

Legislative Analysis



COMMERCIAL REDEVELOPMENT ACT: EXPAND ELIGIBILITY

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House Bill 6043

Sponsor: Rep. John Pastor

Committee: Commerce

Complete to 6-28-06

A SUMMARY OF HOUSE BILL 6043 AS REPORTED FROM COMMITTEE

Public Act 210 of 2005 created a new act, the Commercial Rehabilitation Act, under which certain rehabilitated commercial property in specially designated districts can receive a reduction in property taxes for one to ten years, with the length determined by the local unit of government (a city, village, or township).

House Bill 6043 would amend the definitions section of the act (MCL 207.842) to revise the eligibility requirements for commercial property.

Under the bill, property used for multifamily residential use would be eligible if it is 15 years old or older. ("Multifamily residential use" would mean multifamily housing of five or more units.)

Also, certain existing requirements for eligible projects would be removed from the act. Currently, the commercial rehabilitation district established by the local unit must contain at least 75 acres. The bill would require a district to be at least three acres in size. Currently, to be a qualified facility the buildings involved must consist of one million or more square feet of space that had been 40 percent vacant for the previous 12 months or more. The bill would delete that requirement.

Under the act a "qualified facility" is exempt from standard property taxes (although not the land or personal property). Instead the facility would be subject to a newly created specific tax that would, generally speaking, base the tax liability of the facility on its value prior to rehabilitation. 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 taxing units affected of any application for an exemption, and then hold a public hearing on the issue. The tax exemption also requires the approval of the State Tax Commission. The Commercial Rehabilitation Act is very similar in outline to the Obsolete Property Rehabilitation Act,

which applies to blighted, functionally obsolete, and contaminated properties in core communities.

BACKGROUND INFORMATION:

According to testimony before the House Commerce Committee earlier this session, Public Act 210 of 2005 was intended apply to the Summit Place Mall in Waterford Township in Oakland County, whose owners are proposing a major redevelopment to change an older commercial shopping center into a mixed residential and retail complex. It was not known if other eligible commercial entities were interested and qualified. House Bill 6043 would make the commercial tax abatement apply to many more potential cases. Generally, under the bill, the Commercial Rehabilitation Act would apply to any commercial property (including multifamily housing of five or more units) that is 15 years of age or older located in a locally-designated rehabilitation district of at least three acres. Local unit approval would be required.

Proponents said the bill would give local units of government additional tools to provide tax abatements that would encourage redevelopment of older commercial properties. It would be entirely at the option of local units and abatements would only apply to local taxes. Critics noted that the bill is a major, fundamental change in economic development and tax abatement strategy, and that more information is needed to assess its impact. Representatives of local units suggested that the three-acre standard be reduced for downtown areas and that a "clawback" provision be considered in companion legislation to address recovering foregone taxes when promised economic development benefits were not forthcoming.

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 to the building 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.

POSITIONS:

The Michigan Economic Development Corporation (MEDC) testified in support of the bill. (6-27-06)

The Michigan Municipal League indicated support for the bill. (6-27-06)

The Michigan Association of Home Builders indicated support for the bill. (6-27-06)

The Apartment Association of Michigan indicated support for the bill. (6-27-06)

The International Council of Shopping Centers indicated support for the bill. (6-27-06)

The Property Management Association of Michigan (PMAM) indicated support for the bill. (6-27-06)

The Michigan Association of Counties indicated neutrality. (6-27-06)

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■ This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.