

Legislative Analysis



COMMERCIAL REHABILITATION ACT

Mitchell Bean, Director
Phone: (517) 373-8080
<http://www.house.mi.gov/hfa>

Senate Bill 223

Sponsor: Sen. Mike Kowall

House Committee: Commerce

Senate Committee: Economic Development

Complete to 4-12-11

A SUMMARY OF SENATE BILL 223 AS PASSED BY THE SENATE 3-17-11

The bill would amend the Commercial Rehabilitation Act to allow a new project to qualify for a property tax abatement under the act.

Under the Commercial Rehabilitation Act—Public Act 210 of 2005—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 act allows a county to veto the creation of any commercial rehabilitation district by a local unit of government. The tax exemption also requires the approval of the State Tax Commission. The Commercial Rehabilitation Act is similar in outline to the Obsolete Property Rehabilitation Act, which applies to blighted, functionally obsolete, and contaminated properties in core communities.

Senate Bill 223 would amend the act in two ways to allow a specific project to qualify for the special tax treatment. (See Background Information.)

(1) It would amend the definition of "qualified facility" so that it would apply to vacant property located in a city with a population of more than 500,000 (that is, the city of Detroit) and from which a previous structure has been demolished and on which commercial property is or will be newly constructed, provided that an application for a certificate had been filed with the city before July 1, 2010.

Currently, the term "qualified facility" applies to:

- A building or group of contiguous buildings of commercial property that is 15 years old or older or that has been allocated for a new markets tax credit.
- A qualified retail food establishment. (Generally speaking, this applies to certain retail food stores in "under-served" areas.)
- Vacant property located in a city with a population of more than 36,000 and less than 37,000 (under the 2000 Census) from which a previous structure has been demolished and on which commercial property will be newly constructed. (This applied to Bay City.)

(2) It would make an exception to current procedural requirements in order to allow a certificate to be approved for the rehabilitation of a qualified facility in a rehabilitation district established by the local governmental unit in 2011 for construction or rehabilitation that was begun in August 2010 and for which an application for a certificate was filed in June 2010.

Generally, the act requires that the rehabilitation of a facility not begin more than six months before the application for a commercial rehabilitation certificate, and it requires the applicant for a certificate to state that the rehabilitation would not be undertaken without receiving a certificate. It also requires that a district be established before an application for a certificate is filed. The bill would make an exception from these provisions for the case described in the earlier paragraph.

MCL 207.842 and 848

BACKGROUND INFORMATION:

According to the Senate Fiscal Agency analysis dated 3-23-11, the bill would allow a developer building student housing near Wayne State University in Detroit to obtain a commercial rehabilitation certificate and receive the accompanying property tax benefits. Reportedly, the project does not currently qualify under the act.

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.

Legislative Analyst: Chris Couch
Fiscal Analyst: Jim Stansell

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