

Senate Fiscal Agency
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House Bill 4459 (Substitute H-1 as reported without amendment)
Sponsor: Representative LaMar Lemmons III
House Committee: Tax Policy
Senate Committee: Finance

Date Completed: 6-4-01

RATIONALE

The Neighborhood Enterprise Zone Act allows an eligible local unit of government to designate one or more neighborhood enterprise zones within the local unit. (The Michigan Enterprise Zone Authority determined the eligibility of local units by December 31, 1993, based on unemployment, population, millage, property valuation, and housing stock criteria.) Under the Act, the owner or developer of a proposed new or rehabilitated residential housing facility within a neighborhood enterprise zone may apply to the local unit for a neighborhood enterprise zone certificate. A new or rehabilitated facility for which a certificate is in effect is exempt from property taxes, and instead is subject to a specific neighborhood enterprise zone tax.

The Act requires that an application for a certificate be filed before a building permit for a new or rehabilitated residential housing facility is issued, though in past years exceptions to this requirement have been made for certain facilities. Reportedly, in a 40-home development in a neighborhood enterprise zone in Detroit, 10 of the homeowners have been unable to claim an exemption from property taxes because an application for a certificate was not filed before a building permit for the 10 homes was issued. It has been suggested that the Act be amended to allow these homeowners to claim an exemption from property taxes.

CONTENT

The bill would amend the Neighborhood Enterprise Zone Act to allow an application for a neighborhood enterprise zone certificate to be filed after a building permit had been issued for the construction of a new facility, if

the area in which the new facility was located had been designated as a neighborhood enterprise zone by the governing body of the local governmental unit in July 1997, and if the building permit had been issued for that facility on February 3, 1998. The bill specifies that it would be retroactive and effective December 31, 1999.

The bill provides that if its enactment resulted in an overpayment of property taxes, a rebate including interest paid would have to be made to a taxpayer by the local unit or the county treasurer (whichever had possession of the tax roll) within 30 days of the taxpayer's request. The local unit could not pay any interest on the rebate for the period of time the local unit had possession of the property taxes.

MCL 207.774

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

Under the Act, the owner of a new or rehabilitated residence in a neighborhood enterprise zone is eligible to obtain a certificate that exempts the home (but not the land) from property taxes. Instead of property taxes, the homeowner pays a specific neighborhood enterprise zone tax, which generally is equal to one-half of the statewide average property tax rate. This tax abatement is designed to improve the housing stock in urban areas where little new

construction is taking place and much of the housing is in need of repair.

The bill would allow 10 homeowners in a 40-home neighborhood enterprise zone residential housing development in Detroit to receive the property tax exemptions that they expected when they took possession of their homes in 1999. Reportedly, the developer failed to file an application for a neighborhood enterprise zone certificate, before a building permit was issued, for the first 10 units built in the development. This means, then, that while 30 of the development's homeowners are exempt from property taxes, the first 10 homeowners are not eligible for the benefits of the exemption. The bill would offer a fair solution to this problem, and allow those homeowners to recoup property taxes that they had not expected to have to pay.

Legislative Analyst: G. Towne

FISCAL IMPACT

Based on average property tax rates in 1999, the bill would reduce School Aid Fund revenues by approximately \$1,500 per year. The retroactive provisions of the bill would lead to a refund on taxes already paid, thus reducing School Aid Fund revenues by an additional \$1,500 in FY 2000-01.

The bill would reduce local revenues by approximately \$4,800 per year. Property tax revenues would fall by about \$12,700 but would be replaced by neighborhood enterprise zone taxes of approximately \$7,900. The retroactive provisions of the bill would result in a refund on taxes already paid, thus reducing local revenues by an additional \$4,800 in FY 2000-01.

Fiscal Analyst: D. 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.