



MICHIGAN STRATEGIC FUND

MEMORANDUM

DATE: November 1, 2016

TO: The Honorable Jim Stamas, Chair
Senate Appropriations Subcommittee
on General Government

The Honorable Laura Cox, Chair
House Appropriations Subcommittee
on General Government

FROM: Steve Arwood, President
Michigan Strategic Fund

Nick A. Khouri, State Treasurer
Michigan Department of Treasury

SUBJECT: MEGA and other Certificated Credits 2016 Annual Report

Sections 941 and 1043 of Public Act 268 of 2016, the General Government Omnibus Budget, require the Michigan Strategic Fund and the Department of Treasury to report the annual cost of the Michigan Economic Growth Authority (MEGA) tax credits. The report shall include for each year the board-approved credit amount, adjusted for credit amendments where applicable, and the actual and projected value of tax credits for each year from 1995 to the expiration of the credit program. For years for which credit claims are complete, the report shall include the total of actual certificated credit amounts. For years for which claims are still pending or not yet submitted, the report shall include a combination of actual credits where available and projected credits. Credit projections shall be based on updated estimates of employees, wages, and benefits for eligible companies.

Additionally, these sections require reporting on the annual cost of all other certificated credits by program, for each year until the credits expire or can no longer be collected. Pursuant to this requirement, attached is the 2016 Annual Report.

Should you have any questions, please contact the MEDC Office of Legislative Affairs at 517.335.1847 or the Department of Treasury at 517.373.2697.

Attachment

cc: Members, Senate Appropriations Subcommittee on General Government
Members, House Appropriations Subcommittee on General Government
John Roberts, State Budget Director
Ellen Jeffries, Director, Senate Fiscal Agency
Mary Ann Cleary, Director, House Fiscal Agency

FY 2016 Legislative Report MEGA and other Certificated Credits Annual Cost

As required by Sections 941 and 1043 of Public Act 268 of 2016, the attached tables address the certificated credits annual cost reporting requirements for the Michigan Strategic Fund (MSF) and the Michigan Department of Treasury for fiscal year (FY) 2016 beginning October 1, 2015 and ending September 30, 2016.

With the repeal of the Michigan Business tax (MBT) for most businesses beginning in 2012, no new Michigan Economic Growth Authority (MEGA) tax credits have been awarded since 2011. Table 1 contains the actual number and value of MEGA tax credit certificates issued since the program began, as well as the remaining projected liability of these credits through the end of the agreement terms and are presented by Company Tax Year. The certificates issued information is comprised of actual certificates issued by the MSF through 9/30/2016. These credits may not yet have been submitted to the Department of Treasury for processing as companies have up to 4 years after the date in which the original tax return is due to file an amended return and receive the benefit of the MEGA credit.

The estimated remaining liability is calculated using number of qualified jobs, wage and healthcare costs obtained from the most recent annual certificate application submitted by an eligible business. Growth factors provided by the Department of Treasury are used to project the credit value through the end of the MEGA term defined in each individual company agreement. These costs are then multiplied by the personal income tax rate factor resulting in the remaining estimated liability to the State of Michigan.

Table 2 contains the projected liability by Tax Year in which the MEGA tax credits described above will be earned. In addition, it contains the annual estimated cost by Tax Year, by program, for Brownfield Redevelopment Credits, film credits, MEGA polycrystalline silicon manufacturing credits, MEGA vehicle battery credits and other certificated credits, as required in Sections 941(2) and 1043(2).

Table 3 reflects estimates by the Fiscal Year in which the certificated credits will be submitted to Treasury and refunded. Note, the MEGA photovoltaic credits are not anticipated to be issued.

