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BATTLE CREEK FEDERAL FACILITY

Senate Bills 606-608 with House
committee amendments

Senate Bills 609-610 as passed by the Senate
First Analysis (6-17-93)

Sponsor: Sen. John J.H. Schwarz, M.D.
Senate Committee: Finance
House Committee: Taxation

THE APPARENT PROBLEM:

According to testimony before the House Taxation Committee, two U.S. Department of Defense facilities that are part of the federal complex in Battle Creek are on the list of facilities recommended for closure by the Base Realignment and Closure Commission (BRAC), which has recommended that they be transferred to Columbus, Ohio. City officials say that closing the two facilities, the Defense Reutilization and Marketing Service and the Defense Logistics Service Center, will mean the eventual loss of 1,800 jobs at the federal center (which assumes other jobs at the federal center beyond the immediately affected 1,118 will eventually be lost as well). The jobs that would be lost if the BRAC recommendation is accepted are high-paying jobs, averaging \$40,000 per year. The federal center's annual payroll has been put at \$76 million, with a total contribution to the area economy of \$380 million. The state could lose perhaps \$2 million in state income taxes, not to mention other kinds of tax revenues and fees. Representatives of the area are engaged in an aggressive effort to keep the facilities open and say the studies they have commissioned show the federal government's estimates of savings from the closings to be greatly exaggerated. (Where the Department of Defense has estimated the savings at \$400 million, the Upjohn Institute has estimated the savings at about \$20 million.) One part of the effort to convince federal officials that these federal offices should remain in Battle Creek is a proposal to finance improvements to the current facilities by capturing the state and local income tax revenue from federal employees there.

THE CONTENT OF THE BILLS:

Generally speaking, the bills would, taken together, direct an amount equal to the state and city income

taxes paid by federal employees at the federal defense data facility (in Battle Creek) to a newly created federal data facility fund, with the proceeds to be used for development or improvement purposes at the facility or to pay off bonds or other indebtedness issued to develop or improve the facility. The bills would apply to the 1994 through 2003 tax years, and would take effect January 1, 1994. However, Senate Bills 606-608 would not take effect if either of the following occurred before January 1, 1994:

-- the facility was on the final list of base or facility closures submitted by the Base Realignment and Closure Commission to the President of the United States; or

-- the facility was on the list of base or facility closures submitted by the President to Congress.

Senate Bill 606 would create a new act, the Federal Data Facility Act, to create the new fund within the Department of Treasury and to specify the sources and the uses of the fund. Senate Bill 607 would amend the City Income Tax Act (MCL 141.611) to allow a city to dedicate and transfer funds for the purposes authorized for the use of the new data facility fund. Senate Bill 608 would amend the Income Tax Act (MCL 206.483a) to provide for the depositing of income taxes into the fund and to require an appropriation by the legislature from the taxes collected under the bill. Senate Bill 609 would amend Public Act 31 of the First Extra Session of 1948 (MCL 123.951), which authorizes local building authorities, to specify that development of a federal data facility would be a legitimate public purpose under the act. Senate Bill 610 would amend the downtown development authority act (MCL 125.1661 et al.) to provide that the activities of a

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DDA could be financed from revenue from the Federal Data Facility Act or revenue transferred under the City Income Tax Act to serve the purposes of that new act.

HOUSE COMMITTEE ACTION:

The House Taxation Committee added amendments to Senate Bills 606-608 that would give them a January 1, 1994, effective date, make them apply beginning with the 1994 tax year, and clarify the circumstances under which they would not take effect (generally, if the facilities involved were on the final base and facilities closure lists).

FISCAL IMPLICATIONS:

According to information from the Senate Fiscal Agency, the state would transfer \$1.1 million and the city of Battle Creek \$400,000 annually to the new fund created by this package, based on current employment at the affected facilities. It should be noted that a legislative appropriation would be required for the state income tax revenue to be transferred. The purpose of the package is to provide revenue to improve federal facilities as part of the efforts to keep those facilities open. If the efforts succeed, obviously, there would be benefits to the city and state from the jobs retained and the economic activity that results from those jobs. Thus, as the SFA points out, to the extent this package contributes to keeping the federal facilities open, the net cost to the state and city is less than the income tax revenue lost. (6-1-93)

ARGUMENTS:

For:

These bills are part of the effort to maintain two federal facilities in Battle Creek that have been recommended for closure. They are similar to a proposal enacted in the last legislative session to help Saginaw in its efforts to attract a new federal facility. The bills would provide revenue from the state and city income taxes of the federal workers at the Battle Creek federal center to be used to pay off bonds for upgrading the federal facilities. This is one small, but very important, part of the overall effort to keep these jobs, and the economic activity they generate, in the state. The bills are drafted so that if the funds are not needed, they will not be captured.

Against:

It is not clear it is good public policy to capture state and local income taxes for a specific purpose in this way.

Response:

While this may not be a good idea as a general policy, it makes sense in this extreme case, to demonstrate to the federal government the area's and the state's commitment to these jobs.

POSITIONS:

Representatives from the City of Battle Creek testified in support of the bills. (6-16-93)