



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

BILL



ANALYSIS

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

Senate Bill 1047 (as passed by the Senate)
Sponsor: Senator Raymond E. Basham
Committee: Commerce and Labor

(as enrolled)

Date Completed: 5-18-06

RATIONALE

The Neighborhood Enterprise Zone (NEZ) Act allows eligible local governmental units to designate neighborhood enterprise zones within which the owner or developer of property may receive a NEZ certificate that exempts new or rehabilitated housing (but not the land on which it is located) from the property tax and subjects it, instead, to a specific neighborhood enterprise zone tax. Generally, the Act requires an application for a certificate to be filed before a building permit is issued for the new construction or rehabilitation of the facility, but it also makes several exceptions under which an application may be filed after a building permit has been issued. It has been suggested that a particular development in the City of Ecorse, for which a NEZ application was filed after a building permit was issued, be included in those exceptions.

CONTENT

The bill would amend the Neighborhood Enterprise Zone Act to allow an application for a NEZ certificate to be filed after a building permit was issued for the construction of a facility if the area in which the facility was located were designated as a neighborhood enterprise zone by the governing body of the local governmental unit in July 2003, and the building permit for that facility were issued in June 2004.

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 NEZ Act was enacted in 1992 as an effort to improve the housing stock in urban areas where little or no new construction was taking place and a great deal of the housing needed to be rehabilitated. The Act offers reduced property taxes to residential property owners in zones designated by local units of government, with the approval of the State Tax Commission. The City of Ecorse, which has experienced fiscal and economic difficulties in recent years, has an established neighborhood enterprise zone. In 2004, the city apparently approved a NEZ certificate for a new multiple-unit townhouse development in a zone that was established in 2003, but the developer had obtained a building permit before applying for the certificate.

The Ecorse housing project is just the sort of development the NEZ Act was designed to encourage, and the developers evidently entered into it expecting to benefit from the approval of a NEZ certificate. The State should allow that project to receive the certificate even though the developers secured a building permit before applying for it. In the past, legislation has created exceptions to the requirement that the application for a NEZ certificate be filed before the building permit is issued, in order to accommodate developers of similar projects. For instance, Public Act 339 of 2005 amended the NEZ Act to provide an exception for a "homestead facility"; Public Act 396 of 2004 provided exceptions for a rehabilitated facility in a historic building and a new facility that is a model home; and Public Act 60 of 2004 enacted an exception for a particular condominium development in Detroit.

Response: In the past, when previous exceptions were made, it was suggested that legislation should simply eliminate the requirement that a NEZ certificate application be filed before a building permit is issued. The Act already contains 10 exceptions to the requirement. If a procedural error is made and the requirement is not met, it is the homeowners who bear the burden, unless the Act is amended each time.

Legislative Analyst: Patrick Affholter

FISCAL IMPACT

The bill would reduce both State and local revenue and increase State School Aid Fund expenditures. Property covered by a NEZ certificate is eligible for reduced taxes on the structure, with the amount of the reduction depending on whether the facility is a new facility or rehabilitated. Based on information regarding the property likely to be affected by the bill (a development in Ecorse), the bill would likely reduce State education tax revenue to the School Aid Fund by approximately \$35,000 per year and local unit revenue by approximately \$365,000 per year. Approximately \$56,000 per year of the reduced revenue to local units would affect tax revenue for school operating purposes and would be offset by increased spending from the School Aid Fund in order to maintain per-pupil funding guarantees.

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

Fiscal Analyst: David Zin

A0506\S1047a

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.