

SFA

BILL ANALYSIS

RECEIVED

Senate Fiscal Agency

Lansing, Michigan 48909

(517) 373-5383

JUL 06 1988

Mich. State Law Library

Senate Bill 527 (Substitute S-1)

Sponsor: Senator David Holmes

Committee: Finance

Date Completed: 5-23-88

**SUMMARY OF SENATE BILL 527
(Substitute S-1):**

The bill would create a new act to allow for the issuance of residential facilities exemption certificates to qualified property owners, who would then be exempt from property taxes and instead would pay a residential facilities tax. The bill provides that certain local units of government that contain areas that qualified as "designated areas" could approve exemption certificates, and the State Tax Commission would issue the exemption certificates, for the purpose of constructing new homes and rehabilitating existing homes. The bill would apply only to a city that: has a population over 14,000 and 65% or more of its owner-occupied housing units have a value under \$20,000; or, has a population over 39,000 and 21% or more of the owner-occupied housing units have a value under \$20,000. Following is a detailed description of the bill.

Designated Area

The bill provides that a local unit could, by resolution of its legislative body, approve residential facilities exemption certificates in a "designated area". A designated area would mean an area for which the Michigan State Housing Development Authority (MSHDA) received from a local unit a neighborhood partnership plan that established as a goal that at least 75% of the property in the area would be "brought to a safe and sanitary condition". The plan would have to enable MSHDA to determine that public and private resources and the resources of MSHDA would be combined to assure that a majority of the housing could be brought to a safe and sanitary condition. To qualify as a designated area, an area would have to be in a city and either be "within a census tract having a serious housing need", or meet all of the following criteria:

- The increase in the State equalized value (SEV) of real and personal property in the area was less than the increase in the local unit or statewide average, whichever increase was less.
- The poverty rate in the area was greater than the statewide average as determined by the most recent Federal census.
- The average income of the area was less than 80% of the greater of the statewide or local unit median, as determined by the most recent Federal census.
- The percentage of overcrowded or underutilized housing units in the local unit was greater than the local unit average.

Application for Certificates

The bill provides that a prospective owner of a proposed new facility, or an owner proposing to rehabilitate property, located in a designated area could file an application for a residential facilities exemption certificate with the local unit, in a manner prescribed by the State

Tax Commission. An application would have to contain, among other information, a general description of the new facility or rehabilitation, a schedule for completing the project, and an estimate of the amount of construction to be completed by the prospective owner or prospective owner's family or the amount of materials and labor to be provided by the owner or owner's family.

Upon receiving an application, the clerk of the local unit would have to give written notice to the assessor of the assessing unit where the facility was, or was to be, located, and to the legislative body of each taxing unit that levies property taxes there. A legislative body, before acting on an application, would have to give the applicant, the assessor, and a representative of each taxing unit an opportunity for a hearing.

Approval of Certificates

Within 60 days after receiving an application, the legislative body of the local unit would have to approve or disapprove an application for a certificate. The local unit could not approve an application, and the State Tax Commission could not grant a certificate for a new facility unless the following conditions were met:

- The application related to a construction program that when completed would constitute a new facility.
- The new facility had not yet been occupied.
- The prospective owner, or members of the owner's family, would personally contribute physical labor, materials, or both in the construction. The contribution of physical labor or materials, or both, would have to be 10% or less of the value as calculated by MSHDA.
- The new facility would be located on previously empty land, or "where otherwise abandoned buildings were previously located creating a future increased tax base".
- The new facility would be occupied as a permanent residence by the owner.

The local unit could not approve an application, and the Commission could not grant a certificate for a rehabilitated facility unless the applicant complied with the following requirements:

- The applicant proposed substantial construction or rehabilitation that would "significantly improve the basic livability of the home".
- The owner of the proposed rehabilitation or members of the owner's family would personally contribute physical labor, materials, or both in the rehabilitation. The contribution would have to be 10% or less of the value of the improvement as calculated by MSHDA.
- The facility would be occupied as a permanent residence by the owner.

S.B. 527 (S-23-88)

If a local unit disapproved of an application, it would have to give the reasons in a resolution and the clerk would have to return the application to the applicant. If it approved an application, the clerk would have to forward the application to the State Tax Commission.

