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BILL ANALYSIS



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Senate Bill 802 (as introduced 10-6-05)
Sponsor: Senator Jason E. Allen
Committee: Commerce and Labor

Date Completed: 3-20-06

CONTENT

The bill would amend the Michigan Economic Growth Authority (MEGA) Act to do all of the following:

- Increase the number of single business tax (SBT) credit agreements that MEGA may enter into annually.**
- Allow MEGA to reduce the number of full-time jobs required in an agreement with a business for an SBT credit, in order to adjust for decreases in the business's full-time jobs in Michigan due to the divestiture of operations, if another employer continued to maintain those jobs.**
- Reduce the average wage requirement for high-technology businesses that receive an SBT credit through MEGA.**
- Expand the definition of "rural business" to include a business in a county with a population of 90,000 or less (rather than 80,000 or less).**

Annual Number of Agreements

The Act prohibits MEGA from executing more than 25 new written agreements each year for SBT credits for eligible businesses that are not qualified high-technology businesses, distressed businesses, or rural businesses. If the Authority executes fewer than 25 new written agreements in a year, it may carry forward for one year the difference between 25 and the number it executed in the immediately preceding year. The bill would allow up to 35 new written agreements annually, and allow a carryforward of the difference between 35 and the number of agreements executed in the prior year.

The Act prohibits MEGA from executing more than 50 new written agreements each year for eligible businesses that are qualified high-technology businesses or rural businesses. Only five of those 50 may be for qualified rural businesses. Under the bill, 10 of the 50 could be for qualified rural businesses.

("Eligible business" means a distressed business or business that proposes to maintain retained jobs or to create qualified new jobs in Michigan in manufacturing, mining, research and development, wholesale and trade, or office operations or a business that is a qualified high-technology business.)

Decrease in Full-Time Jobs

Except as otherwise provided, to qualify for a MEGA SBT credit, an eligible business already located within Michigan must agree to maintain a number of full-time jobs equal to or

greater than the number of full-time jobs it maintained in the State before expansion. The bill specifies that, after an eligible business had entered into a written agreement for an SBT credit, MEGA could adjust the number of full-time jobs required to be maintained by the business, in order to adjust for decreases in full-time jobs in the business in Michigan due to the divestiture of operations, if a single other person continued to maintain those full-time jobs in the State.

The Authority could not approve a reduction in the number of full-time jobs to be maintained unless it had determined that it could monitor the maintenance of the full-time jobs in Michigan by the other person, and the authorized business agreed in writing that the continued maintenance of the full-time jobs in Michigan by the other person, as determined by MEGA, was a condition of receiving tax credits under the written agreement. A job maintained by another employer under this provision, that otherwise met the requirements in the Act's definition of "full-time job", would be considered a full-time job, notwithstanding the requirement that a full-time job be performed by an individual employed by an authorized business, or an employee leasing company or professional employer organization on behalf of an authorized business.

Under the Act, "full-time job" means a job performed by an individual who is employed by an authorized business or an employee leasing company or professional employer organization on behalf of the authorized business, for consideration for at least 35 hours each week and for which the authorized business or an employee leasing company or professional employer organization, on behalf of the authorized business, withhold income and Social Security taxes. The bill would include employment by another person as allowed under the provision described above.

("Authorized business" refers to an eligible business that has met certain requirements under the Act and with which MEGA has entered into a written agreement for an SBT credit.)

High-Tech Wages

One of the criteria for MEGA to enter into an agreement with an eligible business for an SBT credit is that the average wage paid for all retained jobs and qualified new jobs be equal to or greater than 150% of the Federal minimum wage. If the eligible business is a qualified high-technology business, however, the average wage paid for all qualified new jobs must be at least 400% of the Federal minimum wage. The bill would lower the wage standard for those high-technology jobs to 300% of the Federal minimum wage.

Definition of "Rural Business"

Currently, a business must be located in a county with a population of 80,000 or less to qualify as a "rural business". The bill would increase the maximum population to 90,000. (According to county population figures from the 2000 Federal decennial census, this would add Lapeer and Midland Counties to the counties in which a business may qualify as a "rural business". Under MCL 8.3v, unless otherwise specifically provided, the population of the State or a political subdivision is to be determined on the basis of the latest Federal decennial census.)

Other Provisions

Qualified New Job. Under the Act, "qualified new job" means one of three things. For jobs created after July 1, 2000, a qualified new job is a full-time job at a facility created by an eligible business that is in excess of the number of full-time jobs maintained by the eligible business in Michigan 120 days before the business became an authorized business as determined by MEGA. The bill would refer to a full-time job at such a facility that exceeded

the *lowest* number of full-time jobs maintained by that business in Michigan *in the immediately preceding* 120 days before it became an authorized business.

Former State Lab. The bill would delete a provision that excludes a site that was a vaccine laboratory owned by the State on April 1, 1995, from the definition of "facility". ("Facility" means a site or sites within Michigan in which an authorized business or subsidiary business maintains retained jobs or creates qualified new jobs.)

Rural Business Credit. The bill includes provisions enacted by Public Act 185 of 2005 (Senate Bill 798) that authorize MEGA to enter into an agreement to provide SBT credits to a rural business that maintains 300 retained jobs at a facility at risk of being closed and losing the jobs to an out-of-State location.

MCL 207.803 & 207.808

Legislative Analyst: Patrick Affholter

FISCAL IMPACT

The bill would reduce State revenue by an unknown amount, depending on the credits authorized (and the characteristics of the firms receiving them) as a result of the bill's changes. Generally, the proposed changes would make it easier for certain taxpayers to qualify for credits under the Michigan Economic Growth Authority Act. The bill would add businesses located in Lapeer and Midland Counties to the definition of "rural business" and expand the definition of "full-time job" to include employees of other firms that are the result of the credit recipient's selling off part of the firm as part of a divestiture. The bill also would expand the definition of "high-technology activity", lower the threshold for computing qualified new jobs, and lower the average wage requirements; as a result, more jobs at credit recipients would qualify for credits. In addition, the bill would remove the prohibition on a vaccine laboratory owned by the State on April 1, 1995, from being a qualifying facility, and would increase the number of credits that may be authorized in a given year.

Because credits under the Act are approved for specific amounts under specified circumstances, the bill likely would not affect any existing credits that have been approved. Similarly, the bill would have no effect on revenue if no MEGA credits were approved for taxpayers meeting the changed requirements under the bill or if the approved credits under the bill replaced another credit that otherwise would be approved under the Act. However, because the bill would expand the number of credits that may be granted in any year, it is expected that the additional credits would be approved and that the bill would not merely redistribute credits (assumed to be for identical amounts) that otherwise would be approved.

Credits granted under the Act are expected to reduce single business tax revenue by approximately \$41.7 million FY 2005-06. If the increased credits allowed under the bill raised the cost of MEGA credits by 10% in a year, the bill would reduce General Fund revenue by an additional \$4.2 million per year.

This estimate is preliminary and will be revised as new information becomes available.

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.