



House Office Building, 9 South
Lansing, Michigan 48909
Phone: 517/373-6466

REN. ZONE: AG PROCESSING

Senate Bill 1251 (Substitute H-2) First Analysis (6-7-00)

Sponsor: Sen. Bill Schuette
**House Committee: Agriculture and
Resource Management**
**Senate Committee: Farming, Agribusiness
and Food Business**

THE APPARENT PROBLEM:

The Michigan Renaissance Zone Act was enacted in 1996 and created special zones in the state where businesses and individuals can get special tax treatment in order to stimulate development in the designated areas. Participants get exemptions from the single business tax, state and local income taxes, the state education tax, property taxes, various specific taxes, and the city utility users tax (a Detroit-only tax). At first nine zones were allowed, with the zones selected by the State Administrative Board from applications from local units of government based on recommendations from a specially created review board (plus two additional zones for former military installations). In 1999, the act was amended to allow the designation of additional zones (in addition to numerous other changes, including the replacement of the original review board by the board of the Michigan Strategic Fund).

Representatives of the agricultural sector say that agricultural processing operations do not fit neatly into the zone concept as the act is currently written, with the effect that at least one significant application has been rejected. Legislation has been proposed that would create a limited number of special renaissance zones solely for agricultural processing facilities, in order to assist these important operations, which are said to be beleaguered in what are considered difficult times for the state's agricultural economy.

THE CONTENT OF THE BILL:

The bill would amend the Michigan Renaissance Zone Act in the following ways.

- It would allow the State Administrative Board, upon the recommendation of the board of the Michigan Strategic Fund, to designate up to 10 additional renaissance zones in the state specifically for agricultural processing facilities. The board could not

designate such a zone after December 31, 2002. A city, village, township, or a combination of local units would have to consent to the creation of a renaissance zone for an agricultural processing facility within the local boundaries. Each such zone would have to be one continuous distinct geographical area. If the facility failed to begin operations or ceased operations, the zone designation could be revoked.

- The term "agricultural processing facility" would refer to one or more facilities or operations that transform, package, sort, or grade livestock or livestock products, agricultural commodities, or plants or plant products into goods that are used for intermediate or final consumption, including goods for nonfood use, and surrounding property.

- The bill would remove a provision that prohibits a local governmental unit from being part of more than one renaissance zone.

- The bill would amend a provision enacted in 1999 that allows for additional renaissance zones (beyond those in the original act) and says not more than six of them can be in urban areas and not more than five of the new zones can be in rural areas. The bill would allow five of those zones to be in rural areas rather than four.

- An existing provision allows a special additional renaissance zone in any local unit that contained a federal military installation closed after 1990. The bill would allow such a zone in a local unit with a military installation that closed in 1977.

- The bill would remove what is known as the "exit visa" provision. Generally speaking, that provision requires that for a business to move into a renaissance zone and receive the zone benefits, the approval of the local unit of government from which the business is

Senate Bill 1251 (6-7-00)

moving must be granted. (This is true for any business moving within a local unit and for a business relocating more than 25 full-time jobs moving from one unit to another.)

- The bill would allow the additional zones authorized in 1999 to designate subzones, seek extension of zone status, and modify zone boundaries in the same manner the original renaissance zones can.

MCL 125.2683

HOUSE COMMITTEE ACTION:

The House Committee on Agriculture and Resource Management reported a substitute that differs from the Senate-passed version of the bill in several ways. 1) It deletes a Senate provision that would have provided reimbursement in a special case to a local unit of government for all tax revenue lost as a result of the creation of an agricultural processing renaissance zone for five years after creation of the zone. That provision would have applied when the facility was a co-op; was in operation as of March 7, 2000; and had received a PA 198 exemption. 2) It would increase the number of rural zones that can be designated from among the new zones authorized in 1999 from four to five. 3) It would allow a local unit containing a military installation closed in 1977 to be eligible for a renaissance zone.

FISCAL IMPLICATIONS:

The Senate Fiscal Agency has said it is not possible to estimate the fiscal impact of the two main changes made by the bill, namely the creation of new zones and the elimination of restrictions on businesses moving existing operations into a renaissance zone for tax benefits. This is because it is not known how many new zones there will be or the size of the agricultural processing facilities that will be developed in each of these zones, or how many additional businesses will move existing operations to renaissance zones because there are no restrictions on their doing so. (SFA floor analysis dated 5-17-00)

ARGUMENTS:

For:

The bill's aim is to apply the renaissance zone concept to agricultural processing facilities, thus providing

much needed assistance to these businesses, which are important to the state's economy. It should be noted that the bill does not guarantee such operations tax advantages; it permits state officials to designate certain facilities as renaissance zones and only with the consent of the local unit or units of government involved. The bill will help strengthen Michigan agriculture.

Response:

It has been proposed that local units be reimbursed for lost revenue when the state designates these, and any other, renaissance zones.

For:

Legislation in 1999 allowed the State Administrative Board to designate nine new renaissance zones and specified that not more than six of these could be urban zones and not more than four could be rural zones. Reportedly, eight of these zones have been designated, four urban and four rural (the maximum). A number of rural areas had applications denied. The bill would allow rural areas to compete (along with urban areas) for the remaining available zone.

Response:

This is meant to be a competitive process, say state economic development specialists, and the act should not be changed just to give applications another chance to succeed.

For:

The bill makes several changes in the renaissance zone program recommended by the Michigan Economic Development Corporation, including allowing a local unit to participate in more than one zone and eliminating the so-called exit visa provision. That provision, roughly speaking, allowed a local unit to prevent a business from leaving its jurisdiction to go to a renaissance zone for tax benefits. This kind of provision has been removed from a number of tax abatement statutes. It is said to be a hindrance in promoting economic development. State economic development officials say companies do not want to come to Michigan to be held hostage.

Response:

Some people continue to believe that this remains an important concept, particularly when a business enjoys a number of years of tax breaks from one community only to leave for new or different forms of tax advantages. Some people see this as a local control issue.

POSITIONS:

A representative of the Michigan Economic Development Corporation testified in support of the bill. (6-6-00)

A representative of the Michigan Farm Bureau testified in support of the bill. (6-6-00)

Analyst: C. Couch

■ This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.