

OBSOLETE PROPERTY ABATEMENT EXCEPTION

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House Bill 6108 (Substitute H-1)

Sponsor: Rep. Jeff Mayes

Committee: Commerce

Complete to 6-7-06

A SUMMARY OF HOUSE BILL 6108 AS REPORTED FROM COMMITTEE

Under the Obsolete Property Rehabilitation Act, local units of government can create special districts in which eligible commercial property and commercial housing can obtain property tax abatements. This only applies in so-called core communities and only to blighted, functionally obsolete, and contaminated properties. Properties undergoing rehabilitation can obtain a tax abatement for one to twelve years, if approved by the local legislative body and the State Tax Commission. Approved properties are exempt from standard property taxes and instead pay a specific tax, called the obsolete properties tax, which is based on the value of property prior to rehabilitation. The abatement applies to the facility and not the land and not, generally speaking, personal property.

In order for an exemption certificate to be awarded under the act, the rehabilitation of a facility must begin after the rehabilitation district has been created in order for an exemption certificate to be awarded. House Bill 6108 would amend the act (MCL 125.2788) to provide exceptions to this requirement. Under the bill, a certificate could be awarded to a project where the rehabilitation of the facility occurs before the establishment of a district in either of two sets of circumstances.

1) If all of the following circumstances exist.

- The building permit for the rehabilitated facility was obtained in October 2002.
- The exemption certificate was granted in 2006.
- The rehabilitation included adding additional stories to the facility.

2) If all of the following circumstances exist.

- Emergency or temporary repairs or improvements were made before establishment of the district.
- The exemption certificate was granted in 2006.
- The facility is located in a city with a population of more than 20,500 and less than 27,000 and is located with a county of more than 95,000 and less than 105,000.

BACKGROUND INFORMATION:

According to committee testimony, the bill would apply to facilities in two cities. The first set of circumstances applies to Bay City and the second to Adrian.

In the Bay City case, the bill is considered an extension of Public Act 70 of 2006 (Senate Bill 52), which amended OPRA to allow the creation of additional stories and floor space to count as "rehabilitation" of property under the act. Reportedly, a firm in Bay City that intended to take advantage of a tax abatement under this new provision had obtained a building permit before being eligible to apply for an exemption certificate. In the second case, in Adrian, emergency work needed to be done to prevent further deterioration of a building prior to the obsolete property district's being created or an exemption awarded.

FISCAL IMPACT:

There is a loss of state and local property tax revenue, and an increase in State School Aid Fund (SAF) expenditures to replace the tax revenue allocated to school operating expenses. When the identities of the facilities being granted these exception are known, an estimate of lost tax revenue and increased SAF expenditures may be prepared.

POSITIONS:

Representatives of the Michigan Economic Development Corporation (MEDC) testified they support the substitute bill with an amendment that would clarify the use of the term "improvements."

The Bay Area Chamber of Commerce has indicated support for the bill. (6-6-06)

The Michigan Association of Realtors has indicated support for the bill. (6-6-06)

Legislative Analyst: Chris Couch
Fiscal Analyst: Richard Child

■ 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.