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NEIGHBORHOOD ENTERPRISE ZONE EXEMPTIONS

House Bill 4459 as enrolled
Public Act 93 of 2001
Second Analysis (8-2-01)

Sponsor: Rep. LaMar Lemmons III
House Committee: Tax Policy
Senate Committee: Finance

THE APPARENT PROBLEM:

Under the Neighborhood Enterprise Zone Act, new or rehabilitated housing in certain specially designated areas in eligible communities can receive property tax reductions. (See Background Information.) The act requires generally that an application for a tax abatement certificate be filed before a building permit is issued for new or rehabilitated housing. There are several exceptions in the statute to cover special cases. A new special case has arisen.

According to testimony provided to the House Tax Policy Committee, 10 of the homeowners in a 40-home development in Detroit called MorningSide Commons, are faced with considerably higher property taxes than anticipated (and than the other homeowners in the development) because the exemption application for those first 10 homes was not filed in a timely manner by the nonprofit housing corporation sponsoring the development. These homeowners qualified for the homes by being at or below 80 percent of median income and below certain asset caps, and the financing of the homes was predicated on the granting of property tax abatements. Homeowners say that in most cases they would not have qualified for their mortgages without the expectation of the lower tax payments. As a result of this "paperwork" mishap, the homeowners, who describe themselves as "pioneers" in the Detroit redevelopment project, face \$200 or more in additional monthly payments. Some of them say they face being forced to sell. Legislation has been introduced to address this problem.

THE CONTENT OF THE BILL:

The bill would amend the Neighborhood Enterprise Zone Act to allow an exception to the requirement that an application for a tax abatement certificate under the act be filed before a building permit is issued. The exception would apply in the case of

new housing if the area in which it was located had been designated as a neighborhood enterprise zone in July 1997 and if the building permit had been issued for the housing on February 3, 1998.

The effective date of an abatement certificate issued as a result of the enactment of the bill would be the first day of the tax year following the year in which the certificate was approved by the State Tax Commission.

MCL 207.774

BACKGROUND INFORMATION:

The Neighborhood Enterprise Zone Act was enacted in 1992 as an effort to improve the housing stock in urban areas where little or no new construction was taking place and much housing was in need of rehabilitation. The act offers reduced property taxes to residential property owners in certain zones designated by local units. Generally speaking, owners of new construction pay taxes at the rate of one-half of the statewide average property tax rate and owners of rehabilitated housing pay taxes based on the value of the property prior to rehabilitation. The abatement applies to structures and not to land. Property owners who obtain a neighborhood enterprise zone certificate are exempt from property taxes and pay a specific tax instead. This is similar to the tax abatement program available for manufacturing facilities under Public Act 198 of 1974. Approval of the local unit and the State Tax Commission is required to obtain a certificate, which is good for 12 years. A new facility must be owner-occupied housing of one or two units, and can include an individual condominium unit. Apartments don't qualify. A rehabilitated facility can consist of up to eight units and must meet certain specified rehabilitation expenditure requirements. Nine cities have established zones under this program, including

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Detroit. (There are 30 communities eligible to participate at present.)

FISCAL IMPLICATIONS:

The Senate Fiscal Agency estimated that the bill would reduce local property taxes by about \$4,800 annually and would reduce School Aid Fund revenues by about \$1,500 annually. (SFA analysis dated 6-4-01)

ARGUMENTS:

For:

The bill would make it possible for ten homeowners in a neighborhood enterprise zone housing development in Detroit to get the property tax abatements they were promised and anticipated when they moved in during the summer of 1999. While other homeowners in the 40-home development are eligible for the tax break under the Neighborhood Enterprise Zone Act, these ten homeowners are not due to what has been described as a mix-up in the processing of paperwork. The problem only affects the first ten homes occupied. It was always intended that these homes receive the tax abatements, so the exception would be made within the spirit of the law. Similar kinds of exceptions have been made in the past when certain procedural mistakes were made, not only for housing tax abatements but also for manufacturers under Public Act 198 of 1974.

Analyst: C. Couch

■ 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.