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House Bills 4538, 4539, and 4540 (as passed by the House)

Sponsor: Representative Bill McConico (H.B. 4538) Representative Virgil Smith (H.B. 4539)

Representative Edward Gaffney, Jr. (H.B. 4540)

House Committee: Commerce Senate Committee: Finance

Date Completed: 12-7-05

CONTENT

<u>House Bill 4538</u> would amend the Neighborhood Enterprise Zone (NEZ) Act to define "homestead facility", and make other definitional changes.

<u>House Bill 4539</u> would amend the NEZ Act to limit the total acreage of neighborhood enterprise zones containing only homestead facilities; require the owner of a homestead facility to file an application for an NEZ certificate with the clerk of the local governmental unit; allow the application to be filed after a building permit was issued; and establish the effective date of an NEZ certificate issued for a homestead facility.

House Bill 4540 would amend the NEZ Act to impose the NEZ tax on the owner of a homestead facility that had been issued an NEZ certificate; provide for the calculation of the tax on a homestead facility; provide for the phase-out of the NEZ tax on all facilities subject to the tax, beginning two years before the certificate expired; provide for the disbursement of the proceeds of the NEZ tax on homestead facilities; and provide that a homestead facility located in a renaissance zone would be exempt from the NEZ tax.

House Bill 4538

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 that exempts new or rehabilitated housing from the property tax and subjects it, instead, to a specific neighborhood enterprise zone tax.

Under the bill, "homestead facility" would mean an existing structure, purchased by or transferred to an owner after December 31, 1997, that has as its primary purpose residential housing consisting of one or two units, one of which is occupied by an owner as his or her principal residence, and that is located within a subdivision platted pursuant to State law before January 1, 1968. "Facility" would man a homestead facility, new facility, or rehabilitated facility.

The Act defines "local governmental unit" as a qualified local governmental unit as that term defined under the Obsolete Property Rehabilitation Act. Under the bill, "local governmental unit" also would mean a county seat.

Page 1 of 4 hb4538-4540/0506

(Under the Obsolete Property Rehabilitation Act, "qualified local governmental unit" means one or more of the following: a city or township with a median family income of 150% or less of the Statewide median family income as reported in the 1990 Federal decennial census that meets other listed criteria; a village with a population of 500 or more as reported in the 1990 Federal decennial census located in an area designated as a rural enterprise community before 1998; or a city that has a population of more than 20,000 or less than 5,000 and is located in a county with a population of 2 million or more according to the 1990 Federal decennial census and, as of January 1, 2000, had an overall increase in the State equalized valuation of real and personal property of less than 65% of the statewide average increase since 1972 as determined for the designation of eligible distressed areas under the State Housing Development Authority Act.)

The NEZ Act defines "owner" as the record title holder of, or the vendee of the original land contract pertaining to, a new facility or a rehabilitated facility for which an NEZ certificate is applied for or issued. The bill would refer to a new facility, a homestead facility, or a rehabilitated facility.

Under the Act, an NEZ certificate must be in the form provided by the State Tax Commission and must include a legal description of the real property on which the new facility is to be located or the legal description of the rehabilitated property; and a statement that, unless revoked under the Act, the certificate must remain in effect for the period stated in the certificate. Under the bill, the certificate would have to include the legal description of the real property on which the new facility was to be located or the legal description of the homestead facility or the rehabilitated property.

House Bill 4539

Under the Act, the total acreage of the neighborhood enterprise zones designated under the Act may not exceed 15% of the total acreage contained within the boundaries of the local governmental unit. Under the bill, this would apply to the total acreage of neighborhood enterprise zones containing only new facilities or rehabilitated facilities or any combination of new facilities or rehabilitated facilities. The total acreage of neighborhood enterprise zones containing only homestead facilities also could not exceed 15% of the total acreage contained within the boundaries of the local governmental unit.

Under the Act, the owner or developer or prospective owner or developer of a proposed new facility or an owner or developer or prospective developer proposing to rehabilitate property located in a neighborhood enterprise zone may file an application for an NEZ certificate with the clerk of the local governmental unit. The application must be filed in the manner and form prescribed by the Commission. The bill also would require the owner of a homestead facility to file an application for an NEZ certificate with the clerk of the local governmental unit. Additionally, the clerk would have to provide a copy of each homestead facility application to the assessor for the local governmental unit.

Under the Act, in certain situations, an application for an NEZ certificate may be filed after a building permit is issued. The bill also would allow an application for an NEZ certificate for a homestead facility to be filed after a building permit was issued.

An application for an NEZ certificate must include, among other things, a general description of the new facility or proposed rehabilitated facility and the dimensions of the parcel on which the facility is or will be located. These requirement also would apply to a homestead facility.

The bill provides that, notwithstanding any other provisions of the Act, for any certificate issued as a result of the bill's enactment, the effective date of the certificate would be the first day of the tax year following the year the certificate was approved by the Commission.

