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SFA BILL ANALYSIS

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Senate Bill 1128 (as passed by the Senate)
Sponsor: Senator George A. McManus, Jr.
Committee: Finance

Date Completed: 9-1-98

RATIONALE

The Urban Redevelopment Corporations Law provides for the creation of urban redevelopment corporations in Michigan cities "for the purpose of clearing, replanning, rehabilitating, modernizing, beautifying, and reconstructing substandard and insanitary areas", and authorizes cities to exempt urban redevelopment corporations from property tax assessment increases and to condemn property on behalf of redevelopment corporations. The Act also applies to townships to the same extent that it applies to cities, although a development area in a township is limited to property that has been used for a State office, hospital, prison, higher education institution, or other State facility.

In 1992, Traverse City and Garfield Township entered into a joint venture, by forming the Grand Traverse Commons Redevelopment Corporation, to redevelop the property on which the former Traverse City Regional Psychiatric Hospital was located (part of which is in Traverse City and part of which is in the township). The property contains 59 buildings, 14 of which are listed on the historic register. Reportedly, officials of the redevelopment corporation have identified two Federal tax credits that they wish to be able to use to help fund redevelopment of the property; however, at the present time the credits cannot be used.

Section 42 of the Internal Revenue Code allocates to states a certain amount of tax credits that may be used by for-profit corporations that provide low-income housing. Likewise, Section 47 of the Code provides for a rehabilitation credit for 20% of the qualified expenditures made for a certified historic structure. The owner of property that contains low income housing, or makes qualified expenditures to rehabilitate a historic property, is allowed to claim these Federal tax credits as provided in the Code, or to sell the credits to a developer if the owner does not use them. A redevelopment corporation, however, is a not-for-profit corporation and already is tax-exempt. If the Traverse City/Garfield Township redevelopment corporation wishes to rehabilitate its historic structures, or use other portions of the property for low-income housing, it does not qualify for either Federal credit because it is already tax-exempt, which also means that it cannot sell the credits to a developer and generate funds for the project in this way. It has been suggested that the Act be amended to expand the powers of a redevelopment corporation, including allowing it to form a for-profit subsidiary that would qualify for the Federal tax credits.

CONTENT

The bill would amend the Urban Redevelopment Corporations Law to expand the powers of a redevelopment corporation operating under the Act, including allowing a redevelopment corporation to form or incorporate for-profit corporations; allow the legislative body of a city or township to exempt from assessment increases certain property located within the city or township and owned by a "qualified entity", as is currently allowed for a redevelopment corporation; and increase from 10 to 40 years the maximum period during which property owned by a redevelopment corporation (or a qualified entity) may be exempted from assessment increases.

The bill provides that a "qualified entity" would be either:

-- A Michigan nonprofit corporation, or a limited partnership with a Michigan nonprofit corporation as sole general partner, in which: a redevelopment corporation was the sole member of the nonprofit corporation; a majority of each class of stock in the nonprofit corporation was owned by the redevelopment corporation; or a majority of the nonprofit corporation's board of directors were elected and removable by the redevelopment corporation.

-- A for-profit corporation, partnership, or limited liability company formed or incorporated by the redevelopment corporation for the sole purpose of syndicating historic tax credits or low-income housing tax credits in connection with the redevelopment of property that had been owned by the redevelopment corporation, if the corporation maintained oversight and the for-profit entity did not engage in any business activity unrelated to the property.

The bill provides that a redevelopment corporation could do the following:

-- Form or incorporate nonprofit corporations under State law for any purpose not inconsistent with the purposes for which the redevelopment corporation was formed.
-- Serve as a shareholder or member of a qualified nonprofit corporation organized under State law.
-- Authorize, approve, execute, and file with the Department of Consumer and Industry Services those documents appropriate to form and continue one or more nonprofit corporations.
-- Form or incorporate for-profit corporations, partnerships, and limited liability companies for any purpose not inconsistent with the purposes for which the redevelopment corporation was formed.

Funds for the operation of a redevelopment corporation could be loaned or granted by the city or township, the State, the Federal government, or any agency or political subdivision of the State or Federal government. The city or township, through its local legislative body, could condition the provision of funds to the redevelopment corporation upon an agreement that the redevelopment corporation would, as soon as possible, reimburse the city or township for all money spent by it for the redevelopment corporation from revenues received from other sources. A redevelopment corporation could solicit, accept, and enter into agreements relating to grants from any public or private source, including the State, the Federal government, or any agency or political subdivision of the State or Federal government, and could carry out any Federal or State program related to the purposes for which the redevelopment corporation was created.

MCL 125.912 et al.

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 allow a redevelopment corporation to form a for-profit corporation that would qualify for Federal rehabilitation or low-income housing tax credits. This would, in turn, enable the redevelopment corporation through its subsidiary corporation to sell those credits to developers, as a method of financing part of the redevelopment projects. The for-profit entity would be under the control of the redevelopment corporation and therefore could not engage in any business activity other than what the redevelopment corporation is allowed to do under the Act. In particular, the bill would help the Traverse City/Garfield Township redevelopment corporation to redevelop the former Regional Psychiatric Hospital.

Legislative Analyst: G. Towne

FISCAL IMPACT

The bill would allow cities and townships to increase from 10 to 40 the number of years an exemption from property tax assessment increases the specified property may be allowed to receive. Additionally, cities and townships could require reimbursement for expenses made for a redevelopment corporation.

Fiscal Analyst: R. Ross