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Senate Bill 493 (as passed by the Senate)
Senate Bill 494 (as passed by the Senate)
Sponsor: Senator Jim Stamas
Committee: Economic and Small Business Development

Date Completed: 12-19-19

RATIONALE

The Commercial Rehabilitation Act and the Commercial Redevelopment Act provide for the establishment of commercial rehabilitation districts and commercial redevelopment districts, respectively. Generally, the land/facilities located in these districts are exempt from property taxes and, instead, are subject to a different tax rate (see **BACKGROUND**). Many believe these districts are useful to Michigan communities in promoting rehabilitation and economic development; however, both Acts list December 31, 2020, as the final date through which new exemptions may be granted. It has been suggested that the sunset dates for these exemptions be extended to allow Michigan communities to continue to take advantage of both of these economic development tools.

CONTENT

Senate Bill 493 would amend the Commercial Rehabilitation Act to extend, from December 31, 2020, to December 31, 2025, the sunset date after which a new commercial rehabilitation certificate may not be granted.

Senate Bill 494 would amend the Commercial Redevelopment Act to extend, from December 31, 2020, to December 31, 2025, the sunset date after which a new certificate may not be granted.

MCL 207.856 (S.B. 493)
207.668 (S.B. 494)

BACKGROUND

The Commercial Rehabilitation Act provides for the establishment of commercial rehabilitation districts. Commercial rehabilitation districts are parcels of land that contain a "qualified facility". The owner of a qualified facility who intends to rehabilitate it may apply for a commercial rehabilitation certificate. If a qualified facility is granted a certificate, the facility is exempt from property taxes. Instead, the owner must pay a commercial rehabilitation tax. The Act prohibits a new exemption from being granted under the Act after December 31, 2020, but specifies that an exemption then in effect may continue until the expiration of the exemption certificate.

Similarly, the Commercial Redevelopment Act allows a local governmental unit to establish a commercial redevelopment district. A facility located in a district is exempt from the general property tax and is subject instead to a specific tax, the commercial facilities tax. The Act prohibits a new exemption from being granted under the Act after December 31, 2020, but specifies that an exemption then in effect may continue until the expiration of the exemption certificate.

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

Both Acts provide a way to rehabilitate different areas and buildings throughout Michigan. Often, the tax incentive provided under the Acts is the catalyst for individuals or companies to rehabilitate buildings that otherwise would be too expensive to redevelop. These projects revitalize communities, create jobs, and help to preserve historic locations across the State. Moreover, once the project is completed, the surrounding area usually sees an increase in market value, generating more property tax revenue going forward. By extending the sunset within both Acts, the bills would ensure that these useful tools remain available for Michigan municipalities.

Supporting Argument

The Acts require local approval before any exemptions can be granted. This allows local governments to decide which buildings receive tax relief or what areas are rehabilitated. By extending the sunset within the Acts, the bills would guarantee that local units continue to have some control over the development of their communities.

Supporting Argument

Many of the projects that are completed under the Acts would not have been finished without the incentives provided under the Acts. Developers often depend on those incentives to make redevelopments projects profitable. If these tools expired, developers would have fewer opportunities to revitalize buildings or areas in Michigan. This could push developers to look towards projects in other states, taking money that otherwise would be invested in Michigan elsewhere. The bills would ensure that this would not happen.

Legislative Analyst: Drew Krogulecki

FISCAL IMPACT

Senate Bill 493

The bill would have an unknown impact on local government revenue and would increase the cost of the State Tax Commission within the Department of Treasury by a minimal amount. To the extent that the designated property would be rehabilitated without the bill, the bill would reduce revenue to cities, villages, townships, and counties with commercial rehabilitation districts. If the postponement of the sunset on the designation of new commercial rehabilitation districts resulted in property rehabilitation and taxable value growth that otherwise would not occur, the local governments would receive an increase in tax revenue that would begin when the commercial rehabilitation exemption expired. The amount and timing of revenue change would depend on the decision of a city, village, or township to designate a district, county approval, the approval of the State Tax Commission, the duration of the district, and the number and value of participating properties. The net revenue to local school districts would not be changed by the bill. The State Tax Commission would have additional costs of a minimal amount to approve and report on additional commercial rehabilitation districts approved pursuant to the bill.

The Department of Treasury reported that for the 2017 tax year, there were 21 properties receiving an exemption in districts established by 11 local governments. For the 2018 tax year, this increased to 29 properties in districts established by 17 local governments.

Senate Bill 494

The bill would reduce State and local property tax revenue, and increase School Aid Fund expenditures, by an unknown amount, depending upon the specific characteristics of property that received a commercial facilities exemption certificate, as well as the number of parcels affected. School aid expenditures would be increased to the extent the bill reduced local school operating revenue, in order to maintain per-pupil funding guarantees. While local property tax revenue would decline, and School Aid Fund expenditures increase, only if the property still would be altered absent the bill, State education tax revenue would decrease in an absolute sense because the bill would allow abatements of the tax against the existing tax base.

To the extent that property affected by the bill potentially would be eligible for tax preferences under the Obsolete Property Rehabilitation Act and/or the Brownfield Redevelopment Financing Act, the fiscal impact of the bill could be mitigated.

The Department of Treasury reported that there are currently 51 properties receiving an exemption in districts established by 25 local governments.

Fiscal Analyst: Ryan Bergan
David Zin

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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.