

Legislative Analysis



COMMERCIAL REDEVELOPMENT: REDEFINE "REHABILITATION"

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House Bill 5123 (Substitute H-1)

Sponsor: Rep. Steve Bieda

Committee: New Economy and Quality of Life

Revised First Analysis (10-5-07)

BRIEF SUMMARY: The bill would eliminate the requirement that property be "obsolete" in order to qualify for a property tax abatement under the Commercial Rehabilitation Act.

FISCAL IMPACT: The bill could lead to a reduction in local property tax revenue if local governments, other than counties, expand their use of commercial rehabilitation districts. However, the amount of such reduction is indeterminate.

THE APPARENT PROBLEM:

Public Act 210 of 2005—the Commercial Rehabilitation Act—was enacted during the previous legislative session. The act allows communities to create districts comprising existing businesses (generally three acres or more, but smaller if downtown), and then grant property tax abatements for renovation or redevelopment of retail space. The purpose of the act was to enable existing retail areas to make improvements, in order to compete more effectively for customers with new developments nearby. See [Background Information](#).

Under the act, a city, village, or township, as a "qualified local governmental unit," can designate a "qualified facility"—that is, a building or group of contiguous buildings of commercial property that is 15 years old or older, or has been allocated for a new markets tax credit (under section 45d of the Internal Revenue Code)—for rehabilitation. County officials can veto the creation of the rehabilitation district. Under the act, rehabilitated property is exempt from standard property taxes and pays instead a specific tax that is, generally speaking based on the value of the property prior to rehabilitation.

Currently under the law, the term "rehabilitation" is defined to mean changes to a qualified facility that are required to restore or modify the property, together with all appurtenances, to an economically efficient condition. Rehabilitation includes major renovation and modification including, but not limited to, the improvement of floor loads, correction of deficient or excessive height, new or improved fixed building equipment, including heating, ventilation, and lighting, reducing multi-story facilities to one or two stories, improved structural support including foundations, improved roof structure and cover, floor replacement, improved wall placement, improved exterior and interior appearance of buildings, and other physical changes required to restore or change the obsolete property to an economically efficient condition.

According to committee testimony, some communities that have attempted to designate rehabilitation districts—for example, Sterling Heights—have had their decisions reversed by the Department of Treasury because the districts did not include obsolete property.

Legislation has been introduced to strike the word "obsolete" from the definition of "rehabilitation."

THE CONTENT OF THE BILL:

House Bill 5123 would amend the Commercial Rehabilitation Act (MCL 207.842) to eliminate the requirement that property be "obsolete" in order to qualify for property tax abatements under the act.

Currently, the legislative body of a qualified local governmental unit (defined to mean a city, village, or township) may establish a commercial rehabilitation district by adopting a written resolution. The local unit must notify the county of its action by providing county officials, via certified mail, with a copy of the resolution. Within 28 days after receiving a copy of the resolution, a county may reject the creation of the district in one of two ways: a) if the county has an elected county executive, then by written notification to the governmental unit; or b) if the county does not have an elected county executive, then by a resolution of the county board of commissioners provided to the governmental unit.

As passed by the House, the bill would retain these provisions.

Currently, the act defines "rehabilitation" to mean, among other things, changes to a qualified facility that are required to restore or modify the property, together with all appurtenances, to an economically efficient condition. Rehabilitation includes major renovation and modification including, but not limited to, the improvement of floor loads, correction of deficient or excessive height, new or improved fixed building equipment, including heating, ventilation, and lighting, reducing multi-story facilities to one or two stories, improved structural support including foundations, improved roof structure and cover, floor replacement, improved wall placement, improved exterior and interior appearance of buildings, and other physical changes required to restore or change the obsolete property to an economically efficient condition. Rehabilitation cannot include improvements aggregating less than 10 percent of the true cash value of the property at commencement of the rehabilitation of the qualified facility.

House Bill 5123 would eliminate the word "obsolete" for the definition of "rehabilitation" the currently appears in the act.

BACKGROUND INFORMATION:

The Commercial Rehabilitation Act—Public Act 210 of 2005—created a new act under which certain rehabilitated commercial property in specially designated districts could 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). Under the act, this property is exempt from standard property taxes and pays instead a specific tax that is, generally speaking based on the value of the property prior to rehabilitation.

In 2006, the legislature amended the act (Public Act 554 of 2006). That act revised the eligibility requirements for commercial property, so that property used for multifamily residential use would be eligible if it was 15 years old or older. ("Multifamily residential use" is defined to mean multifamily housing of five or more units.) The bill also changed the requirements for eligible projects. For example, formerly, a commercial rehabilitation

district established by a local unit had to contain at least 75 acres. Under Public Act 554, that requirement was reduced so that a district had to contain at least three acres in size, and could be smaller still if located in a downtown or business area.

At the time the act was amended, critics noted that the bill was a major, fundamental change in economic development and tax abatement strategy, and that more information was needed to assess its impact. They warned of the difficulty of recovering foregone taxes when promised economic development benefits were not forthcoming.

ARGUMENTS:

For:

Cities throughout the state have taken steps to revitalize their city centers, instituting city-wide marketing plans, and restructuring downtown development activities. For example, the City of Zeeland has undertaken these kinds of initiatives, following the National Main Street Project. Generally, these efforts offer local commercial retailers and other businesses access to state grants and incentives, such as the Commercial Rehabilitation Act. Using property tax abatements, the rehabilitation programs are intended to enhance the business climate, enabling city officials to retain downtown merchants and recruit new entrepreneurs.

This bill would allow city, village, and township officials greater latitude when defining their rehabilitation districts, since it eliminates the requirement that those districts contain obsolete buildings. With this change, city officials (with the concurrence of state officials in the Department of Treasury) would be able to designate buildings still in use, as well as unused buildings, as qualifying for tax abatements and tax credits within a rehabilitation district. That way, local officials could more vigorously pursue new investment, thereby creating more lively and livable communities.

POSITIONS:

The Department of Treasury supports the bill. (9-6-07)

The Michigan Municipal League supports the bill. (9-6-07)

The City of Zeeland supports the bill. (9-6-07)

The Township of Ypsilanti supports the bill. (9-6-07)

The City of Sterling Heights supports the bill. (9-6-07)

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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.