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BILL ANALYSIS

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House Bill 5344 (as reported without amendment)

Sponsor: Representative Artina T. Hardman

House Committee: Commerce

Senate Committee: Economic Development, Small Business and Regulatory Reform

Date Completed: 3-24-04

## **RATIONALE**

When redeveloping depressed city neighborhoods, one benefit a developer can use to attract new residents or encourage present residents to stay is reduced taxes under Michigan's Neighborhood Enterprise Zone (NEZ) Act. Residents living in new or renovated housing in an NEZ may pay a specific tax that can be significantly less than their property taxes otherwise would be. To be eligible for the tax relief, a developer or owner must file an application requesting an NEZ certificate with the clerk of the local governmental unit before the building permit is issued.

Evidently, the builder of a 100-plus condominium project, Heritage at Riverbend, filed an application with the City of Detroit for NEZ certificates for some or all of the condominiums, before the building permits for the development were issued. However, it appears that, due to an error in the clerk's office, the NEZ applications for 11 of the condominiums were not time-stamped by the city, and the building permits for them were issued before the condominiums were declared to be NEZ-eligible. Apparently, some of the residents who purchased the condominiums were able to afford them only because of the tax break provided by the NEZ and may have to give them up unless a way is found to extend the tax relief to them.

## **CONTENT**

The bill would amend the Neighborhood Enterprise Zone Act to provide for an exception from the requirement that an application for a neighborhood enterprise zone certificate be filed with the clerk of the local governmental unit before a building permit is issued, for the construction of a

new facility in an NEZ designated by the local unit in September 2001, if a building permit for the facility had been issued on March 3, 2003.

Under the Act, qualified local units of government may designate one or more areas as NEZs and issue NEZ certificates to the owner or developer or the prospective owner or developer of housing to be constructed or rehabilitated. An NEZ certificate exempts the housing from the regular property tax and subjects it instead to a specific neighborhood enterprise zone tax. The tax rate for new housing is half the amount that would be assessed on the facility if it were not in a neighborhood enterprise zone; for rehabilitated housing, the rate is the same that was imposed before renovations were made.

The Act defines "new facility" as a new structure or a portion of a new structure whose primary purpose is residential housing consisting of one or two units, one of which is or will be occupied by the owner as his or her principal residence.

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**

The Heritage at Riverbend project was constructed on a vacant lot and has helped revitalize a declining neighborhood. This type of development encourages new families to move in and allows families already living in the area to find better

quarters without leaving the neighborhood. In the past, legislation has created exceptions to the requirement that the application for an NEZ certificate be filed before the building permit is issued, in order to accommodate developers of similar projects. The developer in this case, the Lombardo Group, followed all of the proper procedures in filing for an NEZ. Those who purchased condominiums in the project legitimately believed that their homes were eligible for the tax relief granted by an NEZ certificate, and may not be able to afford to keep them without it. In addition, the developer may not be able to sell the remaining properties without the certificate.

**Response:** Perhaps legislation should altogether eliminate the requirement that an NEZ certificate application be filed before a building permit is issued. The Act already contains six exceptions to the requirement. If a procedural mistake is made and the requirement is not met, it is the homeowners who bear the burden, unless the Act is amended each time.

#### **Opposing Argument**

Residents of new housing who receive NEZ tax relief pay only half the amount of property taxes they otherwise would pay, for the 12 years of an NEZ certificate. This program costs communities money they can ill afford to lose.

**Response:** It is up to a local unit of government to designate a neighborhood enterprise zone and grant tax abatement certificates. The development of owner-occupied housing in a debilitated area stabilizes the neighborhood and attracts and retains residents who also pay income and sales taxes.

#### **Opposing Argument**

The residences in question are in the \$200,000-range, which does not appear to be the kind of entry-level and mid-range housing that is deserving of a tax break for the owners.

**Response:** Currently, in the City of Detroit, the \$200,000-range is the entry-level price for nonsubsidized housing, especially considering the costs of utility relocation, environmental concerns, geo-technical issues, and roadway improvement.

Legislative Analyst: J.P. Finet

#### **FISCAL IMPACT**

The bill would reduce State and local property tax revenues and increase State School Aid Fund expenditures. The area affected by the bill reportedly includes approximately 11 homes, and the bill would reduce the number of mills levied on the property from approximately 67 mills to 17 mills. Assuming that the average value of each affected property is \$200,000, the bill would reduce property tax revenue by approximately \$55,000, of which slightly less than \$5,000 would be a reduction in revenue to the School Aid Fund.

The bill would reduce property taxes to local school districts by approximately \$25,000. Because the School Aid Fund ensures that the combination of State aid and locally raised revenue reaches a given per pupil level, reductions in local school district property tax revenue are offset by increased School Aid Fund expenditures. As a result, the bill also would increase State School Aid Fund expenditures by approximately \$25,000.

This estimate is preliminary and will be revised as new information becomes available.

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.