The Tax Year table (Table 2) begins with Tax Year 2016 and has total credits of \$7.52 billion, whereas the Fiscal Year table (Table 3) begins with Fiscal Year 2016 and has total credits of \$9.25 billion. The difference in certificated credits between these two tables is due to differences in the timing of the credits on a tax-year versus a fiscal-year basis. The Tax Year table breaks down the outstanding credits by the year in which the business activity that qualifies for the credit will occur and the Fiscal Year table breaks down the credits by the fiscal year in which the credits will be filed with the Department of Treasury and the refunds will be paid. Certificated credits are not earned and refunded in the same year. Once business activity is completed that qualifies for a credit, the business must apply for the credit with the MSF and the MSF must approve the credit and issue a credit certificate. The business must then file the certificate with the Department of Treasury to claim the credit and receive a refund or reduce their tax liability. As a result, most of the large credits filed with the Department of Treasury and refunded in FY 2016 reflect credits that were earned in tax year 2014 or earlier and therefore the Fiscal Year table includes about two more years of credits than does the Tax Year table.

The Brownfield Redevelopment Tax Credit program was eliminated on December 31, 2011. There have been no new credits issued since that time. As of September 30, 2016, there is approximately \$271 million in outstanding unclaimed credit liability. There was \$64.1 million in certificates of completion claimed in FY 2016. A certificate of completion is issued by Michigan Economic Development Corporation staff on behalf of the MSF upon verification of eligible investment and project completion. A certificate of completion is

utilized by the qualified taxpayer to file with the Department of Treasury to claim the Brownfield Redevelopment Tax Credit.

There is a potential for Brownfield credits to be amended to extend their approved timeframe from 5 years to 10 years. A timeframe extension to 10 years does not increase the overall liability. Outstanding liability accounts for both single phase and multi-phase credits within the 10 year statutory time frame. There are a total of 45 multi-phase credit projects. If a multi-phase credit project is not completed within its entirety for all approved phases, any previous claimed credit is repayable as a penalty to the Department of Treasury. Statutorily, outside of multi-phase credits, there is not a legal timeframe for a qualified taxpayer to request their credit, therefore, it is possible not all Brownfield credits will be claimed upon final expiration of all credits which occurs in early 2022.

The Film Credit program was eliminated in 2011 and no new credits have been issued since. In addition to the estimated \$29.5 million in film credits paid in FY 2016 and the \$3.6 million that is still in the queue and expected to be paid in FY 2017, there is \$27.4 million in outstanding film credits that have yet to be claimed; however, it is estimated that most if not all of these credits will not be claimed because the projects were not pursued for various reasons. There is no expiration date for these credits.

Table 1
Actual and Projected MEGA Tax Credit Value
10/10/2016

Company Tax year	Estimated Value at time of Board Approval	# of Certificates Issued	Value of Certificates Issued	Estimated # of Certificates	Estimated Remaining Liability
1996	\$1,360,000	4	\$ 955,674		
1997	\$4,369,463	11	\$ 3,046,758		
1998	\$8,585,635	17	\$ 5,991,499		
1999	\$14,772,025	30	\$ 10,344,388		
2000	\$25,926,081	39	\$ 13,306,425		
2001	\$42,126,619	49	\$ 18,987,919		
2002	\$60,729,979	55	\$ 23,837,437		
2003	\$76,528,730	56	\$ 28,089,316		
2004	\$94,781,033	75	\$ 44,535,996		
2005	\$130,557,279	92	\$ 64,879,452		
2006	\$155,519,214	111	\$ 82,390,343		
2007	\$195,197,030	141	\$ 110,055,988		
2008	\$212,264,347	125	\$ 108,308,008		
2009	\$236,043,139	126	\$ 81,564,385		
2010	\$283,095,252	165	\$ 128,551,030		
2011	\$351,826,593	215	\$ 253,767,658	6	\$ 2,480,065
2012	\$473,693,408	194	\$ 375,560,784	16	\$ 7,994,761
2013	\$581,025,206	156	\$ 458,069,282	32	\$ 13,541,707
2014	\$555,189,347	136	\$ 482,867,063	41	\$ 16,109,534
2015	\$618,723,180	57	\$ 193,373,504	105	\$ 321,296,041
2016	\$581,629,528	3	\$ 648,222	121	\$ 545,627,724
2017	\$570,354,175			93	\$ 549,132,987
2018	\$522,244,733			69	\$ 523,450,279
2019	\$502,330,952			50	\$ 542,749,162
2020	\$484,721,994			38	\$ 556,003,967
2021	\$430,930,234			27	\$ 521,516,011
2022	\$422,927,057			22	\$ 518,835,820
2023	\$404,097,820			16	\$ 525,451,842
2024	\$395,868,917			13	\$ 541,665,083
2025	\$365,280,649			12	\$ 557,978,409
2026	\$363,944,941			8	\$ 390,847,941
2027	\$254,619,845			6	\$ 403,016,424
2028	\$260,679,208			6	\$ 416,794,611
2029	\$257,023,524			4	\$ 364,629,827
2030	\$102,866,000			2	\$ 597,964
2031	\$105,389,000				
2032	\$102,085,000				
Total	\$10,249,307,136		\$2,489,131,131		\$7,319,720,159

