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BILL ANALYSIS

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House Bill 5947 (as passed by the House)
Sponsor: Representative Lamar Lemmons, III
House Committee: Commerce
Senate Committee: Economic Development, Small Business and Regulatory Reform

Date Completed: 11-28-06

CONTENT

The bill would amend the Neighborhood Enterprise Zone Act to do the following:

- Create an exception to the requirement that an application for a neighborhood enterprise zone (NEZ) certificate be filed before a building permit is issued.**
- Establish the effective date of a NEZ certificate issued for a rehabilitated facility under Public Act 199 of 2003.**
- Provide for the calculation of the NEZ tax on a rehabilitated facility issued a certificate under Public Act 199 of 2003 and a homestead facility issued a certificate under Public Act 339 of 2005.**
- Allow the subsequent owner of a residence to be granted a NEZ certificate for the remainder of the term of a certificate that could have been granted to the original owner, in a particular neighborhood enterprise zone.**

The Neighborhood Enterprise Zone 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 a new or rehabilitated facility (housing) from the property tax and subjects it, instead, to a specific neighborhood enterprise zone tax. The facility, but not the land on which it is located, is exempt from real property taxes under the General Property Tax Act.

The NEZ Act allows the owner or developer of a facility to submit an application for a NEZ certificate to the clerk of the local governmental unit. The application must be submitted before a building permit is issued for the construction or rehabilitation of the facility, but the Act makes a number of exceptions to this requirement. These include exceptions created by Public Acts 199 of 2003 and 339 of 2005 (described below).

The bill would add an exception for a new facility or a rehabilitated facility if the governing body of the local governmental unit designated the area where the facility was located a neighborhood enterprise zone in February 2004 and if the building permit for the facility were issued in August 2003 or January 2005.

The exception created by Public Act 199 of 2003 is for a new or rehabilitated facility if the governing body of the local governmental unit designated the area where the facility is located a NEZ in October 1994 and the building permit had been issued for the facility by August 25, 1997. (This applies to residences in the Corktown neighborhood in Detroit.) Under the bill, the effective date of a certificate issued under Public Act 199 would be January 1, 2001, and the taxable value for the rehabilitated facility would have to be set as

provided in Section 10(3) of the NEZ Act. (Under that section, upon the owner's request, the effective date of a NEZ certificate for a rehabilitated facility is December 31 of the year immediately preceding the date on which the facility is substantially completed.)

Public Act 339 of 2005 created an exception for a homestead facility, which is 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. (This applies to residences in Detroit and other eligible cities.)

Under the bill, for a NEZ certificate issued or reissued after December 1, 2005, under Public Act 199 of 2003, and for any certificate issued under Public Act 339 of 2005, the amount of the NEZ tax on a rehabilitated facility would be determined each year by multiplying the taxable value of the facility, excluding the land, as of December 31 of the year before the start of the improvement, by the total mills collected under the General Property Tax Act for the current year by all taxing units in which the facility was located.

Also, under the bill, if a new facility were completed in a NEZ approved in October 1996 and a building permit had been issued in March 1998 but the original owner occupying the facility as a principal residence did not apply for a NEZ certificate, a subsequent owner occupying the facility as a principal residence could request and, effective December 31 of the year preceding the application, be granted a NEZ certificate for the remainder of the term, not to exceed 12 years, that a NEZ certificate would have been in effect for the original owner.

MCL 207.774

Legislative Analyst: Suzanne Lowe

FISCAL IMPACT

The bill would reduce State and local property tax revenue and increase State School Aid Fund expenditures by an unknown amount. The actual amount of the reduction would depend upon the specific characteristics of the property affected by the bill, as well the specific improvements made for any rehabilitated property. Any reduction in local unit revenue from levies attributable to school operating purposes would increase School Aid Fund expenditures in order to maintain guaranteed per-pupil funding amounts.

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.