




Senate Fiscal Agency
P. O. Box 30036
Lansing, Michigan 48909-7536



BILL ANALYSIS

Telephone: (517) 373-5383
Fax: (517) 373-1986
TDD: (517) 373-0543

Senate Bill 919 (Substitute S-3 as reported)
House Bill 5456 (Substitute S-3 as reported)
Sponsor: Senator Patricia L. Birkholz (S.B. 919)
Representative Howard Walker (H.B. 5456)
House Committee: Conservation, Forestry, and Outdoor Recreation
Senate Committee: Agriculture, Forestry and Tourism

Date Completed: 4-7-06

RATIONALE

The forest products industry is one of the State's largest industries, and in many rural communities and small towns it provides some of the best-paying jobs. Saw mills, paper mills, cabinet and furniture shops, and manufacturers of wood products, including flooring, doors, and windows, all generate high-paying jobs that benefit local communities and the State's economy. Estimates of the size of the forest products industry vary, but it reportedly contributes between \$9 billion and \$12 billion annually to the State's economy. (Michigan's annual Gross State Product is about \$372 billion.) Between 150,000 and 200,000 workers are employed in the forest products industry. With competition from other states and countries, however, there are reports that the industry is struggling in Michigan; many saw mills and paper mills have had to lay off workers or shut down.

Some believe that renaissance zones for forest products manufacturers could help the industry. A renaissance zone is a geographic area or a specific facility that is given abatements from income, business, and property taxes. A renaissance zone can be designated only for a specified period, up to 15 or 20 years, after which it returns to its normal tax status. The Michigan Renaissance Zone Act was created to encourage businesses to locate in economically depressed areas of the State, but has expanded since its creation; amendments to the Act have authorized zones that are designed to help specific sectors of the economy, including

agriculture, alternative energy, and the tool and die industry.

CONTENT

The bills would amend the Michigan Renaissance Zone Act to allow the designation of 10 additional renaissance zones for forest products processing facilities.

Senate Bill 919 (S-3)

The bill 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 for forest products processing facilities within the State in one or more cities, villages, or townships with the consent of the city, village, or township in which a renaissance zone would be located. The Administrative Board could designate up to five renaissance zones for forest products processing facilities each year until the maximum number was met. Each renaissance zone designated for a forest products processing facility would have to be one continuous geographic area.

In designating a renaissance zone, the Board would have to consider the economic impact on local suppliers of raw materials, goods, and services to the facility; the creation of jobs relative to the community's employment base, rather than the static number of jobs created; the project's viability; and the economic impact on the community.

The Board could revoke the designation of all or a portion of a renaissance zone for a forest products processing facility if it failed to begin operation, ceased operation, or failed to commence construction or renovation within one year of the designation of the renaissance zone.

The Administrative Board would have to require a written development agreement between the Michigan Strategic Fund and a forest products processing facility. The agreement would have to require that the facility comply with all State and local laws, and report annually to the Michigan Strategic Fund on all of the following:

- The amount of capital investment made at the facility.
- The number of individuals employed at the facility at the beginning and end of the reporting period, as well as the number of individuals transferred to the facility from another facility owned by the forest products processing facility.
- The percentage of raw materials purchased in this State.

The agreement also would have to include any other conditions or requirements reasonably required by the Michigan Strategic Fund.

House Bill 5456 (S-3)

The bill would define "forest products processing facility" as one or more facilities or operations that transform, package, sort, recycle, or grade forest or paper products into goods that are used for intermediate or final use or consumption, or for the creation of biomass or alternative fuels through the use of forest products or forest residue, and surrounding property.

"Forest products processing facility" would not include an existing facility or operation located in this State that relocated to a forest products processing facility renaissance zone, and would not include a facility or operation that engaged primarily in retail sales.

MCL 125.2686 et al. (S.B. 919)
125.2683 (H.B. 5456)

ARGUMENTS

(Please note: The arguments contained in this analysis originate from sources outside the Senate Fiscal Agency. The Senate Fiscal Agency neither supports nor opposes legislation.)

