Legislative Analysis

HOUSE FISCAL AGENCY
Mitchell Bean, Director
Phone: (517) 373-8080
http://www.house.mi.gov/hfa

NEIGHBORHOOD ENTERPRISE ZONES: INCLUDE CERTAIN RECENTLY PURCHASED HOMES

House Bill 4538
Sponsor: Rep. Bill McConico

House Bill 4539
Sponsor: Rep. Virgil Smith

House Bill 4540
Sponsor: Rep. Edward Gaffney, Jr.

Committee: Commerce

Complete to 6-20-05

A REVISED SUMMARY OF HOUSE BILLS 4538-4540 AS INTRODUCED 3-22-05

The bills, taken together, would make "homestead facilities" eligible for residential tax abatements under the Neighborhood Enterprise Zone Act. Currently, the act applies only to newly constructed and rehabilitated residential housing. The bills would apply to other existing structures purchased since December 31, 1997 and located in subdivisions platted before January 1, 1968. The total acreage of neighborhood enterprise zones containing only homestead facilities could not exceed 15 percent of the total acreage within the boundaries of the local governmental unit. (This would be in addition to the current 15 percent limit on existing neighborhood enterprise zones.)

A homestead facility within such a zone would receive a tax abatement equal to one-half of property taxes levied for operating purposes on the building by the local unit and the county. As with existing eligible new residential properties, the abatement would be available only to owner-occupied housing of one or two units (where one of the units is the owner's principal residence).

The Neighborhood Enterprise Zone Act was enacted in 1992 as an effort to improve the housing stock in certain "distressed" urban communities. The act offers reduced property taxes to residential property owners in certain zones designated by local units of government. Generally speaking, owners of new construction pay taxes at the rate of one-half the statewide average property tax rate, and owners of rehabilitated housing pay taxes based on the value of residential 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 standard property taxes and pay a specific tax instead known as the neighborhood enterprise zone tax. Generally speaking, the abatements are available from 6 to 12 years.

Each of the bills would amend the Neighborhood Enterprise Zone Act (MCL 207.771 et al.).

House Bill 4540 would describe how the neighborhood enterprise zone tax would be calculated for the new category of exempt residential properties—the "homestead facility." It also would provide a new calculation of the tax in the final years before an exemption certificate expires for certain kinds of exempt residential property.

For the new homestead facilities, and for new and rehabilitated facilities with certificates issued after December 31, 2004, and certificates that had received three-year extensions, the following phase-out schedule would be followed.

• In the year two years before the year in which the certificate expires, the tax would be equal to five-eighths of the mills levied for operating purposes on the building by the local unit and the county, plus all other mills levied. (The other mills presumably would include all the mills levied by other taxing jurisdictions, plus operating mills on land levied by the local unit and county, and debt millage.)

• In the year before the exemption certificate expires, the tax would be equal to three-quarters of the mills levied for operating purposes by the local unit and the county, plus all other mills levied.

• In the year that the exemption certificate expires, the tax would be equal to seven-eighths of the mills levied for operating purposes by the local unit and the county, plus all other mills levied.

House Bill 4538 contains the definition of "homestead facility" and a new definition of the term "facility."

House Bill 4539 contains the limit on acreage of neighborhood enterprise zones and other technical matters.

FISCAL IMPACT:

The bill would result in a loss of revenue for local units and counties in communities where homestead facility neighborhood enterprise zones were created. For example, the estimated lost property tax revenue for Wayne County and Detroit would be $15.9 million annually (with an estimated $9.9 million in annual lost revenue for Detroit).

Legislative Analyst: Chris Couch
Fiscal Analyst: Richard Child