House Bill 4540

Under the Act, except as otherwise provided, there is levied on the owner of a new facility, or a rehabilitated facility to which an NEZ certificate is issued a specific tax known as the NEZ tax. The facility, but not the land on which it is located, is exempt from ad valorem real property taxes collected under the General Property Tax Act. Under the bill, the owner of a homestead facility to which an NEZ certificate was issued also would be subject to the specific tax, and a homestead facility also would be exempt from property taxes.

Except as otherwise provided, the amount of the neighborhood enterprise zone tax on a homestead facility would be the sum of the following:

- -- One-half the number of mills levied for operating purposes by the local governmental unit in which the NEZ was located multiplied by the current taxable value of the homestead facility not including the land.
- -- One-half the number of mills levied for operating purposes by the county in which the NEZ was located multiplied by the current taxable value of the homestead facility not including the land.
- -- The total number of mills collected under the General Property Tax Act, for the current year by all taxing jurisdictions within which the homestead facility was located excluding the number of mills levied for operating purposes by the local governmental unit and county in which the facility was located multiplied by the current taxable value of the facility not including the land.

In the year two years before the year in which the NEZ certificate expired for a homestead facility, for a new facility or a rehabilitated facility in which the NEZ certificate was issued after December 31, 2004, or for a new facility or a rehabilitated facility in which the NEZ certificate was extended three years, the NEZ tax would be the sum of the following:

- -- Five-eighths the number of mills levied for operating purposes by the local governmental unit in which the NEZ was located multiplied by the current taxable value of the facility not including the land.
- -- Five-eighths the number of mills levied for operating purposes by the county in which the NEZ was located multiplied by the current taxable value of the facility not including the land
- -- The total number of mills collected under the General Property Tax Act for the current year by all taxing jurisdictions within which the facility was located excluding the number of mills levied for operating purposes by the local governmental unit and county in which the facility was located multiplied by the current taxable value of the facility not including the land.

In the two successive years, the fraction of the number of mills levied for operating purposes by the local governmental unit and the number of mills levied by the county would increase by one-eighth.

Local tax collection officers would have to disburse the proceeds of the NEZ tax collected as described above each year to the State, cities, townships, villages, school districts, counties, and authorities in an amount equal to the sum of the proceeds of the NEZ tax collected on the facility multiplied by a fraction in which the numerator was the total number of mills levied by all the taxing units that was used to calculate the specific tax in which the property was located.

Under the Act, a new facility or a rehabilitated facility located in a renaissance zone under the Michigan Renaissance Zone Act is exempt from the NEZ tax to the extent and for the duration provided pursuant to the Michigan Renaissance Zone Act, except for that portion of the NEZ attributable to a special assessment or a tax described in section 7ff(2) of the

General Property Tax Act (which lists the taxes from which real and personal property in a renaissance zone is not exempt). Under the bill, a homestead facility located in a renaissance zone also would be exempt from the NEZ tax, subject to the same exceptions.

MCL 207.772 & 207.778 (H.B. 4538) MCL 207.773 & 207.774 (H.B. 4539)

MCL 207.779 (H.B. 4540)

FISCAL IMPACT

The bills would have no effect on State revenue or expenditures. The bill would reduce local tax property 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, and the number of communities that chose to use the provisions of the bill.

The bill's impact can be illustrated using the City of Detroit. Between 35,000 and 50,000 homes, with an average taxable value of \$44,000 for 2006 property taxes, have been sold in Detroit since January 1, 1998. This would represent between about 20% and 30% of all owner-occupied housing units in Detroit. It is unknown what portion of the total acreage of Detroit these homes represent, but if the average lot size for those homes sold equaled the average lot size in Detroit, it would suggest that not all of these units could be located in a neighborhood enterprise zone comprised of homestead facilities, as approximately 25,000 homes would comprise 15% of the total acreage. Based on 2005 millage rates, if 25,000 homestead facilities, with an average taxable value of \$44,000 were included in neighborhood enterprise zones and affected by the bill in 2006, the bill would reduce revenue to Wayne County by approximately \$3.1 million and revenue to the City of Detroit by approximately \$11.0 million. The effect on any future home sales is unknown, given that it is expected that homes that have been sold since January 1, 1998, could possibly claim all the certificates that would be available given the 15% limit on acreage. If there were remaining certificates that could be granted for future home sales, or if some homes are (or have been) resold, the fiscal impact in the early years would be less than in this example.

The bills are not tie-barred to each other and the fiscal impact assumes that all three bills would be enacted. The provisions that would alter the tax levy on any affected properties are contained in House Bill 4540, so unless that bill was enacted, it is unlikely that the other bills would have any fiscal impact. However, if House Bill 4540 were enacted and some or all of the other bills were not enacted, the fiscal impact of the enacted bills could be much greater.

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

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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.