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BILL ANALYSIS

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Senate Bill 426 (Substitute S-2 as passed by the Senate)
Sponsor: Senator Cameron Brown
Committee: Economic Development and Regulatory Reform

Date Completed: 10-7-09

RATIONALE

The plant rehabilitation and industrial development Act, commonly called P.A. 198, allows local units of government to grant industrial facilities exemption certificates to new and speculative buildings and replacement facilities located in an industrial development district. A certificate essentially grants a property tax abatement for industrial property in a district, which instead is subject to the industrial facility tax. In 1999, a tax exemption certificate was granted to a multistate company that manufactures modular housing in Jonesville, Michigan. This exemption is scheduled to expire in 2011. Because the company is struggling to maintain a presence in Michigan, it has been suggested that the tax abatement should be extended and increased, with approval of the local unit of government.

CONTENT

The bill would amend the plant rehabilitation and industrial development Act to provide for the calculation of the industrial facility tax for a facility owned or operated by a qualified modular housing manufacturer, and to allow the extension of that manufacturer's exemption certificate.

Under the Act, the amount of the industrial facility tax in each year for a new facility or a speculative building is determined by multiplying the taxable value of the facility, excluding the land and the inventory personal property, by the sum of one-half of the total mills levied as ad valorem taxes for that year by all taxing units within which the facility is located other than the mills levied under the State Education Tax (SET) Act, plus, subject to Section 14a, the number of mills levied under the SET Act. (Under Section 14a, within 60 days after an industrial facilities exemption certificate is granted for a new facility, the State Treasurer may exclude one-half or all of the number of SET mills from the calculation of the industrial facility tax on the facility, if the Treasurer determines that doing so is necessary to reduce unemployment, promote economic growth, and increase capital investment in the State.)

Under the bill, beginning for the 2009 tax year and through the 2011 tax year, the amount of the industrial facility tax in each year for a new facility or a speculative building that was owned or operated by a qualified modular housing manufacturer would have to be determined by the same calculation as for other facilities or buildings under the Act, except the multiplier would be $1/10^{th}$, rather than one-half. This provision would not apply, however, unless the local unit in which the new facility or speculative building was located approved, by resolution, the amount of the industrial facility tax for the qualified modular housing manufacturer.

If a local unit passed a resolution approving an exemption certificate before January 1, 2009, for a facility that was owned or operated by a qualified modular housing manufacturer, the certificate for that facility would be extended for 12 additional years beginning when the initial certificate would have expired if the local unit approved the extension by resolution.

The bill would define "qualified modular housing manufacturer" as a manufacturer of premanufactured modular building units or manufactured homes that has a manufacturing facility located in this State and has been granted an industrial facilities exemption certificate that expires on December 30, 2011. "Premanufactured modular building unit" would mean a building designed and constructed pursuant to the Single State Construction Code Act, that is manufactured in one or more sections in a facility for installation on a permanent foundation at its final location. The term would not include a mobile home or a manufactured home that is constructed on a permanent chassis in compliance with the National Manufactured Housing Construction and Safety Standards Act.

"Manufactured home" would mean that term as defined in the Uniform Commercial Code (a structure, transportable in one or more sections that, in the traveling mode, is eight body feet or more wide or 40 body feet or more long, or when erected on site, is 320 or more square feet, and that is built on a permanent chassis and designed to be used as a dwelling with or without a permanent foundation when connected to the required utilities.)

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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 bill would authorize the enhancement and extension of an industrial facility tax abatement for an industry that is trying to survive in Michigan. The Ritz-Craft Corporation is a multistate enterprise that has been building off-site modular homes for more than 50 years. The company received a P.A. 198 tax exemption in 1999 and built a 175,000-sqare foot modular home manufacturing facility in Jonesville the following year. The company also has facilities in Indiana, Pennsylvania, and North Carolina and has developed complementary companies that involve trucking, building materials distribution, and financing of home mortgages. Despite its industrial facility exemption, which expires in 2011, the company's Michigan operation has struggled with the difficult economy in recent years. Reportedly, the Michigan manufacturing facility has had as many as 175 employees but its payroll is down to 30 and it risks having to close.

The company's principals would like to maintain the Michigan operation through these hard times and position it for future growth. The bill would assist Ritz-Craft in meeting its goals by reducing the amount of industrial facility tax it pays beginning in 2009 and extending its exemption for 12 additional years after the initial 12-year certificate expires at the end of 2011, with local approval. Offering a reasonable State and local investment in this existing Michigan company would help it to continue operating in Michigan and retain good manufacturing jobs in the State, and would facilitate growth by the company as the national and State economies rebound in coming years.

Response: The bill would set an unwelcome precedent. Numerous businesses across the State have struggled in recent years and have had to lay off a lot of employees. Allowing one business to get an increased and extended tax exemption could lead others to request similar benefits. Perhaps a broader-based solution to hard economic times should be pursued.

Opposing Argument

The bill would depart from the typical use of an industrial facility exemption. Ordinarily, a P.A. 198 tax abatement is offered to enterprises that make new investments and create new jobs. The bill proposes simply to benefit one existing business by giving it a 90%, rather than a 50%, tax break and extending its current industrial facility exemption by another 12 years without any reasonable expectation of future investment and hiring. At a time when State and local governments are struggling to generate the revenue necessary to provide basic services, it is not a good idea to forego expected revenue without any promise of future growth.

Response: State and local governments need to move forward to protect businesses in danger of failing. If those businesses, like Ritz-Craft, close, they will provide no revenue or jobs.

Legislative Analyst: Patrick Affholter

FISCAL IMPACT

The bill would reduce State and local unit revenue and increase School Aid Fund expenditures by an unknown amount. The potential impact on State revenue depends on the degree to which the State Education Tax would be abated under the new provisions. Any reduction in local school district operating revenue would be offset by increased expenditures from the School Aid Fund in order to maintain per-pupil funding guarantees.

The magnitude of the impact also depends upon the characteristics of the property affected. To the extent that development will occur absent the bill, the bill would prevent revenue increases that otherwise will be received by entities with affected mills, such as community colleges and library authorities, as well as revenue to the local unit.

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.