Table 2**ESTIMATES OF OUTSTANDING CERTIFICATED CREDITS
BY TAX YEAR IN WHICH THEY WILL BE EARNED**

(dollars in millions)

Tax Year	Certificated Credits										Total Credits
	Anchor	Battery	Brownfield	Farmland Preservation	Film	Historic Preservation	MEGA	Photovoltaic	Polycrystalline	Ren Zones	
2016	\$0.0	\$35.0	\$57.1	\$1.5	\$11.0	\$8.8	\$546.3	\$0.0	\$14.6	\$8.5	\$682.7
2017	\$0.0	\$0.0	\$42.5	\$1.5	\$0.0	\$4.8	\$549.1	\$0.0	\$16.8	\$6.5	\$621.2
2018	\$0.0	\$0.0	\$40.8	\$1.5	\$0.0	\$6.8	\$523.5	\$0.0	\$19.3	\$4.5	\$596.3
2019	\$0.0	\$0.0	\$38.4	\$1.5	\$0.0	\$11.3	\$542.7	\$0.0	\$22.2	\$3.0	\$619.1
2020	\$0.0	\$0.0	\$36.0	\$1.5	\$0.0	\$0.0	\$556.0	\$0.0	\$25.5	\$3.0	\$622.0
2021	\$0.0	\$0.0	\$35.0	\$1.5	\$0.0	\$0.0	\$521.5	\$0.0	\$29.4	\$3.0	\$590.4
2022	\$0.0	\$0.0	\$15.9	\$1.5	\$0.0	\$0.0	\$518.8	\$0.0	\$14.7	\$3.0	\$553.9
2023	\$0.0	\$0.0	\$1.7	\$1.5	\$0.0	\$0.0	\$525.5	\$0.0	\$7.3	\$2.9	\$538.8
2024	\$0.0	\$0.0	\$0.0	\$1.5	\$0.0	\$0.0	\$541.7	\$0.0	\$0.0	\$2.3	\$545.5
2025	\$0.0	\$0.0	\$0.0	\$1.5	\$0.0	\$0.0	\$558.0	\$0.0	\$0.0	\$1.3	\$560.8
2026	\$0.0	\$0.0	\$0.0	\$1.5	\$0.0	\$0.0	\$390.8	\$0.0	\$0.0	\$0.6	\$392.9
2027	\$0.0	\$0.0	\$0.0	\$1.5	\$0.0	\$0.0	\$403.0	\$0.0	\$0.0	\$0.0	\$404.5
2028	\$0.0	\$0.0	\$0.0	\$1.5	\$0.0	\$0.0	\$416.8	\$0.0	\$0.0	\$0.0	\$418.3
2029	\$0.0	\$0.0	\$0.0	\$1.5	\$0.0	\$0.0	\$364.6	\$0.0	\$0.0	\$0.0	\$366.1
2030	\$0.0	\$0.0	\$0.0	\$1.5	\$0.0	\$0.0	\$0.6	\$0.0	\$0.0	\$0.0	\$2.1
2031	\$0.0	\$0.0	\$0.0	\$1.5	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$1.5
Total	\$0.0	\$35.0	\$267.2	\$24.0	\$11.0	\$31.5	\$6,958.9	\$0.0	\$149.8	\$38.6	\$7,516.0

Source: Michigan Economic Development Corporation and Michigan Department of Treasury based on best information available on current agreements.

