



Senate Fiscal Agency
P. O. Box 30036
Lansing, Michigan 48909-7536



Telephone: (517) 373-5383
Fax: (517) 373-1986
TDD: (517) 373-0543

Senate Bill 323 (as reported without amendment)
Sponsor: Senator John Pappageorge
Committee: Economic Development and Regulatory Reform

(as passed by the Senate)

Date Completed: 3-16-09

RATIONALE

Under the Brownfield Redevelopment Financing Act, qualified local governmental units (as defined in the Obsolete Property Rehabilitation Act) may establish brownfield redevelopment zones and brownfield redevelopment authorities, which may implement brownfield plans for the redevelopment of commercial or industrial property. Brownfield authorities may capture property tax revenue based on increases in the assessed value of eligible property, and use the tax increment revenue for the costs of eligible activities on eligible property. For eligible property that was or is used for commercial, industrial, or residential purposes and that meets certain other criteria, eligible activities for tax increment financing in a brownfield redevelopment zone include certain infrastructure improvements, demolition, and other site preparation activities. As a rule, the eligible property must be located in a qualified local governmental unit. Occasionally, however, brownfield tax increment financing could be useful to redevelop property that is not located in a qualified local governmental unit. Such a situation exists in Troy, where a proposed multiuse development project would redevelop the former K-Mart headquarters. Some people believe that site preparation activities at a limited number of major redevelopment projects should be included as eligible activities under the Brownfield Redevelopment Financing Act, even if those projects are not in a qualified local governmental unit.

CONTENT

The bill would amend the Brownfield Redevelopment Financing Act to do all of the following:

- **Include as "eligible activities" certain site preparation activities on property that was not in a qualified local governmental unit but was designated by the Michigan Economic Growth Authority (MEGA) as a "major redevelopment project".**
- **Include certain property at a major redevelopment project in the Act's definition of "eligible property".**
- **Allow MEGA to designate up to two major redevelopment projects each year.**
- **Define "major redevelopment project" with respect to investment, the type of facility, job creation, and regional benefit.**

Under the Act, for eligible property that was or is used for commercial, industrial, or residential purposes, that is a facility, functionally obsolete, or blighted, and that is located in a qualified local governmental unit, owned by or under control of a land bank fast track authority, or in an economic opportunity zone, "eligible activities" include all of the following:

- Infrastructure improvements that directly benefit eligible property.
- Demolition of structures that is not response activity under Section 20101 of the Natural Resources and Environmental Protection Act (NREPA) (e.g., evaluation, remedial action, or demolition).

- Lead or asbestos abatement.
- Site preparation that is not response activity under Section 20101 of NREPA
- Assistance to a land bank fast track authority in clearing or quieting title to, or selling or otherwise conveying, property owned or under the control of an authority or the acquisition or property by the authority for economic development purposes.

Under the bill, the eligible property would have to be in a qualified local governmental unit, be owned or controlled by a land bank fast track authority, be in an economic opportunity zone, *or* be designated as a major redevelopment project.

The bill also would include in the definition of "eligible property" property that was not in a qualified local governmental unit and was a facility, functionally obsolete, or blighted, and that MEGA designated as property with a major redevelopment project.

In each calendar year, MEGA could designate not more than two projects as major redevelopment projects. "Major redevelopment project" would mean a project to which all of the following apply:

- The amount of new construction investment in the project is at least \$50.0 million.
- The project includes at least one multilevel parking facility.
- The project leads to the creation of at least 300 permanent jobs.
- The State and region will benefit from the project.

MCL 125.2652

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

Local governmental units qualify under the Brownfield Redevelopment Financing Act based on certain family income and/or population standards, according to the definition of "qualified local governmental unit" in the Obsolete Property Rehabilitation Act. These local units (commonly referred to as "core communities") tend to have

distressed industrial or commercial areas in need of redevelopment for industrial, commercial, or residential use. Brownfield financing through the capture of tax increment revenue can help pay for those types of projects. Some areas that do not meet the core community criteria, however, also have large tracts of distressed property that could benefit from brownfield financing. One such location is the former headquarters of the K-Mart Corporation in Troy. A proposed redevelopment of that property, known as Troy Pavilions, reportedly would be a mixed-use development that would include both retail and residential tracts. The use of brownfield financing for infrastructure improvements, demolition of current structures, lead or asbestos abatement, and site preparation costs would be beneficial in furthering this project. The development of the vacant property, in turn, would be economically advantageous to the City of Troy and the southeastern Michigan region.

By authorizing MEGA to designate one or two major redevelopment projects annually, and making those projects eligible for brownfield tax capture for certain site preparation and improvement activities, the bill would extend brownfield financing to worthy projects even if they were not located in a core community.

Legislative Analyst: Patrick Affholter

FISCAL IMPACT

The bill would reduce State and local unit revenue by an unknown amount and increase School Aid Fund expenditures by an unknown amount, depending upon the specific characteristics of the projects affected by the bill. By expanding the definitions of "eligible activities" and "eligible property", the bill would increase the amount of taxes subject to capture.

As of November 2008, there were 280 brownfield redevelopment authorities. According to the Department of Treasury, approximately \$310.0 million in local property tax revenue will be captured under current law by all authorities using tax increment capture (downtown development authorities, local development finance authorities, tax increment finance authorities, and brownfield redevelopment authorities) during FY 2008-09. The portion

of that amount attributable to brownfield projects is unknown. A 2006 report from the Department of Environmental Quality estimated approximately \$2.6 million in captured State Education Tax revenue and \$6.6 million in captured local school operating property tax revenue, up from \$2.1 million and \$5.2 million, respectively, in 2005. While the local millage rate in a community with a major redevelopment project would determine the specific capture for such a project, if a single project added \$60.0 million in taxable value and the property faced the statewide average tax rate of 51.85 mills, the total captured would be approximately \$1.6 million per year, of which approximately \$0.2 million would be State Education Tax revenue. The capture also would result in increased School Aid Fund expenditures of approximately \$0.5 million per year.

Fiscal Analyst: 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.