.

Renaissance zone credits under the Single Business Tax Act were estimated to total $22.1 million in FY 2007-08, while exemptions under the individual income tax were predicted to total $0.3 million and property tax exemptions were estimated to total $120.0 million. Reimbursements from the General Fund were appropriated at $3.1 million during FY 2007-08 and are expected to total $3.9 million in FY 2008-09.

Fiscal Analyst: David Zin

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