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BILL ANALYSIS

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Senate Bill 579 (as introduced 6-9-05)

Sponsor: Senator Jud Gilbert, II

Committee: Economic Development, Small Business and Regulatory Reform

Date Completed: 11-9-05

CONTENT

The bill would amend the plant rehabilitation and industrial development districts Act (commonly known as PA 198) to require that a facility located in an industrial development district owned by a person who applied for an industrial facilities exemption certificate in July 2001 for construction that was commenced in February 2001 in a district that was established in September 2001, be taxed under the Act as if the facility had been granted the certificate in October 2001.

Under the Act, except for an application for a speculative building, the legislative body of a local governmental unit may not approve an application and the State Tax Commission may not grant an industrial facilities exemption certificate unless the applicant complies with various requirements, which include the following for applications made after December 31, 1983:

- The proposed facility must be located within a plant rehabilitation district or industrial development district that was duly established in an eligible local governmental unit upon a request filed, or by the local unit's own initiative taken, before the restoration, replacement, or construction of the facility commenced.
- The restoration, replacement, or construction of the facility must not have commenced earlier than six months before the application for the industrial facilities exemption certificate was filed.

Additionally, except as otherwise provided, a request for the establishment of a proposed plant rehabilitation or industrial development district may be filed only in connection with a proposed replacement facility or new facility whose construction, acquisition, alteration, or installation has not commenced at the time the request is filed. The legislative body of a local governmental unit may not establish a plant rehabilitation or an industrial development district if it finds that the request for the district was filed after the commencement of construction, alteration, or installation of, or an acquisition related to, the proposed replacement facility or new facility.

The Act makes exceptions to these conditions for certain facilities.

Under the bill, the conditions also would not apply to a facility located in an industrial development district owned by a person who filed an application for an industrial facilities exemption certificate in July 2001 for construction that was commenced in February 2001 in a district that was established by the legislative body of the local governmental unit in September 2001. The certificate would have to expire as provided in the Act.

The facility would have to be taxed under the Act as if it had been granted an industrial facilities exemption certificate in October 2001. A corrected tax bill would have to be issued

by the local tax collecting unit if it had possession of the tax roll or by the county treasurer if the county had possession of the tax roll.

If granting the industrial facilities exemption certificate resulted in the overpayment of the tax, a rebate, including any interest and penalties paid, would have to be made to the taxpayer by the local tax collecting unit or by the county treasurer within 30 days of the date the exemption was granted. The rebate would have to be without interest.

MCL 207.559

BACKGROUND

Under the Act, in a local unit that has established a plant rehabilitation and industrial development district, the owner or lessee of industrial property in the district may apply to the local unit for an industrial facilities exemption certificate. Upon approval by the local unit's legislative body, the application is forwarded to the State Tax Commission, which issues an industrial facilities exemption certificate if it determines that the facility conforms with the Act. The Act allows certificates to be issued for a combined total of 12 years for any one facility. The certificate exempts the facility (but not the land or inventory) from real and personal property taxes, and makes it subject to a specific industrial facilities tax. For a new facility the specific tax is 50% of what the property tax otherwise would be, plus the State education tax. For a replacement facility, the specific tax essentially is the amount that property taxes would be based on the value of the facility before renovation.

Legislative Analyst: J.P. Finet

FISCAL IMPACT

The bill would reduce State and local unit revenue. The bill would require the State to issue an exemption certificate for a facility that met the bill's requirements and otherwise would not qualify for a certificate. Assuming the new certificate would be for a new facility, the bill would reduce revenue from the property by 50%. The impact on the State education tax would depend whether 0, 3, or all 6 mills of the tax were abated under the certificate. Any reduction in local school district revenue for the 18 mills levied for operating purposes would be offset by increased expenditures from the School Aid Fund in order to maintain per-pupil funding guarantees.

The magnitude of the impact would depend upon the characteristics of the property affected by the bill, but based upon data from the city in which the property is located, the impact would be approximately \$60,000 per year if all 6 mills of the State education tax were included in the certificate. Approximately 11% of the impact (\$6,500 per year) would reduce revenue to the School Aid Fund if the full 6 mills were included in the certificate, while roughly 33% (\$20,000 per year) would represent a loss of operating mills to the school district and would be offset by increased spending from the School Aid Fund. The remaining impact would affect other local units of government. However, because the bill would reduce taxes that already were paid in previous fiscal years, it is unclear how the impact of the bill would be distributed. The potential refunds from the previous four tax years would total approximately \$240,000, to be paid during FY 2005-06 by the local tax collecting unit, although the local tax collecting unit retained only about 30% of the revenue that was collected over that period. This estimate is preliminary and will be revised as new information becomes available.

Fiscal Analyst: David Zin

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