



Senate Fiscal Agency
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BILL



ANALYSIS

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Senate Bill 673 (as enrolled)
Sponsor: Senator Ken Horn
Senate Committee: Economic Development and International Investment
House Committee: Tax Policy

Date Completed: 6-22-16

RATIONALE

The Obsolete Property Rehabilitation Act provides for the establishment of obsolete property rehabilitation districts, which are parcels of land that contain "obsolete property" as defined under the Act. The owner of obsolete property may file an application for an obsolete property rehabilitation exemption certificate with the local governmental unit. A "rehabilitated facility" for which such a certificate is in effect is exempt from property taxes. Instead, the owner must pay an obsolete property tax until the certificate expires. The Act states that no new exemptions may be granted after December 31, 2016, but any exemption still in effect will continue until the exemption certificate expires. Reportedly, the Act has given municipalities a useful tool that has been effective in attracting investment to rehabilitate aging buildings or blighted areas. It has been suggested that the sunset date should be delayed, allowing owners of qualified facilities to continue applying for obsolete property rehabilitation exemption certificates.

CONTENT

The bill would amend the Obsolete Property Rehabilitation Act to delay the deadline for granting a new exemption under the Act from December 31, 2016, to December 31, 2026.

Under the Act, a qualified local unit of government, by resolution of its legislative body, may establish an obsolete property rehabilitation district if the land within the district is either of the following:

- Obsolete property in an area characterized by obsolete commercial property or commercial housing property.
- Commercial property that is obsolete property that was owned by a qualified local governmental unit on the effective date of the Act, and subsequently conveyed to a private owner.

With approval from the local governmental unit and State Tax Commission, a rehabilitated facility for which an obsolete property rehabilitation exemption certificate is in effect is exempt from property taxes. However, the property owner must pay an obsolete properties tax, unless the rehabilitated facility is considered a "qualified start-up business" and is exempted by the local tax collecting unit, as outlined in the Act. Certificates remain in effect for a period of time determined by the local governmental unit, as long as it does not exceed 12 years. An extension may be granted to a property owner if the certificate expires in less than 12 years. The total duration of a certificate including any extensions may not exceed 12 years after the completion of the rehabilitated facility.

The Act defines "obsolete property" as commercial property or commercial housing property that is blighted, functionally obsolete, or a facility as defined under the Natural Resources and Environmental Protection Act. "Rehabilitated facility" means commercial property or commercial housing property that has undergone rehabilitation or is in the process of being rehabilitated.

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 ability to issue obsolete property rehabilitation exemption certificates has been an important economic tool for municipalities throughout Michigan. For example, Bay City recently reported that the exemptions contributed over \$11.0 million in new investments during the previous 36 months, and more than \$37.0 million in private investment over the last 10 years. Reportedly, there have been 420 uses of the Act across Michigan since 2000. The exemptions eliminate much of the tax burden that developers face, and contribute to the creation of new jobs, the elimination of blighted areas, and the repurposing of underused buildings.

Supporting Argument

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

Supporting Argument

According to Committee testimony, a recent survey by the U.S. Energy Information Agency showed that 72% of floor stock in the United States, or 46.0 billion square feet, belongs to buildings over 20 years old. These buildings often are not equipped to serve modern businesses. Older buildings put businesses at a disadvantage when the competition operates out of new property that is more suitable for business and has lower operating costs. By delaying the deadline for granting new obsolete property rehabilitation exemptions, the bill would enable local units to continue encouraging outside investment to repurpose aging buildings; allow communities to leverage existing buildings; contribute to Michigan communities as a whole; and retain a useful, voluntary tool across the State.

Legislative Analyst: Drew Krogulecki

FISCAL IMPACT

The bill would have an unknown impact on local government and School Aid Fund revenue. If the postponement of the sunset on the designation of new obsolete property rehabilitation districts resulted in taxable value growth that would not otherwise occur, participating local governments and the School Aid Fund would receive an increase in tax revenue that would begin when an obsolete property rehabilitation certificate expired. The amount and timing of revenue change would depend on the decision of an eligible city, village, or township to designate a district, the specific characteristics and value of the rehabilitation project, the duration of an exemption certification, and the approval of an exemption certificate by the local governing body and the State Tax Commission. The School Aid Fund impact would depend on the decision of the State Treasurer on whether to grant an exemption for up to six years from half of the local school operating millage and half of the State Education Tax. The State Treasurer is limited to granting not more than 25 such exclusions each year.

Fiscal Analyst: Elizabeth Pratt

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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.