Senate Fiscal Agency
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BILL ANALYSIS

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House Bill 5459 (Substitute H-2 as reported without amendment)
Sponsor: Representative Jeff Mayes
House Committee: Tax Policy
Senate Committee: Economic Development and Regulatory Reform

Date Completed: 4-17-08

RATIONALE

The Commercial Rehabilitation Act provides an incentive for developers to rehabilitate commercial property. The Act allows a city, village, or township to establish a redevelopment district consisting of a qualified facility. The owner of a qualified facility may apply for a commercial rehabilitation exemption certificate, which essentially will freeze the property taxes on the facility for up to 10 years. The application must contain specific information, including the nature and extent of the rehabilitation to be undertaken. The local legislative body, by resolution, must approve or deny the application, but a resolution approving an application will not take effect without the approval of the State Tax Commission. If an exemption is to be approved, the structure must meet the Act's definition of "qualified facility", and the work to be done must meet the definition of "rehabilitation".

Bay City officials reportedly planned to designate a redevelopment district under the Act for the benefit of developers who purchased the historic Mill End Building, which dates to the 1870s, with the intent to rehabilitate that structure. Evidently, while original plans called for the building's rehabilitation, the developer discovered that the building's structural and architectural integrity had been compromised by inadequate maintenance and numerous modifications undertaken over the years, and the building has to be razed. Some people believe that specific provisions should be included in the Act's definitions of "qualified facility" and "rehabilitation" to allow the Act's tax break to be used for the demolition of the Mill End Building and the construction of a replacement facility in this Bay City development.

CONTENT

The bill would amend the Commercial Rehabilitation Act to do both of the following:

-- Include in the definition of "qualified facility" vacant property located in a city with a population of more than 36,000 and less than 37,000 according to the 2000 Federal decennial census and from which a previous structure had been demolished and on which commercial property would be newly constructed.
-- Include in the definition of "rehabilitation" new construction on vacant property from which a previous structure had been demolished if the new construction were an economic benefit to the local community as determined by the city, village, or township.

Currently, "qualified facility" means a building or group of contiguous buildings of commercial property that is 15 years old or older or has been allocated for a new markets tax credit under Section 45d of the Internal Revenue Code (26 USC 45d). "Rehabilitation" means changes to a qualified facility that are required to restore or modify the property, together with all appurtenances, to an economically efficient condition. Rehabilitation includes major renovation and modification including specific modifications and improvements identified in the Act.

MCL 207.842

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 Commercial Rehabilitation Act encourages developers to rehabilitate existing structures by offering a tax break on the property for up to 10 years. The Act does not cover situations in which a developer of commercial property demolishes and replaces an existing facility, but a situation has arisen in Bay City in which a historic building cannot adequately be rehabilitated. The developer apparently had originally intended to rehabilitate the property after purchasing the building, but subsequent inspections revealed structural problems due to numerous remodeling projects and insufficient maintenance of the facility over a number of years, and the building had to be demolished. The bill would enable Bay City to establish a redevelopment district consisting of the vacant property where the developer plans to build a new structure. This would allow the developer to receive the 10-year tax break it otherwise might have qualified for under the Act with a successful rehabilitation of the old building.

Although the Act aims to encourage the rehabilitation of existing structures, the bill is tailored to provide for a one-time exception. The city population range in the expanded definition of "qualified facility" would encompass only Bay City and Jackson, and Bay City reportedly has the only planned development that would meet the bill's other criterion of building new commercial property on vacant land from which a previous structure had been demolished. The Mill End Building is a prominent fixture in Bay City's downtown, and its replacement would help boost the city's economic development efforts. In September 2007, the City Commission adopted a resolution endorsing legislation that would accommodate the redevelopment of this property.

Legislative Analyst: Patrick Affholter

FISCAL IMPACT

To the extent that property would be rehabilitated absent the bill, the bill would reduce local unit revenue by an unknown amount, depending upon the number and value of the properties affected by the bill. The bill would have no fiscal impact on State government.

Fiscal Analyst: David Zin