

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



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

House Bill 4621 (Substitute S-1 as reported)
Sponsor: Representative Randy Richardville
House Committee: Commerce
Senate Committee: Economic Development, International Trade and Regulatory Affairs

CONTENT

The bill would amend the Neighborhood Enterprise Zone Act to revise the eligibility criteria for communities that may establish an enterprise zone, in which property owners may qualify for tax relief under the Act. The bill would do all of the following:

- Repeal a section of the Act that prohibits the issuance of a neighborhood enterprise zone certificate after December 31, 2002.
- Replace the Act's current definition of "local governmental unit", which is based on population, high unemployment rates, high millage rates, and aging housing stock, with the definition of "qualified local governmental unit" as that term is defined under the Obsolete Property Rehabilitation Act, which deals with brownfield redevelopment. That definition is based on factors such as median family income, population, being an "eligible distressed area" under the State Housing Development Authority Act, low SEV increase since 1972, and Federal designation as a "rural enterprise community".
- Revise the definitions of "new facility" and "rehabilitated facility" to include a portion of a new or rehabilitated facility, increase from \$60,000 to \$80,000 the maximum allowable value of a rehabilitated facility, and allow improvements done by an owner to qualify under the criteria for a rehabilitated facility.
- Revise the maximum allowable acreage of a local governmental unit's neighborhood enterprise zone, and delete a provision allowing a local unit to limit one or more zones to new facilities. Under the bill, the total acreage of all neighborhood enterprise zones in a community could not exceed 15% of the local unit's total acreage.
- Delete a requirement that an owner of a new facility annually submit an affidavit affirming that the facility is occupied by the owner as a principal residence and require, instead, that a neighborhood enterprise zone certificate for a new facility be automatically revoked if the facility were no longer a "homestead", as defined in the General Property Tax Act.
- Require the State Tax Commission to revoke a certificate if the governing body of a local unit determined that a new or rehabilitated facility was not in compliance with local codes.
- Base the neighborhood enterprise zone tax on a formula that would include a facility's taxable value, rather than its State equalized valuation (SEV).

MCL 207.772 et al.

Legislative Analyst: P. Affholter

FISCAL IMPACT

The bill would reduce revenues to both the School Aid Fund and local units by an unknown amount. Between 1992 and 2000, approximately 1,400 exemption certificates were approved, of which 76.4% were issued by the City of Detroit. While 30 communities under current law are eligible to issue exemption certificates, only eight communities have actually participated in the program. In FY 2000-01, exemption certificates reduced State and local property tax revenues by approximately \$2.5 million, or approximately \$1,817 per property.

Exemption certificates are valid for 12 years, except under certain circumstances such as a change in the use of the property or failure to pay the tax. As new certificates would be issued, the effect of the bill would increase rapidly. Historically, nearly 200 exemption certificates have been issued per year. If the sunset provision were eliminated and the currently eligible units continued to issue exemption certificates at this rate, the impact of the bill would grow from a \$0.3 million reduction in State and local property tax revenues in FY 2003-04 to a \$2.4 million reduction by FY 2007-08.

The bill also would allow an additional 58 new communities to grant exemption certificates. If these new communities granted certificates at the same rate as the currently eligible communities do (200 per year), the impact of exemption certificates granted by newly eligible communities would grow from a \$0.3 million reduction in State and local property tax revenues in FY 2002-03 to a \$2.4 million reduction in FY 2006-07.

Under these assumptions, the bill would reduce State School Aid Fund revenues by \$30,000 in FY 2002-03, \$95,000 in FY 2003-03, and \$0.5 million in FY 2007-08, and would reduce local property tax revenues by \$250,000 in FY 2002-03, \$0.9 million in FY 2003-04, and \$4.9 million in FY 2007-08.

The estimates are very sensitive to participation in the program. If the newly eligible communities granted an additional 50 exemption certificates each year (for a total of 250 per year by the 58 communities), by FY 2004-05 the impact of the bill would be 10% greater. Because twice as many communities as are currently eligible would become eligible under the bill, if the newly eligible communities granted 400 exemption certificates per year, the bill would reduce School Aid Fund revenues by \$30,000 in FY 2002-03, \$140,000 in FY 2003-04, and \$0.8 million in FY 2007-08, and local property tax revenue by \$250,000 in FY 2003-04, \$1.1 million in FY 2003-04, and \$7.0 million in FY 2007-08. Greater participation would cause the impact of the bill to be even larger.

Date Completed: 11-29-01

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.