

COMMERCIAL REHABILITATION ACT EXTEND SUNSET FOR ABATEMENTS

Phone: (517) 373-8080
<http://www.house.mi.gov/hfa>

Senate Bill 556 (S-1) as reported from House Committee

Sponsor: Sen. Ken Horn

House Committee: Government Operations

Senate Committee: Economic Development and International Investment

Complete to 11-9-15

Analysis available at
<http://www.legislature.mi.gov>

(Enacted as Public Act 218 of 2015)

SUMMARY:

The bill would amend the Commercial Rehabilitation Act so that the granting of property tax abatements could continue until December 31, 2020. Currently, the deadline for granting abatements is December 31, 2015.

MCL 207.856

BACKGROUND INFORMATION:

Generally speaking the Commercial Rehabilitation Act is a mechanism under which a local unit of government can provide a tax abatement for the rehabilitation or renovation of older commercial properties. The abatement results from freezing the assessed value of a building at its value prior to rehabilitation or renovation. The abatement is for local taxes only, not for local or state school taxes, and a county government can veto the abatement. Approval is also required by the State Tax Commission.

The act was created in 2005 and initially applied to a specific project, the redevelopment of a mall in Oakland County. The act has been amended several times, usually for a specific place or project, but is now generally available to communities for the redevelopment of commercial properties at least 15 years old or older, as well as to other targeted kinds of projects. Reportedly, as of the 2014 tax year, 63 properties in 34 local units are recipients of such tax abatements, which can last from one to ten years, at the discretion of the local unit. The use of the act has grown, say its supporters, since the demise of other tax incentives, namely, the state historic preservation tax credit and Brownfield credits.

Specifically, under the act, a "qualified facility" located in a special district created by a city, township, or village is exempt from standard property taxes (although not the land or personal property). Instead the facility is subject to a specific tax that, generally speaking, bases the tax liability of the facility on its value prior to rehabilitation. (The specific tax is known as the commercial rehabilitation tax.)

A "qualified facility" is defined in the act as:

- A qualified retail food establishment. (This refers, generally, to a supermarket, grocery store, or delicatessen located in certain urban and rural areas "underserved" by food retailers, and located on property used as residential, commercial, or industrial property for the immediately preceding 30 years.)
- A building or group of contiguous buildings of commercial property 15 years old or older or that has been allocated for a new markets tax credit under Section 45D of the federal Internal Revenue Code, 26 USC 45D.
- A building or a group of contiguous buildings, a portion of a building or group of contiguous buildings previously used for commercial or industrial purposes, obsolete industrial property, and vacant property which, within the immediately preceding 15 years, was commercial property.
- Vacant property located in a city with a population of more than 500,000 and 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 that is attached to a convention and trade center that is over 250,000 square feet in size and that is located in a county with a population of more than 1,100,000 and less than 1,600,000 as of the most recent decennial census.

FISCAL IMPACT:

Senate Bill 556 would have an unknown fiscal impact on local government revenues. Revenues to local school districts would not be changed by the bill.

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 (length would depend on local unit of government). The improvements and investment on the property 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. All other property taxes on the new investment would be abated for the period granted by the local unit of government. Land and personal property would continue to be taxed at the prevailing commercial millage rates.

The overall fiscal impact to local units of government would depend on whether the property would be rehabilitated without the sunset extension. Assuming the property would be rehabilitated without the sunset extension, the provisions of the bill would result in lower property tax revenues to local units of government equal to the amount of property taxes abated on the improvements/investments. On the other hand, if the sunset extension allowed for commercial rehabilitation and investment that would not have happened but for the tax abatement, local units of government could realize increased revenues from increased taxable values that would primarily begin when the abatement ended. If surrounding properties increased in value from the investment, the local unit of government could realize increased revenues in the near term. The magnitude and timing of the revenue impact would depend on the location, duration of abatement, the effect on the surrounding properties, and the number and value of properties provided the abatement.

The State Tax Commission could realize increased administrative costs due to an increase in the number of districts requested for approval. However, these costs would likely be absorbed under current appropriation levels.

POSITIONS:

Representatives from the following testified in support of the bill on 11-5-15: Bedrock Real Estate Services, the City of Adrian, the Michigan Municipal League, the Building Owners and Managers Association.

The following indicated support: the Michigan Department of Treasury, the Detroit Regional Chamber, the Michigan Townships Association, the City of Southfield, the City of Detroit, the International Council of Shopping Centers, and the Michigan Historic Preservation Network.

Legislative Analyst: Chris Couch
Fiscal Analyst: Ben Gielczyk

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