

Legislative Analysis



COMMERCIAL REDEVELOPMENT ACT

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House Bill 5459 (Substitute H-2)

Sponsor: Rep. Jeff Mayes

Committee: Tax Policy

Complete to 2-28-08

A SUMMARY OF HOUSE BILL 5459 AS REPORTED FROM COMMITTEE

The bill would amend the Commercial Rehabilitation Act with the aim of making property tax abatements available for new commercial buildings constructed on vacant property where previous structures have been demolished, if the new construction is an economic benefit to the local community, as determined by the local unit of government (a city, village, or township).

The bill would apply only to a city with a population of more than 36,000 and less than 37,000 according to the 2000 federal decennial census. (This applies to Bay City and Jackson.)

Currently, the act applies primarily to the rehabilitation of buildings that are at least 15 years old. The bill aims to make the act apply when a building is to be torn down and replaced. The bill seeks to accomplish this by changing the definitions of "qualified facility" and "rehabilitation."

The term "qualified facility" would be amended to include "vacant property . . . from which a previous structure has been demolished and on which commercial property will be newly constructed." Currently the act applies to a building or contiguous buildings of commercial property that are at least 15 years old or have been allocated for a new markets tax credit under Section 45 of the Internal Revenue Code. (The "new markets" program has been described as a federal program to attract new private investment capital to underserved markets and low-income communities.)

The bill would also amend the term "rehabilitation" to add "new construction on vacant property from which a previous structure has been demolished and if the new construction is an economic benefit to the local community as determined by the qualified local governmental unit." Currently, "rehabilitation" refers to changes to an existing building.

Under the act currently a "qualified facility" (a building) located in a special district created by a city, village, or township is exempt from standard property taxes (although not the land or personal property). Instead the facility is subject to a specific tax that, generally speaking, bases the tax liability of the facility on its value prior to rehabilitation. (The specific tax is known as the commercial rehabilitation tax.) The property tax exemption can last for one to ten years, as determined by the local unit of

government. For a facility to be eligible for an exemption, the rehabilitation could not begin more than six months before the applicant files the application for the exemption certificate. The abatement does not apply to local school operating taxes or the State Education Tax.

The tax exemption requires approval by the local unit of government, which is required to notify the local assessor and the legislative body of all affected taxing units of any application for an exemption, and then hold a public hearing on the issue. The county government can veto the project. The tax exemption also requires the approval of the State Tax Commission. The Commercial Rehabilitation Act is very similar in outline to the Obsolete Property Rehabilitation Act, which applies to blighted, functionally obsolete, and contaminated properties in core communities.

MCL 207.842

FISCAL IMPACT:

For eligible properties, the bill would freeze real property taxes on the building itself at its pre-improvement level for a period of 1 to 10 years. The improvements on the property would be taxed at a significantly lower property tax rate, since only the 6 mill State Education Tax and the local school operating millage would be levied and all other taxes abated for the period granted by the local unit of government. However, land and personal property would continue to be taxed at the prevailing commercial millage rates. The abated millage on the improvements would represent a decrease in local property tax revenue.

BACKGROUND INFORMATION:

According to committee testimony, the change in law is sought by the City of Bay City, in order to provide a tax abatement for those involved in demolishing and replacing the historic Mill End Building in the downtown area. Witnesses said the original plans called for rehabilitation of the old building but the structure proved architecturally inadequate after "numerous unfortunate remodelings" over the years. In its current form, the Commercial Rehabilitation Act only provides tax incentives for rehabilitation, not for new construction where rehabilitation of a building is no longer feasible. The substitute version of the bill limits its application, as a kind of pilot project, apparently in recognition of the fact that it proposes a significant change in policy.

The Commercial Rehabilitation Act was first enacted as Public Act 210 of 2005 and was intended to apply to a major redevelopment of the Summit Place Mall in Waterford Township in Oakland County. (This project apparently has not reached fruition.) The act was subsequently amended by Public Act 554 of 2006 to alter eligibility requirements to remove the Waterford-specific criteria. The original requirement that a commercial rehabilitation district contain at least 75 acres was reduced to a minimum of three acres and a requirement that any qualified facility consist of one million or more square feet that had been 40 percent vacant for at least the previous 12 months was eliminated. Also

under Public Act 554, property used for multifamily residential use was made eligible for the program, in addition to the original requirement that it be commercial business property. House Bill 5459 proposes an expansion of the act to make projects eligible that involve the demolition of existing structures followed by new construction.

POSITIONS:

The Department of Treasury indicated support for the bill. (2-27-08)

The Bay Area Chamber of Commerce supports the substitute bill. (2-27-08)

The Michigan Association of Counties indicated support for the concept (since the act allows a county to veto the creation of any commercial rehabilitation district by a local unit of government). (2-27-08)

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■ This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.