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BILL ANALYSIS

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Senate Bill 556 (as reported without amendment)
Sponsor: Senator Ken Horn
Committee: Economic Development and International Investment

Date Completed: 11-2-15

RATIONALE

The Commercial Rehabilitation Act provides for the establishment of commercial rehabilitation districts. Commercial rehabilitation districts are parcels of land that contain a "qualified facility". The owner of a qualified facility who intends to rehabilitate it may apply for a commercial rehabilitation certificate. If a qualified facility is granted a certificate, the facility is exempt from property taxes. Instead, the owner must pay a commercial rehabilitation tax until the certificate expires. The Act states that no new exemptions may be granted after December 31, 2015, but any exemption still in effect will continue until the exemption certificate expires. Reportedly, the program has been successful in promoting rehabilitation and economic development. Therefore, it has been suggested that the sunset should be eliminated, allowing owners of qualified facilities to continue applying for commercial rehabilitation certificates.

CONTENT

The bill would repeal Section 16 of the Commercial Rehabilitation Act, which states that no new exemptions may be granted under the Act after December 31, 2015, but an exemption then in effect will continue until the exemption certificate expires.

Under the Act, a city, village, or township, by resolution, may establish a commercial rehabilitation district consisting of a "qualified facility" if the county containing the district does not disapprove. The owner of a qualified facility who intends to rehabilitate it may apply for a commercial rehabilitation exemption certificate with the local government. With approval from the local governmental unit and the State Tax Commission, a qualified facility for which an exemption certificate is in effect is exempt from property taxes. However, the facility owner must pay a commercial rehabilitation tax. Certificates remain in effect for a period of time determined by the local governmental unit, as long as it does not exceed 10 years. An extension may be granted to a facility owner if the certificate expires in less than 10 years. The total duration of a certificate including any extensions may not exceed 10 years after completion of the qualified facility.

The Act's definition of "qualified facility" includes the following:

-- 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).
-- A building or a group of contiguous buildings, or a portion of a building or group of contiguous buildings previously used for commercial or industrial purposes, obsolete industrial property, and vacant property that, within the immediately preceding 15 years, was commercial property as defined in the Act.
-- Vacant property located in a city with a population of more than 500,000 according to the most recent Federal decennial census (Detroit), 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 was filed with that city before July 1, 2010.
-- A hotel or motel that has additional meeting or convention space and that is attached to a convention and trade center that is larger than 250,000 square feet in size and is located in a

county with a population of more than 1.1 million and less than 1.6 million as of the most recent Federal census (Oakland County).

MCL 207.856

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 exemptions have been a great economic tool for the rehabilitation of different areas and buildings throughout Michigan, providing an incentive for individuals or companies to rehabilitate buildings that would otherwise be too expensive to redevelop.

According to Committee testimony, many areas have benefited from the Commercial Rehabilitation Act. For example, Bedrock Real Estate Services reports that, in Detroit, it has attracted 12,000 workers to the downtown area due to its rehabilitation projects, an increase from the 3,500 individuals working there for the company before the rehabilitation efforts. Furthermore, the company described two rehabilitation projects it is planning, one that would turn a vacant area into a vibrant space. Without commercial rehabilitation exemptions, however, those projects would not be profitable. The Detroit Economic Growth Corporation also reports that Detroit requires tools such as commercial rehabilitation exemptions to attract long-term investment in the city. According to officials from Howell, the Act provides the city with one of the best tools to help revitalize the area. Evidently, updating is required around the main entrance into Howell, as well as within the corridors surrounding the downtown area, and a recently opened nearby interchange has created additional competition. The city believes that eliminating the sunset would continue to provide it with an important tool to help confront these issues. In addition, according to testimony on behalf of Novi, in 2011 the Novi City Council designated three areas as commercial rehabilitation areas. The first area was a hotel showplace and has been a very successful rehabilitation project. The second area is a vintage 1970s commercial district, and the third is around the Novi Expo Center.

These examples show how the commercial rehabilitation exemption has been successfully used across the State. Retaining the exemption would be beneficial to communities and developers rehabilitating locations around Michigan. In addition to making the rehabilitation of specific projects feasible, the exemption can lead to a number of benefits within a community. These include the creation of jobs; an increase in the market value of both the projects themselves and surrounding property, ultimately generating increased property tax revenue; and the revitalization of neighborhoods, making them more attractive to residents and businesses.

Supporting Argument

The commercial rehabilitation exemption strengthens local control over development. Owners of qualified facilities receive exemptions only with local approval. This allows the local government to decide which facilities receive property tax relief and what areas are rehabilitated.

In addition, the exemptions for qualified facilities are not tax credits. Dollars do not come out of the State treasury, and the State does not forgo tax revenue. Instead, the State sees an increase in economic activity from developers, and developers have an incentive to revitalize old areas and buildings. Developers might leave the State if the sunset is allowed to take effect.

Supporting Argument

Many communities are facing pressure to allow the development of new buildings and the demolition of old structures that require rehabilitation. Moreover, developers sometimes find that it is less expensive to destroy an old building and build a new one instead of rehabilitating. Retaining the commercial rehabilitation exemptions would help preserve Michigan's historic buildings and locations.

Legislative Analyst: Drew Krogulecki

FISCAL IMPACT

The bill would have an unknown impact on local government revenue and increase the cost of the State Tax Commission within the Department of Treasury by a minimal amount. To the extent that the designated property would be rehabilitated without the bill, the bill would reduce revenue to cities, villages, townships, and counties with commercial rehabilitation districts. If the elimination of the sunset on the designation of new commercial rehabilitation districts resulted in property rehabilitation and taxable value growth that would not otherwise occur, the local governments would receive an increase in tax revenue that would begin when the commercial rehabilitation exemption expired. The amount and timing of revenue change would depend on the decision of a city, village, or township to designate a district, county approval, the approval of the State Tax Commission, the duration of the district, and the number and value of participating properties. The net revenue to local school districts would not be changed by the bill. The State Tax Commission would have additional costs of a minimal amount to approve and report on additional commercial rehabilitation districts approved pursuant to the bill.

The Department of Treasury reported that for the 2013 tax year, there were 45 properties receiving an exemption in districts established by 28 local governments. For the 2014 tax year, this increased to 63 properties in districts established by 34 local governments.

Fiscal Analyst: Elizabeth Pratt

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