Supporting Argument

The bills could encourage further development of the forest products industry in Michigan. The State has large areas of high-quality forestland, and there is significant room for growth in this industry. Given the proper tax incentives, businesses likely would be eager to locate near the State's abundant wood pulp and timber supplies. Because of its extensive hardwood and softwood forests, Michigan has a natural advantage in the forest products industry, but currently the State lags in forest products production behind states such as Wisconsin that have fewer acres of forestland. Reportedly, timber is being cut in Michigan and shipped to other states for processing. Many sawmills and paper mills have had to lay off workers or close entirely. Michigan companies are facing tough competition with companies in other states and across the world.

By offering a reason for businesses to settle in Michigan rather than in other states, the bills would help to bring timber-processing jobs back to Michigan. Often these are high-paying jobs that can provide broad strength to the economy. Other related areas, including the manufacture of wood products such as flooring, cabinets, windows, doors, or millwork could boost the State's economic output and build on the natural abundance of wood in the State. The bills would draw forest products companies to the State, strengthen the industry, and provide more high-paying jobs for Michigan's workforce.

Opposing Argument

There are no provisions in the bill to pay for the proposed renaissance zones. Given the tight budgets in recent years, the State cannot afford to extend further tax exemptions for businesses without providing for the cost of those exemptions.

Response: The bills would apply only to new businesses that located in the renaissance zones, not businesses currently located in Michigan; therefore, the impact on the State budget should be limited. Although the State would not collect any taxes from those new businesses, the

foregone taxes represent additional revenue that is not part of the current budget. The State would lose only the tax that had been collected previously on the land at the renaissance zone site. Furthermore, the businesses in the renaissance zones would increase economic activity in the area and create jobs that would generate additional tax revenue. Over the long term, the bills actually could help ease the budget difficulties.

Opposing Argument

As defined in House Bill 5456 (S-3), "forest products processing facilities" could include wood-burning facilities that produce electricity. These facilities currently are able to compete with other electricity suppliers, and should not be eligible for the tax abatements of a renaissance zone.

In addition, businesses in a renaissance zone would have a competitive advantage over direct competitors located outside of the zone. The bills could have a negative impact on businesses currently located in the State, which are facing tough competition already and would have to compete against a business operating on a tax-free basis in the renaissance zone. Also, renaissance zones should be granted only for projects that have a net benefit for the State, creating new economic opportunities without disrupting others.

Legislative Analyst: Curtis Walker

FISCAL IMPACT

Senate Bill 919 (S-3)

The bill would reduce revenue to both the State and local units and would increase State expenditures from the General Fund by an unknown amount. Most local property taxes levied in renaissance zones are not reimbursed by the State, although the General Fund reimburses lost revenue to public libraries, intermediate and local school districts, community colleges, and the School Aid Fund. The actual revenue loss would depend upon the specific characteristics of the property located in the zones, as well as the activities that occurred within the zones. Furthermore, it is not known where the additional renaissance zones would be located or the size of the forest products processing

facilities that would be developed in each of these zones.

The bill does not define "forest products processing facility" and is not tie-barred to a bill that provides a definition. Without enacted legislation defining the term, it is unclear what zones would be established and what firms would qualify for the associated tax provisions; thus, the fiscal impact of the bill could range from insignificant to substantial.

House Bill 5456 (S-3)

The bill would have no effect on State or local revenue by itself because the bill only would add a definition to existing law. The bill would not provide for entities meeting the definition to receive any tax advantages not already available to them, and the bill is not tie-barred to legislation that would alter the availability of any tax provisions.

If the bill were enacted along with other changes, such as allowing the creation of renaissance zones for forest products processing facilities, the bills would reduce revenue to both the State and local units and would increase State expenditures from the General Fund by an unknown amount, as described above.

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.