Legislative Analysis

HOUSE FISCAL AGENCY
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DOWNTOWN DEVELOPMENT

Senate Bill 970
Sponsor: Sen. Jason E. Allen

Senate Bill 972
Sponsor: Sen. Tupac A. Hunter

Senate Bill 974
Sponsor: Sen. Randy Richardville

Senate Bill 975
Sponsor: Sen. Roger Kahn, M.D.

Senate Bill 976
Sponsor: Sen. Jud Gilbert, II

House Committee: Commerce
Senate Committee: Commerce and Tourism

Complete to 6-23-08

A SUMMARY OF SENATE BILLS 970, 972, 974, 975 AND 976 AS PASSED BY THE SENATE

These bills are part of a package of bills dealing with economic development in municipal downtowns. Following is a brief description of each bill.

Downtown Development Act

Senate Bill 970 would amend the Downtown Development Authority (DDA) Act to allow the board of a DDA to create, operate, and fund **retail business incubators** and to require a DDA board to give preference to tenants who would provide goods or services that were unavailable or underserved in the downtown area, if it were the express determination of the board to create, operate, or fund a retail business incubator. The bill would specify the terms of leases for occupants of occupants; leases would be limited to 18 months' duration.

Senate Bill 972 would amend the DDA Act to allow the board of a DDA to create, operate, and **fund a loan program to pay for improvements for existing buildings located in a downtown district**, in order to make them marketable for sale or lease. The board could make loans with interest at a market rate or at a below-market rate, as determined by the board.

[The DDA Act is aimed at stimulating economic development in business districts. It is a tax increment finance statute. When local units of government create tax increment financing authorities, or TIFAs, they typically establish a special district and then capture future increases in taxes within that district for the authority to use to finance public infrastructure improvement projects within the district; this can include the issuance of bonds to finance projects. The DDA is one of several statutes that allow for the creation of TIFAs.]

Commercial Redevelopment Act

Senate Bill 974 would **reactivate the Commercial Redevelopment Act to allow new tax abatements for a new or replacement facility in a redevelopment district** in a city or village, on property zoned for mixed-use (including high-density residential use) that was located in a qualified **downtown revitalization district**. The bill is tie-barred to Senate Bill 976.

Downtown revitalization districts are defined under the Neighborhood Enterprise Zone Act, but can be downtown districts, principal shopping districts, business improvement districts, or simply areas zoned for business.

These tax exemptions would be available until December 31, 2020. New Tax abatements have not been issued under this act since December 31, 1985.

The bill also would:

- Require a local unit to establish and implement an expedited permitting and inspection process in the commercial redevelopment district and provide for walkable, nonmotorized interconnections throughout the redevelopment district. This would be a condition of issuing tax abatements.
- Refer to a facility's taxable value, rather than its state equalized valuation, in the formula for determining the commercial facilities tax, and otherwise revise the formula.
- Allow the State Treasurer to exclude, for up to six years, up to half of the State Education Tax mills from the calculation to determine the commercial facilities tax under certain circumstances; and limit the number of exclusions granted each year to 25.
- Include hotel or motel development in the act's definition of "commercial property."

[The Commercial Redevelopment Act, Public Act 255 of 1978, is a companion act to the Plant Rehabilitation and Industrial Development Act, known as PA 198. PA 198 provides property tax abatements primarily for industrial or manufacturing firms. PA 255 was enacted to provide property tax abatements to commercial enterprises. Currently, the act says no new abatements are to be issued after 1985. Senate Bill 974 would allow new abatements until through 2020. Under the act, firms pay a commercial facilities tax instead of regular property taxes; as with PA 198, new and replacement facilities pay taxes at the rate roughly of one-half the statewide average property tax rate and owners of restored or rehabilitated facilties pay taxes based on the value of the property prior to restoration or rehabilitation.]

Neighborhood Enterprise Zone Act

Under the Neighborhood Enterprise Zone Act, a neighborhood enterprise zone must contain at least 10 platted parcels of land, and all the land within a zone must be compact and contiguous. Under Senate Bill 975, a NEZ located in a qualified downtown revitalization district could contain **fewer than 10 platted parcels** if the parcels together contained 10 or more facilities.

Senate Bill 976 would amend the NEZ Act so that the term "new facility" would include a new structure or a portion of a new structure that is all of the following: (1) rented or leased or available for rent or lease; (2) a mixed use building or located in a mixed use building that contains retail business space on the street level floor; and (3) located in a qualified downtown revitalization district.

[Currently, the term "new facility" means a new structure or a portion of a new structure that has as its primary purpose residential housing consisting of one or two units, one of which is or will be occupied by an owner as a principal residence. It includes a model home or a model condominium unit. It also includes a new individual condominium unit, in a structure with one or more condominium units that has as its primary purpose residential housing and that is or will be occupied by an owner as a principal residence. It does not include apartments.]

[The Neighborhood Enterprise Zone Act was enacted in 1992 as an effort to improve the housing stock in certain "distressed" urban communities. The act offers reduced property taxes to residential property owners in certain zones designated by eligible local units of government (known as core communities). Generally speaking, owners of new construction pay taxes at the rate of one-half the statewide average property tax rate and owners of rehabilitated housing pay taxes based on the value of residential property prior to rehabilitation. The abatement applies to structures and not to land. Property owners who obtain a neighborhood enterprise zone certificate are exempt from standard property taxes and pay a specific tax instead known as the neighborhood enterprise zone tax. The abatements are available from 6 to 15 years.]

FISCAL IMPACT:

Senate Bill 970: As written, the bill would have no impact on state or local revenue. To the extent that a business incubator results in increased property tax revenue, that revenue would accrue to the DDA.

Senate Bill 972: As written, the bill would have no impact on state or local revenue.

Senate Bills 974, 975, and 976: The bills would reduce state and local property tax revenue by an unknown amount. Any reduction in the 18-mills collected for local education would need to be offset by the School Aid Fund, resulting in increased state expenditures.

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