

# Legislative Analysis



## EXTEND SUNSET OF ABATEMENTS UNDER COMMERCIAL REHABILITATION ACT AND COMMERCIAL REDEVELOPMENT ACT

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**Senate Bills 493 and 494 as referred to second House committee**

**Sponsor: Sen. Jim Stamas**

**1st House Committee: Commerce and Tourism**

**2nd House Committee: Ways and Means**

**Senate Committee: Economic and Small Business Development**

**Complete to 4-3-20**

### SUMMARY:

**Senate Bill 493** would amend the Commercial Rehabilitation Act so that the granting of property tax abatements can continue until December 31, 2025. Currently, the deadline for granting abatements is December 31, 2020.

MCL 207.856

**Senate Bill 494** would amend the Commercial Redevelopment Act so that the granting of property tax abatements can continue until December 31, 2025. Currently, the deadline for granting abatements is December 31, 2020.

MCL 207.668

### BACKGROUND:

Generally speaking, the Commercial Rehabilitation Act provides a mechanism for a local unit of government to provide a tax abatement for 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 it. Approval by the State Tax Commission is also required.

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 the commercial rehabilitation tax, a specific tax that, generally speaking, bases the tax liability of the facility on its value prior to rehabilitation.

The Commercial Redevelopment Act was enacted in 1978 as a companion act to the Plant Rehabilitation and Industrial Development Act, which provides property tax abatements primarily for industrial or manufacturing firms. The Commercial Redevelopment Act provides property tax abatements to commercial enterprises. Under the act, firms pay a commercial facilities tax instead of regular property taxes; new and replacement facilities pay taxes at the rate roughly of one-half the statewide average property tax rate; and owners of restored or rehabilitated facilities pay taxes based on the value of the property prior to restoration or rehabilitation.

## **FISCAL IMPACT:**

**Senate Bill 493** 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 one to ten 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.

**Senate Bill 494** would reduce state and local property tax revenue, and increase School Aid Fund expenditures (to maintain per-pupil funding levels), by an unknown amount when compared to current law if it was assumed that the property would be redeveloped regardless of the tax incentive provided under the act. The magnitude of the fiscal impact would be directly correlated to the taxable value and characteristics of the property that received the incentive. Conversely, if it was assumed that the property would not be redeveloped but for the tax incentive, there would be little to no fiscal impact for local units of government and the School Aid Fund.

The act also authorizes the state treasurer to exempt 50% of the State Education Tax (SET) for a period not to exceed six years (capped at 25 exemptions per year). To the extent that SET exemptions are granted, the bill would reduce SET revenue by an unknown amount regardless of whether the redevelopment was affected by the incentives provided in the act. The magnitude of the SET fiscal impact would depend on the taxable value and number of properties receiving an abatement.

## POSITIONS:

A representative of the Michigan Municipal League testified in support of the bills. (1-16-20)

The following entities indicated support for the bills:

Michigan Economic Development Corporation (1-16-20)

Michigan Bankers Association (1-16-20)

Michigan Townships Association (1-16-20)

Michigan Economic Developers Association (2-20-20)

The following entities indicated support for SB 493 (2-20-20):

Quicken Loans

Lake Superior Community Partnership

Detroit Economic Growth Corporation

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■ 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.