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BILL ANALYSIS

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Senate Bill 52 (as reported without amendment)
Sponsor: Senator Jim Barcia
Committee: Economic Development, Small Business and Regulatory Reform

Date Completed: 3-1-05

RATIONALE

Under the Obsolete Property Rehabilitation Act, qualified local units of government may establish obsolete property rehabilitation districts containing obsolete property (commercial property or commercial housing property that is blighted or functionally obsolete, or the site of a hazardous substance). Obsolete property that has been "rehabilitated" may be subject to an obsolete properties tax, rather than the higher ad valorem property tax. While the Act's definition of "rehabilitation" includes major renovations and downsizing, it does not include additions. This has been problematic for at least one community. Although Bay City has seen a boom in upscale housing over the past few years, commercial development in the city has lagged despite its efforts to promote development through an obsolete property rehabilitation district. Reportedly, the district's existing structures are not adequate to meet the needs of the types of businesses that would like to locate there, and the structural additions necessary for the businesses to use the buildings would not qualify for the district's tax benefits. To address this situation, it has been suggested that additions to obsolete property should be considered rehabilitation for purposes of the obsolete properties tax.

CONTENT

The bill would amend the Obsolete Property Rehabilitation Act to include additions to a facility within the meaning of "rehabilitation".

Under the Act, the owner of obsolete property may apply for an obsolete property rehabilitation exemption certificate, which

may be issued for a period of one to 12 years. If the certificate is approved by the legislative body of the local unit and the State Tax Commission, the rehabilitated facility is exempt from ad valorem property taxes and is subject, instead, to an obsolete properties tax. (Essentially, the amount invested in the rehabilitated facility is exempt from millage levied in the local unit, except for local school operating millage and the State education tax.)

The Act defines "rehabilitation" as changes to obsolete property other than replacement that are required to restore or modify the property, together with all appurtenances, to an economically efficient condition. Rehabilitation includes, among other things, major renovation and modification, improved structural support, and reducing multistory facilities to one or two stories. Under the bill, rehabilitation also would include adding additional space or adding additional stories to a facility.

Currently, "commercial property" means land improvements classified by law for general ad valorem tax purposes as real property, including "real property assessable as personal property" under Sections 8(d) and 14(6) of the General Property Tax Act. The bill would refer, instead, to "buildings and improvements assessable as real property" under the same sections. (Those sections provide for the taxation of buildings and improvements located on leased real property, on real property of the United States or this State, or on property that is not owned by the owner of the building. Under both sections, the property in question is assessable as real property.)

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 creation of an obsolete property rehabilitation district is an economic development tool that qualified local units may use as an incentive for private investment, by allowing developers to pay reduced taxes on rehabilitated property. The local units gain from the renovation of vacant, deteriorated buildings, which may have been unused for years, and the developers may use their funds to pay debt service and move projects forward, rather than paying property taxes. The bill would enhance these benefits by allowing businesses that rehabilitate property to add space or stories to a building and still receive the tax benefits of an obsolete property rehabilitation district. This amendment is crucial to the revitalization of districts where the existing structures cannot be renovated to accommodate the types of businesses that would be successful in the districts without the addition of space or stories. Bay City, for example, evidently has at least two parcels in its district where businesses have offered to renovate blighted property, but the proposed renovations would not qualify for the obsolete properties tax because they would require additions to the existing structures.

Legislative Analyst: J.P. Finet

FISCAL IMPACT

The bill would have a negligible fiscal impact on State and local government.

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.