Table 3**ESTIMATES OF OUTSTANDING CERTIFICATED CREDITS
BY FISCAL YEAR IN WHICH THEY WILL BE SUBMITTED TO TREASURY & REFUNDED**

(dollars in millions)

Fiscal Year	Certificated Credits										Total Credits
	Anchor	Battery	Brownfield	Farmland Preservation	Film	Historic Preservation	MEGA	Photovoltaic	Polycrystalline	Ren Zones	
2016	\$8.2	\$226.0	\$64.1	\$1.5	\$29.5	\$27.9	\$654.8	\$0.0	\$12.3	\$11.4	\$1,035.7
2017	\$2.4	\$50.0	\$50.0	\$1.5	\$3.6	\$10.0	\$521.5	\$0.0	\$12.7	\$9.0	\$660.7
2018	\$0.0	\$25.0	\$35.0	\$1.5	\$0.0	\$5.0	\$539.3	\$0.0	\$14.6	\$7.0	\$627.4
2019	\$0.0	\$0.0	\$46.5	\$1.5	\$0.0	\$4.0	\$542.1	\$0.0	\$16.8	\$5.0	\$615.9
2020	\$0.0	\$0.0	\$30.4	\$1.5	\$0.0	\$15.0	\$515.5	\$0.0	\$19.3	\$3.0	\$584.7
2021	\$0.0	\$0.0	\$41.6	\$1.5	\$0.0	\$0.0	\$535.7	\$0.0	\$22.2	\$3.0	\$604.0
2022	\$0.0	\$0.0	\$28.4	\$1.5	\$0.0	\$0.0	\$548.5	\$0.0	\$25.5	\$3.0	\$606.9
2023	\$0.0	\$0.0	\$3.3	\$1.5	\$0.0	\$0.0	\$552.0	\$0.0	\$29.4	\$3.0	\$589.2
2024	\$0.0	\$0.0	\$0.0	\$1.5	\$0.0	\$0.0	\$518.8	\$0.0	\$14.7	\$3.0	\$538.0
2025	\$0.0	\$0.0	\$0.0	\$1.5	\$0.0	\$0.0	\$520.5	\$0.0	\$7.3	\$2.5	\$531.8
2026	\$0.0	\$0.0	\$0.0	\$1.5	\$0.0	\$0.0	\$536.7	\$0.0	\$0.0	\$1.5	\$539.7
2027	\$0.0	\$0.0	\$0.0	\$1.5	\$0.0	\$0.0	\$552.0	\$0.0	\$0.0	\$0.8	\$554.3
2028	\$0.0	\$0.0	\$0.0	\$1.5	\$0.0	\$0.0	\$566.8	\$0.0	\$0.0	\$0.0	\$568.3
2029	\$0.0	\$0.0	\$0.0	\$1.5	\$0.0	\$0.0	\$403.0	\$0.0	\$0.0	\$0.0	\$404.5
2030	\$0.0	\$0.0	\$0.0	\$1.5	\$0.0	\$0.0	\$416.8	\$0.0	\$0.0	\$0.0	\$418.3
2031&32	\$0.0	\$0.0	\$0.0	\$3.0	\$0.0	\$0.0	\$365.2	\$0.0	\$0.0	\$0.0	\$368.2
Total	\$10.6	\$301.0	\$299.3	\$25.5	\$33.1	\$61.9	\$8,289.2	\$0.0	\$174.8	\$52.2	\$9,247.6

Source: Michigan Economic Development Corporation and Michigan Department of Treasury based on best information available on current agreements.

Note: The total certificated credits on a fiscal year basis, as presented in this table, are greater than the certificated credits on a tax year basis, as presented in Table 2 due to the difference in the timing of when the credit-qualifying activity occurs in a particular tax year and when the business actually files a credit certificate with the Department of Treasury. As a result of these timing differences, the credits on a fiscal year basis presented in this table includes some credits that were earned prior to tax year 2016.