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Senate Bill 223 (Substitute S-1 as passed by the Senate)
Sponsor: Senator Mike Kowall
Committee: Economic Development

Date Completed: 3-23-11

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 application to the local unit must meet certain conditions.

Generally, the Act applies only to the rehabilitation of existing facilities, and not to new construction. Public Act 118 of 2008 amended the Act's definition of "qualified facility", however, to include vacant property from which a previous structure has been demolished and on which new commercial property will be constructed in a city meeting specific population criteria. This applied to a project in Bay City. Developers in Detroit and city officials now would like to secure an exemption certificate for a project to build new student housing near Wayne State University, but the project does not meet the Act's application and definition requirements for a qualified facility. Some people believe exceptions should be enacted to accommodate this project.

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 Detroit, from which a previous structure has been demolished and on which commercial property is or will be newly constructed, if an application for a commercial rehabilitation exemption certificate had been filed before July 1, 2010.**
- **Excuse the rehabilitation of a particular qualified facility from certain requirements for approval of a certificate.**

Qualified Facility

The Act defines "qualified facility" as a qualified retail food establishment or 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). The term also includes 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, from which a previous structure has been demolished on which commercial property will be newly constructed.

Under the bill, "qualified facility" also would include vacant property located in a city with a population of more than 500,000 according to the most recent Federal decennial census, from which a previous structure has been demolished and on which

commercial property is or will be newly constructed, provided an application for a certificate has been filed with that city before July 1, 2010. (Detroit is the only Michigan city with a population of more than 500,000.)

Approval of an Application

The Act prohibits the legislative body of a city, village, or township from approving an application for a commercial rehabilitation exemption certificate unless the applicant complies with certain requirements. Both of the following are among those requirements:

- The rehabilitation of the qualified facility does not begin earlier than six months before the applicant files the application for the exemption certificate.
- The applicant states, in writing, that the rehabilitation of the qualified facility would not be undertaken without the applicant's receipt of the exemption certificate.

In addition, a district must be established before an application is filed.

Under the bill, those provisions would not apply to the rehabilitation of a qualified facility located in a commercial rehabilitation district established by the legislative body of the local unit in 2011, for construction or rehabilitation that began in August 2010 and for which an application for a commercial rehabilitation exemption certificate was filed in June 2010.

MCL 207.842 & 207.848

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 commercial property whose primary purpose is the operation of a commercial business enterprise or multifamily residential use. The City of Detroit would like to issue an exemption certificate under the Act to developers who demolished property near

Wayne State University in July 2010 in order to build a new student housing project. With the exception of a provision enacted in 2008 for a particular project in Bay City, however, the Act's definition of "qualified facility" does not include vacant land from which a previous structure has been demolished and on which new commercial property will be constructed.

In addition, the Act prohibits a local unit from approving an application for a commercial rehabilitation exemption certificate if rehabilitation of the facility began more than six months before the applicant files the application for the certificate. The Act also requires a district to be established before an application is filed. The housing project near Wayne State does not meet these conditions.

By expanding the definition of qualified facility in the Act and excusing the housing project near Wayne State from the application criteria, the bill would allow the developer to benefit from the incentives provided by having an exemption certificate under the Act. In turn, the City of Detroit would benefit from the construction of a much-needed new development.

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 value of the property (which would have to be located within the City of Detroit) affected by the bill.

The bill would have no fiscal impact on State 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.