



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

Senate Bills 526, 529, and 530 (as introduced 5-24-05)

Sponsor: Senator Bob Emerson (S.B. 526)

Senator Martha G. Scott (S.B. 529) Senator Buzz Thomas (S.B. 530)

Committee: Finance

Date Completed: 12-7-05

# **CONTENT**

<u>Senate Bill 526</u> would amend the Neighborhood Enterprise Zone (NEZ) Act to provide for the effective date of a homestead facility's NEZ certificate; and allow an NEZ certificate for a homestead facility to be revoked in certain circumstances.

<u>Senate Bill 529</u> would amend the NEZ Act to prohibit the State Tax Commission from issuing an NEZ certificate for a homestead facility unless it met the requirements in a definition of "homestead facility"; and require the Commission to determine whether a homestead facility complied with the Act.

<u>Senate Bill 530</u> would amend the NEZ Act to allow an NEZ certificate issued after December 31, 2004, to be effective for six to 15 years; allow a local unit of government to extend a certificate issued before January 1, 2005, for an additional three years; and extend various provisions of the Act to homestead facilities.

### Senate Bill 526

The NEZ Act allows eligible local governmental units to designate neighborhood enterprise zones, within which the owner or developer of property may receive an NEZ certificate from the State Tax Commission that exempts new or rehabilitated housing from the property tax and subjects it, instead, to a specific neighborhood enterprise zone tax.

Under the Act, with certain exceptions, the effective date of an NEZ certificate is December 31 in the year in which a new facility or rehabilitated facility is substantially completed and, for a new facility, occupied by an owner as a principal residence, as evidenced by the owner's filing of certain certificates with the assessor of the local assessing unit. One of the required certificates for a new facility is an affidavit executed by an owner affirming that the new facility is occupied by an owner as a principal residence. Under the bill, this requirement also would apply to a homestead facility.

Under the Act, the NEZ certificate for a new facility is automatically revoked if the new facility is no longer a homestead as defined in Section 7a of the General Property Tax Act (i.e., a dwelling or a unit in a multipurpose or multidwelling building that is subject to ad valorem taxes and is owned and occupied as the principal domicile by its owner). Under the bill, this provision also would apply to a homestead facility.

Under the Act, if a new facility or a rehabilitated facility ceases to have as its primary purpose residential housing, the State Tax Commission by order must revoke the certificate for that facility. If the governing body of a local governmental unit determines that a new facility or a rehabilitated facility is not in compliance with any local construction, building, or safety codes and notifies the Commission by certified mail of the noncompliance, the Commission by order must revoke the certificate. The bill would extend these provisions to a homestead facility.

### Senate Bill 529

The bill would prohibit the State Tax Commission from issuing an NEZ certificate for a homestead facility unless the homestead facility met the requirements of the definition of "homestead facility" in Section 2(e) (which does not presently exist).

Under the Neighborhood Enterprise Zone Act, the Commission must determine whether the new facility or rehabilitated facility complies with the requirements of the Act. The Commission must make this determination within 60 days after receiving an approved application for a rehabilitated facility, and not later than 30 days, or if an approved application is received after October 31, within 45 days after receiving an application for a new facility. Under the bill, the Commission also would have determine whether a homestead facility complied with the requirements of the Act, and make the determination within the time frame that applies to a rehabilitated facility.

## Senate Bill 530

Under the Act, except as otherwise provided, and unless earlier revoked, an NEZ certificate must remain in effect for six to 12 years from its effective date, as determined by the governing body of the local governmental unit. Under the bill, except as otherwise provided, and unless earlier revoked, an NEZ certificate issued before January 1, 2005, would remain in effect for six to 12 years and an NEZ certificate issued after December 31, 2004, would have to remain in effect for six to 15 years from the effective date of the certificate as determined by the governing body of the local governmental unit. The governing body of a local governmental unit that issued an NEZ certificate for a new or rehabilitated facility before January 1, 2005, could extend the certificate for an additional three years if the extension were approved by resolution before the original NEZ certificate expired.

Currently, if a new or rehabilitated facility is sold or transferred to another owner who otherwise complies with the Act and, for a new facility, uses the new facility as a principal residence, the certificate must remain in effect. Under the bill, if a homestead facility were sold or transferred to another owner who otherwise complied with the Act and used the homestead facility as a principal residence, the certificate would have to remain in effect.

Under the Act, the assessor of each local governmental unit that contains a new or rehabilitated facility for which an NEZ certificate is in effect must determine annually, with respect to each new or rehabilitated facility, the assessed valuation of the property comprising the facility having the benefit of an NEZ certificate and the amount of ad valorem property tax that would have been paid with respect to each new facility and rehabilitated facility under the General Property Tax Act, if the certificate had not been in force, and the assessed valuation on which the neighborhood enterprise zone tax is based for a rehabilitated facility. Under the bill, the provisions also would apply to a homestead facility.

MCL 207.780 & 207.781 (S.B. 526) MCL 207.776 & 207.777 (S.B. 529)

MCL 207.782 & 207.783 (S.B. 530)

Legislative Analyst: J.P. Finet

#### **FISCAL IMPACT**

Senate Bills 526 and 529 would have no effect on State revenue or expenditures. Senate Bill 530 would reduce State and local tax property tax revenue by an unknown amount. The actual amount would depend upon the specific characteristics of the property affected by the bill, the amount of property included in neighborhood enterprise zones containing homestead facilities, the number of communities that chose to use the provisions related to homestead facilities, the existing exemption certificates granted extensions under the bill, and the number of exemption certificates granted in future years.

The impact of Senate Bill 530 would vary by the different types of certificates granted. By increasing the length of time for which a certificate may be effective, the bill would reduce State and local property tax revenue for that property. The bill may not affect property tax revenue to the local unit if new certificates were not granted for other qualifying facilities because the local unit extended on existing property. Certificates for new facilities and rehabilitated facilities reduce both State education tax revenue and property taxes to local units of government. Reductions to local school districts are offset by higher School Aid Fund expenditures, in order to maintain per-pupil funding guarantees. Under current law, neighborhood exemption zones are estimated to reduce local property tax revenue by approximately \$7.1 million in FY 2005-06.

The bills are not tie-barred to each other or to several related House bills. Senate Bills 526 and 529 would have no fiscal impact if House Bill 4540 were not enacted. It is unclear what effect the bills would have if the House bill were enacted and Senate Bills 526 and 529 were not enacted.

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

Fiscal Analyst: David Zin

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.