Issuance of Certificates by the Commission

Within 60 days of receiving an approved application, the Commission would have to determine whether the project complied with the requirements of the bill, and issue a certificate if it found that the project complied. The Commission would have to obtain the written concurrence of the Department of Commerce that the project complied with the requirements of the bill, when applicable, before it issued a certificate. The Commission would have to send an approved certificate by certified mail to an applicant, and a copy to the assessor in the unit where the facility was to be located. Notice of the Commission's refusal to issue a certificate would be sent to the same persons.

Certificates and Residential Facilities Tax

A facility for which a residential facilities exemption certificate was in effect would be exempt from property taxes, but the land on which the facility was located would not be exempt. The certificate would remain in effect from the beginning date on the certificate, and continue as long as the certificate was in force. Unless revoked, a certificate would remain in effect until the owner of the facility no longer resided there, or the owner's mortgage was paid, whichever happened first. The owner of a new or rehabilitated facility would be required to pay a residential facilities tax. The tax for a new facility would be calculated by multiplying the facility's SEV, excluding the land, in the year preceding the first year the certificate took effect, by the total mills levied as ad valorem taxes for the year by all the taxing units within which the facility was located.

The residential facilities tax would be collected, assessed, and disbursed in the same manner as the commercial facilities tax under Public Act 255 of 1978. (Under Public Act 255, the commercial facilities tax is collected and disbursed in the same manner as property taxes under the General Property Tax Act, except that amounts that would be disbursed to local or intermediate school districts receiving State aid under the State School Aid Act are paid to the State School Aid Fund.) The residential facilities tax would be considered a lien on the property until paid.

Revocation of Certificates

The Commission would have to revoke a certificate if its holder requested revocation. The legislative body of a local unit could, by resolution, request the State Tax Commission to revoke a certificate on the following grounds: that completion of the facility had not occurred within two years after the effective date of a certificate (if the local unit had not granted an extension); that, absent circumstances beyond the control of the holder of a certificate, the holder failed to proceed "in good faith" with construction or rehabilitation in a manner consistent with the purposes of the bill; and that, as determined by a MSHDA inspection upon completion of the work an owner proposed in an application, the physical labor, materials, or both of the owner or owner's family did not equal in value the percentage required under the bill. Upon receiving the resolution, the Commission would have to notify the certificate holder, the local unit, the assessor of the assessing unit, and the legislative body of each local taxing unit that levied taxes on the property, and give each an opportunity for a hearing. The Commission would have to revoke the certificate if it found that the requirements of the bill had not been fulfilled.

Assessors Duties

The assessor of each local unit in which a certificate had been issued would be required to determine, each year, the value of each new and rehabilitated facility for both real and personal property, and would be required to calculate an assessment of the facility that would have been made if a certificate had not been in force. After making the determination, the assessor would have to notify the Commission, the local unit, and the certificate holder. Upon receiving notice of an application for a certificate, the assessor would have to furnish the local unit and the Commission with a determination of the value of the property and other information necessary for the local unit and the Commission to decide if the property fulfilled the requirements of the bill.

Financial Soundness of Taxing Unit

The bill would require a local unit, in the resolution approving an application for a certificate, to "set forth a finding and determination" that granting the certificate, considered together with the aggregate amount of certificates granted previously and in force, would not have the effect of "substantially impeding the operation of the local unit or impairing the financial soundness" of a taxing unit that levies taxes on the property. If the SEV of the property, considered together with the aggregate SEV of property for which certificates were previously granted and in force, industrial facilities exemption certificates granted and in force (under Public Act 198 of 1974), and commercial facilities exemption certificates granted and in force (under the Commercial Redevelopment Act), exceeded 5% of the local unit's SEV, the Commission, with the approval of the State Treasurer, would have to make a separate finding and include in its statement approving the certificate that exceeding the 5% amount would not have the effect of substantially impeding the operation of the local governmental unit or impairing the financial soundness of an affected taxing unit.

State Tax Commission

The Commission could promulgate rules necessary to administer the provisions of the bill. Certificates would be in a form determined by the Commission. A party aggrieved by the issuance, refusal to issue, revocation, or modification of a certificate could appeal the findings and orders of the Commission as provided in the Administrative Procedures Act.

MSHDA

The bill would require MSHDA to issue a report to the Legislature and the Governor within 10 years after the first certificate was granted, to determine whether the granting of certificates had resulted in the stabilization of designated areas, the revitalization of neighborhoods, and an increase in the availability of jobs, and provided safe and suitable housing for low and moderate income persons.

Sunset

A certificate could not be granted after December 13, 1997, but certificates in effect at that time would continue until they expired.

Legislative Analyst: G. Towne

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.