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BILL ANALYSIS



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House Bill 5600 (Substitute H-3 as passed by the House)
Sponsor: Representative Michael Sak
House Committee: Commerce
Senate Committee: Commerce and Tourism

Date Completed: 3-20-08

CONTENT

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

- Require the recommendation of the Agriculture Commission for a renaissance zone for a renewable energy facility, if the facility used agricultural crops or residues, or processed products from agricultural crops, as its primary raw material source.**
- Expand the definition of "renewable energy facility".**
- Increase the number of distinct geographic areas in a renaissance zone that may have no minimum size requirement.**
- Allow the designation of additional distinct geographic areas if they would increase either capital investment or job creation, rather than both.**
- Allow a qualified local unit to seek to extend the duration of a zone regardless of whether it had not experienced significant development.**
- Allow the board of the Michigan Strategic Fund (MSF) to revoke an extension of a renaissance zone's duration if increased capital investment or job creation would not begin within one year.**
- Specify requirements for a written agreement regarding the extension of a renaissance zone's duration.**
- Allow the MSF board to designate up to 14, rather 13, additional renaissance zones.**
- Allow the MSF board to add property to an existing tool and die renaissance recovery zone under the same terms as the existing recovery zone, if certain conditions were met.**
- Specify that a business would not be disqualified from receiving an exemption because it failed to file a business tax return for a year in which it had no tax liability.**

Renewable Energy Facility

The Act allows the State Administrative Board, upon recommendation of the MSF board, to designate up to 10 renaissance zones for renewable energy facilities within Michigan in one or more cities, villages, or townships, if the local unit or units consent to the creation of the renaissance zone for a renewable energy facility. The bill also would require the recommendation of the Agriculture Commission, if the renewable energy facility used agricultural crops or residues, or processed products from agricultural crops, as its primary raw material source.

Under the Act, "renewable energy facility" means a system that creates energy from a process using residues from agricultural products, forest products, paper products industries, and food production and processing; trees and grasses grown specifically to be used as energy crops; and gaseous fuels produced from solid biomass, animal wastes, or landfills.

Under the bill, "renewable energy facility" instead would mean a facility that creates energy directly or fuel from the wind, the sun, trees, grasses, biosolids, algae, agricultural commodities or residues from agricultural processes, or wood or forest processes, or from the paper products industry. The term would include a facility that creates energy or fuels from solid biomass, biosolids, animal wastes, landfills, or materials captured from landfills. It also would include a facility that focuses on research, development, or manufacturing of systems or components of systems used to create energy or fuel from the items described above, as determined by the MSF board.

Distinct Geographic Areas & Extension of Zones

The Act allows one or more qualified local governmental units to apply to the Renaissance Zone Review Board to designate the local unit or units as a renaissance zone if the renaissance zone does not contain more than 10 distinct geographic areas and other criteria are met. Except as otherwise provided, the minimum size of a distinct geographic area is five acres, but a qualified local unit or units may designate up to four distinct geographic areas in each renaissance zone to have no minimum size requirement. The bill would increase that number from four to eight.

For certain renaissance zones, a qualified local unit may designate additional distinct geographic areas upon application to and approval by the MSF board, if the distinct geographic area is located in an eligible distressed area as defined in the State Housing Development Authority Act or is contiguous to an eligible distressed area and if the additional distinct geographic area will increase capital investment and job creation. The bill would allow the designation of those additional distinct geographic areas if they would increase either capital investment *or* job creation.

In addition, through December 31, 2011, a qualified local unit or units have designated a renaissance zone under certain provisions and it has not experienced significant development, the local unit or units may seek to extend the duration of the zone for one or more portions of it, with the approval of the MSF board. The bill would delete the requirement that the zone not have experienced significant development. Also, under the bill, the extension could be sought if that zone or portion of a zone were in existence as of March 15, 2008, and if the extension would increase capital investment or job creation.

Under the Act, the MSF board may extend renaissance zone status for one or more portions, as described above, for a period of up to 15 years from the date of the application to the MSF board. Beginning on the bill's effective date, however, if the MSF board extended the duration of one or more portions of a renaissance zone, the board could revoke that extension if it determined that increased capital investment or job creation would not begin within one year of the granting of the extension or otherwise violated the terms of the written development agreement between the owner and the board. Only the qualified local unit that was requesting the extension of time could submit an application for it.

If the MSF board extended the duration of one or more portions of a zone, the board would have to enter into a written development agreement with the owner of all real property located within the boundaries of those portions of the zone. The written development agreement would have to include all of the following:

-- The duration of the extension.

- The conditions under which the extension was granted.
- The amount of capital investment.
- The number of jobs to be created.
- Any other conditions or requirements reasonably required by the MSF board.

Additional Zones

The Act allows the MSF board to designate up to 13 additional renaissance zones in one or more cities, villages, or townships if the city, village, or township or combination of those municipalities, consents to the creation of a renaissance zone within its boundaries. (These renaissance zones are in addition to the renaissance zones designated by the State Administrative Board.) The bill would allow the board to designate up to 14, rather than 13, additional zones.

Tool & Die Recovery Zones

The Act allows the MSF board to designate up to 25 tool and die renaissance recovery zones within Michigan in one or more cities, villages, or townships if the local unit or units consent to the creation of a zone. The bill would allow the MSF board add property to an existing recovery zone under the same terms and conditions as the existing recovery zone if both of the following were met:

- The additional real property was contiguous to existing qualified tool and die business property and would become qualified tool and die business property once it was brought into operation as determined by the board.
- The city, village, or township in which the qualified tool and die business was located consented to the modification.

Disqualification for Exemption

An individual who is a resident of a renaissance zone, a business that is located and conducts business activity within a renaissance zone, or a person that owns property located in a renaissance zone is not eligible for tax exemptions, deductions, or credits available under the Act if certain conditions apply, including that the resident, business, or property owner is delinquent on December 31 of the prior tax year under various statutes dealing with the payment of taxes, including the Michigan Business Tax Act (MBT) and the former Single Business Tax (SBT) Act.

Under the bill, for tax years beginning on or after January 1, 2006, a business located and conducting business activity within a renaissance zone could not be denied the exemption if it failed to file an MBT or SBT return on or before December 31 of the prior tax year and the business had no tax liability under the MBT or the former SBT Act for the tax year for which the return was not filed.

MCL 125.2683 et al.

Legislative Analyst: Patrick Affholter

FISCAL IMPACT

The bill would reduce State and local unit revenue and increase State expenditures by an unknown amount depending upon the number of additional properties affected, as well as their specific characteristics. State expenditures would be increased because the State is required to reimburse community colleges, intermediate school districts, local school districts, libraries, and the School Aid Fund for revenue exempted under the Act.

Under the Single Business Tax Act, renaissance zone activity was expected to generate \$22.1 million in credits during FY 2007-08. Under the individual income tax, existing zones

are expected to reduce revenue by approximately \$350,000 in FY 2007-08. Existing zones also are expected to reduce local unit revenue by \$120.0 million during FY 2007-08. Reimbursements for FY 2006-07 were expected to total \$53.4 million.

The bill would expand the number of zones, as well as the types of facilities within a zone that may qualify for exemptions, the duration of zones, the size of existing zones, and the ability to subdivide zones in sections. The bill would limit the circumstances under which any exemptions could be denied. The degree to which these changes would increase the existing impact of renaissance zones is unknown.

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.